Original Research Article

Research on tax planning in corporate mergers and acquisitions: A case study of the merger between china national building material group and china national materials group

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Abstract: This paper focuses on the issue of tax planning in corporate mergers and acquisitions (M&A). Taking the M&A between China National Building Material Group Co., Ltd. (CNBM) and China National Materials Group Corporation (Sinoma) as a case study and proposes a tax planning strategy. As an important means of enhancing corporate strength and optimizing resource allocation, tax planning plays a crucial role in reducing tax risks, lowering acquisition costs, and maximizing economic benefits. Within the current legal framework, enterprises should fully leverage tax policies to support M&A. Tax planning is not only a method for reducing costs and improving efficiency, but also a key factor in maintaining competitive advantage. Through case analysis, this paper offers specific recommendations and emphasizes the importance of cultivating tax planning awareness. With the deepening of state-owned enterprise reform, reasonable tax planning can help enterprises reduce tax risks and costs, thus achieving the maximum economic benefits. The research in this paper is of reference value for enterprises to understand the importance of tax planning in M&A and to provide practical solutions and strategies.

Keywords: State-owned enterprise mergers and acquisitions; Tax planning; Asset acquisition

1. Introduction

1.1. Research background

With the increasing industrialization and urbanization rate in China, the building materials industry has expanded rapidly. However, this growth has led to overcapacity and blind investments, with low industry concentration and challenges to market fairness. Supply-side structural reforms are crucial for adjusting the supply-demand balance, promoting industrial upgrading, and ensuring sustainable development.

In the context of state-owned enterprise reforms,M&A play a key role in optimizing capital structures, improving management, and boosting innovation, thus driving industry transformation and enhancing China's global competitiveness.

1.2. Research significance

Tax planning is crucial in mergers, acquisitions, and reorganizations, helping companies minimize risks, reduce costs, and maximize benefits.

In China, M&A involves taxes such as corporate income tax and land value-added tax, making it crucial to focus on cost reduction.While the government provides tax incentives for restructuring, policies must adapt to globalization. Therefore, businesses should effectively utilize existing tax policies within the legal framework to support M&A.

2. Related concepts and theoretical foundations

2.1. Corporate mergers and acquisitions

Mergers and acquisitions (M&A) are key tools for capital operations and business growth, involving the acquisition of control over a target company through the purchase of equity or assets. This alters operational assets, shareholders, and possibly the legal status.

Scholars debate asset restructuring: some argue it enhances wealth and resource efficiency, while others believe that if the target is already efficient, post-acquisition performance may not improve. Therefore, M&A must be carefully assessed, with tax policies used to minimize risks and maximize benefits.

2.2. Tax planning

Tax planning can be divided into broad and narrow categories. Broadly, it refers to the strategic arrangement of business activities to achieve tax reduction within legal boundaries as part of financial management. Narrowly, it involves creating specific plans for business operations within the scope allowed by tax law.

Both aim to reduce costs, comply with tax laws, and ultimately enhance cash flow and maximize enterprise value. The benefits must outweigh the costs and risks of professional services.

3. Tax planning process – Case study

3.1. Introduction to the two parties in the reorganization

3.1.1. Introduction to China national building material group

China National Building Material Group (CNBM), established in 2003, specializes in non-metallic building materials like cement, glass, and photovoltaic products. By 2015, it had assets of 43.26 billion RMB and 177,000 employees. It controlled six listed companies, generating 199.25 billion RMB in revenue and 3.84 billion RMB in profit.

Its main publicly listed entity, China National Building Material (03323.HK), focuses on cement and lightweight materials, with subsidiaries like Kaisheng Technology (600552.SH) and Luoyang Glass (600876.SH) specializing in glass. The group also holds unlisted assets, including Optoelectronic Technology and research institutes. China National Building Material, the group's core subsidiary, was listed in 2006 and was the largest cement producer at the time, with 76% of CNBM's total assets as of the 2015 merger.

3.1.2. Introduction to China national materials group

China National Materials Group (Sinoma), founded in 1983, operates in material manufacturing, equipment engineering, and international trade. By 2015, it had assets of 117.6 billion RMB and controlled eight listed companies, including one overseas entity. In that year, Sinoma's revenue reached 72.9 billion RMB with a net profit of 1.82 billion RMB.

