

# Analysis of Fiscal and Tax Policies in Response to the Novel Corona Virus Epidemic in China

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**Abstract:** In the critical period of fighting against the novel corona virus epidemic, the Ministry of Finance and the State Taxation Administration issued a number of fiscal and tax policies, which played a positive role in encouraging enterprises and individuals to take an active part in the fight against the epidemic. This paper analyzes these policies in depth.

## 1. Introduction

The outbreak of the corona virus disease 2019 (2019-nCoV) has aroused wide concern from all walks of life. Many caring enterprises have been actively taking action to produce, purchase and donate scarce medical supplies, providing material supports for the fighting against the epidemic. Recently, the Ministry of Finance and the State Taxation Administration jointly issued a series of preferential policies on tax reduction and exemption to encourage and support people from all walks of life to make donation for the epidemic prevention and control. In order to ensure that these enterprises can fully understand and make good use of relevant preferential policies, this paper collates and analyzes relevant policies, and provides corresponding cases for financial personnel in relevant enterprises to learn.

## 2. Accounting Treatment for Tax Exemption in Donation of Epidemic Prevention Materials

The *Announcement on Taxation Policies Supporting Donation for the Prevention and Control of the Pneumonia Epidemic Caused by Novel Corona Virus Infection* (No. 9 Announcement of the State Taxation Administration and the Ministry of Finance in 2020) stipulates, “voluntary donation of goods to deal with the epidemic is exempt from value added tax, consumption tax, city maintenance and construction tax, education surcharges and local education surcharges.”<sup>[1]</sup> The introduction of this policy is conducive to encouraging all parties to donate urgently needed medical materials for epidemic prevention. However, it should be noted that the financial personnel of some enterprises misunderstood above policies, and there were also problems in relevant accounting treatment.

For example, a general VAT taxpayer purchased a batch of protective clothing and directly donated it to a designated hospital. The purchase price of the protective clothing was 2.26 million yuan (including tax), and the corresponding input tax was 260,000 yuan. The special VAT invoice was obtained. The financial staff of the enterprise made following treatment. First, purchase of protective clothing: Debit: raw material 200, tax payable -VAT payable (input tax) 260,000. Credit: bank deposit 226. Second, donation: Debit: non business expenditure 2,26 million. Credit: raw material 2 million; tax payable - VAT payable (transfer out of input tax) 260,000. There are problems in the treatment. The enterprise's practice violates *Detailed Rules for the Implementation of the Provisional Regulation of PRC on Value Added Tax and Regulations on Accounting Treatment of Value Added Tax*. Article 4 of the *Detailed Rules for the Implementation of the Provisional Regulation of PRC on Value Added Tax* stipulates that the following acts of a unit or individual business shall be deemed as sales of goods. Eighth, giving free goods to other units or individuals that are self-produced, purchased or commissioned for processing. The above provisions do not exclude the public welfare donation. As long as the goods are donated, no matter what the situation is, the value-added tax should be calculated as sales, and the input tax cannot be

transferred out.

*Regulations on Accounting Treatment of Value Added Tax* stipulates, general VAT taxpayers shall set up a column of “tax deduction” in the detail account of “value added tax payable” to record the VAT that general taxpayers are allowed to deduct according to the current VAT system. The *Announcement on Taxation Policies Supporting Donation for the Prevention and Control of the Pneumonia Epidemic Caused by Novel Corona Virus Infection* (No. 9 Announcement of the State Taxation Administration and the Ministry of Finance in 2020) stipulates that, the value-added tax should be exempted from units and individual businesses who produce, process or purchase goods, and voluntarily donate them through public welfare social organizations or state organs at the county level or above, or directly donate them to hospitals responsible for the epidemic prevention and control, in order to deal with the outbreak of pneumonia caused by the novel corona virus. The situation stipulated in Announcement No. 9 shall be the situation that “the current VAT system allows for exemption and reduction” in *Regulations on Accounting Treatment of Value Added Tax*. For anti-epidemic materials donated by enterprises, they should first be deemed as sales, and then treated for tax exemption. The accounting treatment of the above businesses should be as follows. First, Debit: non business expenditure 226. Credit: raw materials 2 million. Taxes payable - VAT payable (VAT on sales) 260000. Second, Debit: taxes payable - value added tax payable (tax deduction) 260000. Credit: other income (or non business income) 260000.

