Research on the Identification, Analysis, and Control Improvement Strategies of Tax Risks in Real Estate Enterprises: A Case Study of X Real Estate Co., Ltd.

Qingbin Luo[1]

[1] *Xi'an International Studies University, Xi'an, Shaanxi, China*

ABSTRACT

This paper takes X Real Estate Co., Ltd. as the research object to explore the issue of tax risk control in real estate enterprises. By analyzing the financial data of X Real Estate Co., Ltd. from 2023 to Q1 2024, risk points such as underpayment of additional taxes, inflated costs, and abnormal income - profit ratios were identified. The study found that X Real Estate Co., Ltd. has deficiencies in cost control, procurement management, and financial accounting, leading to increased tax risks. In response to these issues, this paper proposes improvement suggestions, including establishing a sound cost and expense management system for real estate enterprises, strengthening procurement cost control, establishing a sales expense management system, and improving the tax risk management system. The research results provide certain reference value for improving tax compliance and risk management levels in real estate enterprises.

Keywords: *Real estate enterprises, Tax risks, Cost control, Financial accounting, Risk management.*

1. INTRODUCTION

With the deep adjustment of China's real estate market and the increasingly strict tax supervision, the tax risks faced by real estate enterprises have become increasingly prominent. Tax risks not only affect the operational efficiency of enterprises but may also lead to legal disputes and reputational losses. Therefore, strengthening tax risk control has become an urgent issue for real estate enterprises to address. This paper takes X Real Estate Co., Ltd. as a case study and analyzes its financial data and operational status to deeply explore the identification, analysis, and control strategies of tax risks in real estate enterprises, providing references for improving tax compliance and risk management levels in real estate enterprises.

2. IDENTIFICATION OF TAX RISKS IN X REAL ESTATE CO., LTD.

2.1 Basic Information of X Real Estate Co., Ltd.

X Real Estate Co., Ltd. was established on September 16, 20X1, with a registered capital of XXXX million and a paid-in capital of XXXX million yuan. The company is classified as a joint - stock limited company and operates in the real estate industry. Its registered address is in XX City, XX Province, and it has an indefinite business term with an operational business status. The main business scope of X Real Estate Co., Ltd. includes land development and management, housing development and management, building decoration and construction, and the sale of construction materials.

Moreover, the operational processes of X Real Estate Co., Ltd. are divided into several stages: project decision - making, preliminary preparation, engineering construction, project sales, delivery and use, and property management. The specific tax -

related situations in each operational process are shown in “Table 1”.

Table 1. Tax-related situations of the company

Operational Process	Tax Types Involved	Development of real estate
Project Decision	Land Value-Added Tax	Development of real estate project
Preliminary Prep	Stamp Duty	Contract signing
Engineering Const	Urban Land Use Tax	Land use by development enterprises
Project Sales	Value-Added Tax	Sales of real estate projects
Delivery and Use	Corporate Income Tax	Pre-tax deductions
Property Management	Business Tax	Maintenance of housing facilities

2.2 Risk Point Calculation

When we reviewed the tax and financial status of X Real Estate Co., Ltd. in 2023 and the first quarter of 2024, we identified several risk points. First, there were underpayment issues of additional taxes in 2023. According to calculations, the value - added tax for 2023 was ¥1,713,298.43, and the additional tax payable should have been ¥23,652.21 based on the additional tax calculation ratio. However, there was a discrepancy in the actual amount paid. Second, the company faces tax risks due to inflated costs, which may affect corporate income tax. Additionally, the ratio of income change rate to profit change rate needs further analysis. From the perspective of key indicators, the company's gross profit margin is higher than the industry average, and in the first quarter of 2024, it exceeded the industry standard by 15%. This may be related to the processes of cost and revenue recognition, necessitating further verification to accurately assess the company's tax and financial health and promptly mitigate potential risks.

2.3 Risk Point Analysis

In 2023, the company's revenue was ¥46,880,734.32, the cost was ¥45,167,435.89, the value - added tax was ¥1,713,298.43, and the additional tax was calculated as 1,713,298.43×0.12=¥23,652.62. However, the company declared a total of only ¥4,017.50 in additional taxes for 2023, resulting in an underpayment of ¥19,635.12.

The formula for calculating the revenue change rate is:

Revenue Change Rate = (Current Period Revenue - Previous Period Revenue) ÷ Previous Period Revenue ×100%

The formula for calculating the cost change rate is:

Cost Change Rate = (Current Period Cost - Previous Period Cost) ÷ Previous Period Cost × 100%

Based on the financial data, the corresponding values can be calculated. Generally, a company's revenue and costs tend to grow synchronously over a certain period. However, the company's gross profit margins for 2023 and the first quarter of 2024 were 4% and 24% respectively. This significant difference indicates that the company's cost expenditures in the first quarter of 2024 may have been relatively high, with substantial expense outflows. The company should conduct a strict scrutiny of its cost and expense structures to avoid unnecessary expenditures and conserve resources.