Its core businesses include cement, equipment manufacturing, engineering services, new materials, and mining. Cement operations are handled by subsidiaries like Sinoma Cement and Tianshan Co. (000877.SZ). Sinoma also leads in high-tech materials, with key subsidiaries like Taishan Glass Fiber. Sinoma entered real estate through Tianshan Real Estate and manages trade through unlisted subsidiaries.

Sinoma Corporation, its main subsidiary, was listed in Hong Kong in 2007. It is the largest cement equipment manufacturer globally and holds 88% of Sinoma's total assets as of the 2015 merger with China

National Building Material Group.

3.2. Analysis of the merger motives

The merger of China National Building Material Group (CNBM) and China National Materials Group (Sinoma) was driven by national capital distribution adjustments and aimed at enhancing market efficiency. Industry-wise, it seeks to support transformation, optimize resource allocation, and improve competitiveness. Financially, the merger improved CNBM's debt-paying ability, operational capacity, and profitability and EVA metrics.

Overall, it created financial synergies and boosted CNBM's market position.

3.3. Change in equity

On August 22, 2016, CNBM and Sinoma completed their merger, creating a central SOE. On September 8, 2017, the two listed companies, China National Building Material (03323.HK) and Sinoma Corporation (01893. HK), reached a share exchange agreement, where each Sinoma share was converted into 0.85 CNBM shares. Following the merger, CNBM assumed all of Sinoma's rights and obligations, and Sinoma's H-shares were delisted.

3.4. Tax Planning scheme for M&A transactions

3.4.1. Tax planning scheme for the disposition of assets

In the context of a slowing economy and the "new normal" of macroeconomic conditions, the building materials industry faces overall stagnation. As a highly cyclical industry, weak downstream demand has increased supply pressures, highlighting structural contradictions. CNBM and Sinoma have significant overlap in certain business segments, leading to unhealthy competition and resource wastage.

As of June 30, 2017, the relevant financial data for Sinoma is shown in the table below:

Table 1. The relevant financial data for Sinoma.

Project	As of June 30, 2017 Unit: Million RMB
Total Assets	107,866
Owner's Equity	17,929
Revenue	25,106
Net Profit	596

Data Source: Joint Announcement of CNBM, September 8, 2017

(1) Scheme one: CNBM fully acquires all assets and liabilities of sinoma through a cash transaction

Sinoma intends to transfer its total assets of 107,866 million RMB to CNBM, which will make the payment in cash.CNBM faces deed tax for acquiring land-use rights, while Sinoma is subject to VAT, LVIT, and CIT.

① **Corporate income tax**

CNBM's cash purchase of all assets and liabilities of Sinoma does not meet the criteria for special tax treatment. Therefore, Sinoma must pay corporate income tax based on the general tax reorganization provisions and cannot enjoy the tax deferral benefits available under special tax reorganization. The corporate income tax payable by Sinoma is calculated as 107,866 million RMB, minus transaction costs, multiplied by the tax rate.

② **Turnover taxes**

The reorganization follows the “person follows asset” principle, under which Sinoma’s employees will be transferred to CNBM, and CNBM will handle their management, accommodation, and placement.Since the transfer of related goods does not fall within the scope of VAT, so VAT will not be levied.

However, improper management of employees could lead to VAT and other taxes being imposed.

③ **Land Value increment tax (LVIT)**

According to document No. 57, this reorganization doesn’t qualify for special tax treatment, LVIT must be paid per regulations.

④ **Deed tax**

CNBM is required to pay deed tax when acquiring Sinoma’s intangible assets land and fixed assets, such as buildings and other real estate.

⑤ **Stamp duty**

According to stamp duty regulations, the property transfer between Sinoma and its parent company CNBM will be subject to stamp duty. According to the relevant regulations, the stamp duty payable by both parties is calculated as:

107,866 million RMB × 0.05% = 53,943 RMB.

Table 2. Summary of tax situation for scheme one.

Tax Type	CIT	Deed Tax	LVIT	Stamp Duty
Applicable Documents	Cai Shui [2009] No. 59	Interim Regulations on Deed Tax	Interim Regulations on LVIT	Interim Regulations on Stamp Duty
CNBM	0	0	Pay Land Value Increment Tax on land and buildings	539430RMB
Sinoma	(Transfer Cost - Costs) × Applicable Tax Rate	Applicable tax rate on land and building value	0	539430RMB

(2) Scheme two: Sinoma spins off relevant assets and liabilities to establish a subsidiary, and CNBM acquires the subsidiary’s shares through cash and stock

This merger aims to unlock the value of petrochemical group’s non-core assets through spinoffs and list high-quality assets.Since the main business of Sinoma and CNBM are different, asset separation is required before the merger. Sinoma will spin off its core business into a wholly-owned subsidiary, Company A, and transfer its shares to CNBM upon approval.