### **3. Accounting Treatment for Masks Purchased and Distributed to Employees**

As the situation of epidemic prevention and control gradually improved, a large number of enterprises began to return to work. But for the sake of safety, many enterprises purchase masks. They distribute masks to employees and require them to wear masks at work. There are some disputes on relevant accounting treatment. According to the *Notice on Standardizing Issues Related to the Payment Base of Social Insurance* (Document of the Labor and Social Security Center, [2006] No. 60), the scope of labor protection expenditure includes, labor protection articles such as working clothes and gloves, antidotes and cool drinks, as well as the health food treatment paid the labor protection fee for five types of work such as exposure to toxic substances, silica dust operation, radiation operation, diving, caisson operation and high temperature operation according to the former scope stipulated by the Ministry of Labor and other departments. The General Office of the State Administration of Safety Supervision issued *Notice on Modification of the Management Standard of Labor Protection Articles for Employers in 2018* (Document of the General Office of the State Administration of Safety Supervision on Safety and Health, [2018] No. 3). The Article 10 of Chapter II stipulates issues related to respiratory protective equipment to prevent anoxic air and air pollutants. The company's centralized purchase of masks and other items for employees can be managed as labor protective equipment. Therefore, the masks purchased by the enterprise belong to labor protection articles. As long as the legal VAT deduction certificate is obtained, the input tax can be deducted from the output tax. When the purchased masks and other articles are distributed to employees, the items belong to non monetary welfare distributed to employees. The input tax needs to be transferred out again.

Therefore, the correct accounting treatment for the company's purchase of masks to employees is as follows. First, purchase of masks: Debit: inventory goods, tax payable - VAT payable (input tax). Credit: bank deposit. Second, decided to distribute the purchased masks to employees: Debit: management cost, production cost, manufacturing cost, sales cost, etc. Credit: Payroll payable - non monetary welfare. Third, distribute masks to employees: Debit: Payroll payable - non monetary welfare. Credit: inventory goods, tax payable - VAT payable (input tax transferred out).

For example, company A purchased a batch of masks and obtained a special VAT invoice indicating the price of 100000 yuan and 13000 yuan of VAT. The company distributed all the masks to employees as welfare. Relevant accounting treatment is as follows. First, Debit: inventory commodity 10, tax payable - value added tax payable (input tax) 1.3. Credit: bank deposit 11.3. Second, Debit: management expense, production cost, manufacturing expense, sales expense, etc. 11.3. Credit: Payroll payable - non monetary welfare 11.3. Third, Debit: Payroll payable - non

monetary welfare 11.3. Credit: inventory commodity 10. Tax payable - VAT payable (input tax transferred out) 1.3.

If the enterprise does not purchase masks, but distribute subsidies to employees and ask employees to purchase masks by themselves, the action belongs to distributing monetary benefits to employees. Even if the special VAT invoice is obtained, the input tax shall not be deducted. The accounting treatment is as follows. First, decide to issue subsidies for employees to purchase masks: Debit: management expenses, etc. - employee welfare expenses. Credit: payable employee salary - welfare expenses. Second, actually issue subsidies: Credit: payable employee salary - welfare expenses. Credit: bank deposit.

For example, company B decided to grant 200000 yuan to employees to purchase masks because it could not purchase enough masks. Accounting treatment is as follows. First, Debit: management expenses, production costs, manufacturing expenses, sales expenses, etc. - employee welfare expenses 20. Credit: employee salary payable - welfare expenses 20. Second, distribute subsidies: Debit: employee salary payable - welfare expenses 20. Credit: bank deposit 20.