Moreover, it is crucial to verify whether the company made adjustments to its cross - year revenue and costs during the final tax settlement, and whether these adjustments led to an increase or decrease in its taxable income. Specifically, the company should review invoices carefully to ensure that cost entries comply with relevant regulations. There is a risk of inflated costs, which could reduce the company's taxable income and consequently result in lower corporate income tax payments.

In the raw material procurement process, due to the dispersed nature of suppliers, many of whom are individual operators, tax management becomes difficult. This situation increases the likelihood of issues such as fraudulent invoicing and inaccurate reporting of costs and profits. The company may have inflated the quantity and price of raw material purchases and overstated sales costs to reduce its taxable income and lower its corporate income tax liability.

Table 2. Financial Data of X Real Estate Co., Ltd.

Item	2023	Q1 2024	Change Rate	Ratio
Operating Revenue	¥46880734.32	¥2018348.64	-95.69%	-22.8
Operating Profit	¥118404.35	¥123373.72	4.20%	

The formula for calculating the Ratio of Revenue Change Rate to Profit Change Rate is:

Ratio of Revenue Change Rate to Profit Change Rate = Revenue Change Rate ÷ Profit Change Rate

The formula for calculating the Revenue Change Rate is:

Revenue Change Rate = (Current Period Operating Revenue - Previous Period Operating Revenue) ÷ Previous Period Operating Revenue × 100%

The formula for calculating the Profit Change Rate is:

Profit Change Rate = (Current Period Operating Profit - Previous Period Operating Profit) ÷ Previous Period Operating Profit × 100%

Through the analysis of the financial data of X Real Estate Co., Ltd. from 2023 to the first quarter of 2024, the following major tax risk points have been identified:

First, X Real Estate Co., Ltd. has an issue of underpayment of additional taxes. According to calculations, the company should have paid ¥236,795.81 in additional taxes in 2023, but it only declared ¥4,017.50, resulting in an underpayment of ¥232,778.31. This discrepancy indicates that the company may have intentionally underreported additional taxes, which violates the relevant provisions of the Tax Collection and Administration Law.

Second, X Real Estate Co., Ltd. is suspected of cost inflation. In 2023, the company's gross profit margin was only 3.65%, while in the first quarter of 2024, it soared to 24%. This abnormal fluctuation may be attributed to inaccurate cost accounting or inflated costs. Especially in the raw - material procurement process, due to the large number of individual suppliers, issues such as fraudulent invoicing and overstatement of costs are more likely to occur, with the intention of reducing corporate income tax payments.

Finally, there is an abnormal ratio between the revenue change rate and the profit change rate for X Real Estate Co., Ltd. From 2023 to the first quarter of 2024, the company's operating revenue change rate was - 95.69%, while the operating profit change rate was 4.2%, indicating a significant divergence. Under normal circumstances, operating revenue and operating profit should change in the same direction. This abnormal ratio may suggest that X Real Estate Co., Ltd. has engaged in practices such as inflating costs or issuing fraudulent invoices to manipulate profits and reduce tax payments.

3. ANALYSIS OF THE CAUSES OF TAX RISKS IN X REAL ESTATE CO., LTD.

3.1 Cost Control

The tax risks of X Real Estate Co., Ltd. mainly stem from the following aspects:

During the project design phase, X Real Estate Co., Ltd. does not give sufficient consideration to costs, which leads to higher cost expenditures. The procurement process is non - standardized, and the selection of suppliers lacks a scientific basis, thereby increasing procurement costs. During construction, significant waste occurs, and the control over project progress and quality is lax, resulting in increased rework costs. Collectively, these factors cause the failure of cost control at X Real Estate Co., Ltd. and create opportunities for cost inflation.

3.2 Procurement Management

X Real Estate Co., Ltd. has notable deficiencies in procurement management. The procurement system is incomplete, and the lack of a supplier evaluation mechanism results in higher procurement costs. Especially for bulk material procurement, without a centralized procurement mechanism, it is difficult to achieve economies of scale. Additionally, insufficient scrutiny of suppliers' tax compliance raises the risk of fraudulent invoicing.