During this process, Sinoma will encounter the following tax types:

① **Corporate income tax**

According to Document No. 59, special tax treatment for corporate restructuring requires that five conditions be met. This restructuring uses a combination of asset spin-off and corporate merger, which does not meet the condition that the original major shareholders cannot transfer the shares acquired within 12 months post-restructuring. Therefore, it will be processed as a general tax restructuring. Sinoma is deemed to transfer assets and liabilities at fair value, and the corporate income tax is calculated as the fair value of the assets—107,866 million RMB—minus transaction costs, multiplied by the applicable corporate income tax rate. The net asset value of Company A is 107,866 million RMB, and Sinoma’s tax basis for the shares in Company A is 107,866 million RMB.

② **Value-added tax (VAT)**

According to the regulations, in the process of establishing a new company, if the transferor hands over all or part of the physical assets, related debts, liabilities, and labor to the new company, VAT will be exempted. As a result, urban construction tax and educational fees are also not required.

③ **Land value increment tax (LVIT)**

Since Sinoma doesn't pay for the asset transfer to Company A, it is not a compensated transfer and no land value increment tax is required.

④ **Deed Tax**

Based on the relevant deed tax regulations, there is no need to pay deed tax for this spin-off.

⑤ **Stamp Duty**

According to the relevant stamp duty regulations, both parties need to pay stamp duty. The stamp duty payable is calculated as:

107,866 million RMB × 0.05% = 53,943 RMB.

Table 3. Summary of tax situation for scheme two.

Tax Type	CIT	Stamp Duty
Applicable Documents	Cai Shui [2009] No. 59	Interim Regulations on Stamp Duty
CNBM	0	539430
Sinoma	(Transfer Cost - Costs) × Applicable Tax Rate	539430

3.4.2. Comparative analysis

The asset and liability package sale involves more taxes, such as deed tax and LVIT, and presents challenges like high land value tax and longer asset transfer times, which increase restructuring costs.In contrast, Sinoma first establishes a wholly owned subsidiary by splitting off all assets and liabilities, then merges and transfers 100% of the subsidiary's shares to Sinopec. This share merger, instead of asset transfer, saves on land value-added tax and reduces the time required for share transfer.

4. Conclusion

4.1. Suggestions for tax planning in corporate restructuring

In M&A and restructuring, tax planning can bring mutual benefits to both parties. Government tax incentives come with specific conditions, so it is crucial to assess whether these conditions are met during the transaction. To improve tax planning, both parties should consider each other's interests during negotiations and pay attention to relevant tax documents issued by authorities. For example, arranging for the target company's employees to be transferred can avoid VAT, and structuring the asset transfer and equity payment ratios to meet conditions for tax deferral can offer further benefits.

Moreover, when planning the transaction, both parties should focus on the following: First, negotiate the entire transaction process and approach before proceeding. Second, communicate with tax authorities and seek their guidance during tax planning. Lastly, ensure that both parties share the benefits and risks of tax planning. By incorporating tax planning into the M&A process and meeting tax incentive conditions, the transaction objectives can be achieved.

4.2. Building awareness of tax planning in enterprises

In modern business operations, tax planning has become an important tool for enhancing competitiveness, optimizing financial structure, and reasonably reducing tax burdens. However, many enterprises still have lack awareness of tax planning and fail to fully utilize tax policies to create value for the business.

To cultivate tax planning awareness in corporate restructuring, enterprises should improve their internal management systems, establish a scientific and standardized management framework, and ensure the accuracy and standardization of financial work. Additionally, the quality of financial personnel should be improved through training and continuous learning, equipping them with rich professional knowledge and a sharp understanding of tax policies. Enterprises should also strengthen communication and cooperation with government and tax authorities to stay informed about changes in tax policies and requirements, facilitating better tax planning.

At the same time, the government and society should work together to provide a better tax environment and policy support, promoting the healthy and stable development of businesses.

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