#### **4. How Can Small-Scale Taxpayers Enjoy the Preferential Tax Rate**

At the beginning of March 2020, the Ministry of Finance and the State Taxation Administration jointly issued the *Value Added Tax Policies on Supporting Privately and Individually-owned Business to Return to Work*. The announcement clearly stipulates that from March 1 to May 31, 2020, for small-scale VAT taxpayers in Hubei Province, the taxable sales revenue applicable to the 3% collection rate shall be exempted from VAT; for prepaid VAT projects applicable to 3% pre collection rate, the VAT shall be suspended. For small-scale VAT taxpayers in other provinces, autonomous regions and municipalities directly under the central government, the taxable sales revenue applicable to the 3% collection rate shall be reduced to 1% collection rate; for prepaid VAT projects that applicable to 3% of VAT, 1% of VAT shall be collected at a reduced rate. This policy plays an important role in alleviating the impact of the novel corona virus epidemic on small and medium-sized enterprises and reducing the tax burden of these companies. However, how to understand above policies and how to carry out correct accounting treatment is a problem that needs to be clarified as soon as possible.

Based on the analysis of above documents, we can draw the following conclusions. Firstly, when small-scale VAT taxpayers obtain taxable sales revenue, and the tax obligation occurs before the end of February 2020, the VAT invoice will be issued at the rate of 3% if the rate of 3% is applicable; when the tax obligation occurs from March 1 to May 31, 2020, the VAT invoice will be issued at the rate of 1% if the rate of 1% is applicable. Secondly, this preferential policy adopts the way of directly reducing the rate of collection. Although the declaration form is filled in through three steps, and 2% of the preferential amount is filled in the "tax reduction amount of the current tax payable", it mainly plays a role of statistics of the preferential amount, and cannot change the essence of direct reduction. The accounting treatment should also adopt the direct reduction method. From March 1 to May 31, 2020, VAT should be levied at the rate of 1%, which is a tax preference compared with the rate of 3%. However, since this preference adopts the way of directly reducing the levy rate, the VAT collected by the taxpayer from the buyer is 1%, and the actual VAT paid is 1%, so there is no need to reflect any difference. For example, a small-scale taxpayer (outside Hubei Province) has a sales volume of 202000 yuan in March 2020. The accounting treatment is: Debit: account receivable 20.2. Credit: main business income 20. Tax payable - VAT payable 0.2. The above accounting treatment does not need to reflect the tax reduction from 3% collection rate to 1% collection rate.

Some financial personnel think that the above business should be handled according to following steps. Firstly, Debit: accounts receivable 20.6. Credit: main business income 20. Tax payable - VAT payable 0.6. Second, Debit: tax payable - VAT payable 0.4. Credit: non business income 0.4. Third, Debit: tax payable - VAT payable 0.2. Credit: bank deposit 0.2. In fact, such treatment is unnecessary, because accounting treatment does not need to be completely consistent with tax returns. It is because that the financial staff did not understand the nature of the tax preference of

1% collection rate. This preference adopts the way of directly reducing the collection rate. If the enterprise chooses to apply the 1% collection rate, it has nothing to do with the 3% legal collection rate during the period of preference. It is not necessary to calculate the sales amount and tax according to 3%.

## **5. Accounting for Income Tax Exemption for Enterprises Donate Epidemic Prevention Materials**

The *Announcement on Taxation Policies Supporting Donation for the Prevention and Control of the Pneumonia Epidemic Caused by Novel Corona Virus Infection* (No. 9 Announcement in 2020) stipulates, on one hand, for individual and companies donate cash and goods which are used in epidemic prevention and control through public welfare social organizations or state organs at the county level or above, the donation is allowed to be fully deducted from the personal and enterprise income tax; on the other hand, enterprises and individuals directly donate the epidemic prevention items to hospitals that undertakes the epidemic prevention and control task, the donation is allowed to be fully deducted from the personal and enterprise income tax. According to above policies, enterprises can obtain following benefits. Firstly, according to the latest version of enterprise income tax return, the income of deemed sales income and deemed sales cost can be adjusted, and can be leveled by the “other” item in the 105000 table. Secondly, the deemed sales revenue can increase the calculation base of business entertainment expenses and advertising expenses.