3.3 Financial Accounting

X Real Estate Co., Ltd. has inaccurate cost accounting and low - efficiency in fund utilization, which affects overall profitability. The preparation of financial statements is non - standardized, making it difficult to reflect the true operational status of the company. The internal audit system is inadequate, and the supervision of costs and expenses is insufficient, thus providing room for tax - related violations.

4. IMPROVEMENT STRATEGIES FOR TAX RISK CONTROL IN X REAL ESTATE CO., LTD.

To address the above - mentioned issues, this paper proposes the following improvement strategies for tax risk control:

4.1 Establishing and Improving a Cost and Expense Management System

X Real Estate Co., Ltd. should formulate a comprehensive cost and expense management system, clearly defining the scope, standards, and accounting methods. The system should encompass all aspects of procurement, production, and sales to guarantee the accuracy and completeness of cost and expense accounting. Simultaneously, a strict approval procedure should be established to conduct rigorous reviews of all cost and expense expenditures, thereby preventing unreasonable outflows. Moreover, a scientific and reasonable cost and expense budget should be drawn up, broken down by departments and projects, with distinct control objectives. Regular analyses and evaluations of budget implementation should also be carried out.

4.2 Strengthening Procurement Cost Control

A stringent procurement management system should be established to enhance supplier management. Suppliers that offer high - quality and cost - effective products should be selected through tendering and price - comparison approaches. The procurement process should be optimized to cut down on procurement costs. For bulk materials, centralized procurement should be implemented to boost efficiency and reduce costs. Furthermore, the tax compliance of suppliers should be meticulously examined to mitigate the risk of fraudulent invoicing.

4.3 Strengthening Sales Expense Management

A rational sales expense budget should be formulated, and sales channels should be optimized to lower sales costs. The management of sales personnel should be intensified to improve work efficiency and reduce sales expenses. Meanwhile, a sound sales expense accounting system should be established to ensure that sales expenses are accurately and faithfully reflected.

4.4 Improving the Tax Risk Management System

X Real Estate Co., Ltd. should establish and enhance a tax risk management system, clarifying management objectives, processes, and responsibilities. Strengthen the identification, assessment, and response to tax risks, and formulate corresponding risk - prevention measures. Regularly evaluate and refine the tax risk management system to ensure its effectiveness. Additionally, strengthen communication and cooperation with tax authorities to keep abreast of changes in tax regulations and regulatory requirements. When conducting tax planning, fully consult with tax authorities to ensure the legality and feasibility of the planning schemes.

5. CONCLUSION

This study takes X Real Estate Co., Ltd. as a case to conduct an in - depth analysis of the identification, assessment, and control strategies for tax risks in real estate enterprises. The research findings reveal that X Real Estate Co., Ltd. has deficiencies in cost control, procurement management, and financial accounting, which give rise to tax risks such as underpayment of additional taxes, inflated costs, and abnormal income - profit ratios. To address these issues, this paper puts forward improvement suggestions, including establishing a sound cost and expense management system, strengthening procurement cost control, enhancing sales expense management, and improving the tax risk management system.

Firstly, real estate enterprises should attach great importance to tax compliance and establish a correct tax - paying concept. The management should set an example in complying with tax regulations and strengthen the awareness of and management over tax risks. Enterprises should provide tax - related training for employees to enhance their tax - compliance awareness. Simultaneously, X Real Estate Co., Ltd. should establish and improve a tax risk management system, clarifying the objectives, processes, and responsibilities of tax risk management. It should strengthen the identification, assessment, and response to tax risks and formulate corresponding risk - prevention measures. The enterprise should regularly evaluate and refine the tax risk management system to ensure its effectiveness.

Secondly, real estate enterprises should strengthen communication and cooperation with tax authorities to keep abreast of changes in tax regulations and regulatory requirements. When conducting tax planning, X Real Estate Co., Ltd. should fully consult with tax authorities to ensure the legality and feasibility of tax - planning schemes. Meanwhile, X Real Estate Co., Ltd. should actively cooperate with tax authorities during inspections and assessments and promptly resolve tax - related issues.

Finally, real estate enterprises can engage professional tax consultants to provide tax consultation and planning services for X Real Estate Co., Ltd. Tax consultants can assist enterprises in identifying tax risks, formulating reasonable tax - planning schemes, and improving the enterprise's tax - compliance level and economic efficiency.

The significance of this study lies in providing practical guidance for tax risk control in real estate enterprises. By implementing these improvement measures, real estate enterprises can enhance tax compliance, reduce tax risks, and thereby improve overall operational efficiency and competitiveness. However, this study has certain limitations, such as focusing on only one enterprise as the research subject. Future research could expand the sample size to further validate and refine tax risk control strategies.

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