For example, enterprise A purchases a batch of epidemic prevention materials and donates them to a designated hospital (in line with the provisions of Announcement No. 9 of the Ministry of Finance and the State Taxation Administration in 2020). The purchase cost of the donated materials is 100, and the input tax is 130000 yuan (special VAT invoice is obtained). The market value at the time of donation is 1.5 million yuan (including VAT). The accounting treatment is as follows. Firstly, Debit: raw materials 100. Taxes payable - value-added tax payable (input tax) 130000. Credit: bank deposit 113. Secondly, Debit: non business expenditure 1.13 million. Credit: raw materials 1 million. Tax payable - value-added tax payable (output tax) 130000. Third, Debit: taxes payable - value-added tax payable (tax deduction and exemption) 130000. Credit: other income (or non operating income): 130000.

The adjustment of the deemed sales income and cost of enterprise income tax should not generate income. The tax law requires that the deemed sales income should be recognized as sales income according to the fair value, and the expenses incurred should also be calculated according to the fair value. Therefore, from the perspective of enterprise income tax return, through this business, the enterprise will increase the deemed sales income by 1 million yuan, reduce the deemed sales cost by 1 million yuan, and increase other items by 130000 yuan. The final result of enterprise income tax adjustment is the increase of 130000 yuan. In addition, the non operating expenses of 1.13 million yuan can be deducted in full before the income tax of the enterprise, and the deemed sales income also increases the calculation base of business entertainment expenses and publicity expenses by 1 million yuan.

## **6. How to Pay Personal Income Tax When Individuals Get Epidemic Prevention Subsidy**

On February 7, 2020, the Ministry of Finance and the State Taxation Administration jointly issued an announcement to the public, clearly stipulating that the temporary work subsidies and bonuses obtained by medical personnel and epidemic prevention workers participating in the epidemic prevention and control in accordance with the standards set by the government shall be exempted from individual income tax. The temporary work subsidies and bonuses provided by the people's governments at or above the provincial level for personnel involved in epidemic prevention and control shall be implemented by reference. In addition, medicines, medical supplies and protective articles (excluding cash) issued to individuals take part in new corona virus infection prevention are not included in salary income and are exempt from personal income tax.

According to above analysis, following problems should be paid attention to in actual operation.

Firstly, the temporary work subsidies and bonuses granted by the municipal, district or county governments in accordance with above provisions should be exempted from individual income tax. Secondly, the temporary work subsidies and bonuses granted by non-financial funds should also be exempted from individual income tax. For example: during the epidemic period, a property management company organizes personnel to carry out temperature check and register the entry and exit personnel at the gate of the community; each person is given a subsidy of 200 yuan per day. The subsidy should be exempt from personal income tax. Thirdly, the (non-physical) epidemic subsidy issued by the unit to the employees at work does not belong to tax-free income; the personal income tax should be paid.

## **7. Conclusion**

In the critical period of fighting against the novel corona virus epidemic, the introduction of above policies is of great significance for arousing the enthusiasm of medical workers to engage in epidemic prevention and control, and encouraging companies and citizens to donate materials as well as cash to support the fighting against the epidemic caused by the 2019-nCoV.

## **References**

[1] The Announcement on Taxation Policies Supporting Donation for the Prevention and Control of the Pneumonia Epidemic Caused by Novel Corona Virus Infection (No. 9 Announcement in 2020), [online] Available:[http://www.gov.cn/zhengce/zhengceku/2020-02/07/content\\_5475532.html](http://www.gov.cn/zhengce/zhengceku/2020-02/07/content_5475532.html).