

Research on the Significance of Value-added Tax Amendment in 2019

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Keywords: value added tax; tax reduction; input VAT; refund incremental retained tax.

Abstract: In 2019, our government heavily modified VAT policies. Specific measures include tax rate reduction, expanding the scope of input tax deduction, allowance for one-time deduction in real estate input tax and refund of incremental retained tax. This paper mainly studies the significance, functions and impacts of these policies on enterprises.

1. Introduction

On March 5, 2019, Premier Ke-qiang Li put forward in his report on the work of the government that we should deepen the reform of value-added tax, reduce the current tax rate of 16% to 13% in manufacturing and other industries, reduce the current tax rate of 10% to 9% in transportation and construction industries, and keep the tax rate of 6% as the first class. Meanwhile, we should take supporting measures such as increasing tax credits for production and living services to ensure that all industries can bear lower tax. In order to implement the central decision and promote the substantial reduction of VAT, the Ministry of Finance, the State Taxation Administration of and the General Administration of Customs jointly issued the Announcement on Deepening VAT Reform (No. 39 Announcement in 2019 of issued by the General Administration of Customs, the State Taxation Administration and the Ministry of Finance), which made specific provisions on tax rate reduction, expanding the scope of input tax deduction, allowance for one-time deduction in real estate input tax and refund of incremental retained tax. Under the background of the great downward pressure on China's economy, the introduction and implementation of above policies will help to reduce the burden of enterprises, stimulate market vitality, promote the optimization of economic structure, and ensure the sustained and stable development of national economy. This paper mainly studies the significance, functions and impacts of these policies on enterprises.

2. The VAT Rates are Reduced Drastically

The Announcement on Deepening VAT Reform stipulates that, when a general VAT taxpayer (hereinafter referred to as a taxpayer) conducts VAT taxable sales or imports goods, if the original 16 % tax rate is applied, the tax rate shall be adjusted to 13%; if the original 10% tax rate is applied, the tax rate shall be adjusted to 9%. Value-added tax has always played an important role in China's fiscal revenue. Taking 2018 as an example, according to the data released by the Ministry of Finance and the National Bureau of Statistics, the total tax revenue in China in that year was 1.564 billion yuan, of which the value-added tax revenue was 6.16 trillion yuan, accounting for 39.38% of the total tax revenue. Value-added tax has the characteristics of broad tax base and wide collection scope. It involves goods, services, real estates, intangible assets and other aspects. Therefore, the reduction of VAT tax rate has an important impact on stimulating consumption.

According to the tax theory, value-added tax belongs to circulation tax, taking the value added by taxpayers in circulation as the object of taxation. Value-added tax is a tax excluded in price; sales price excludes value-added tax. Enterprises can pass on the value-added tax they paid to downstream enterprises and even to final consumers, thus affecting residents' consumption. After the reduction of VAT rate, in order to increase market occupancy, enterprises tend to reduce sales prices, so that consumers can also enjoy tax dividends, thus driving the growth of GDP. According to the calculation principle of value-added tax, the value-added tax payable is equal to the output tax minus the input tax. That is to say, the final value-added tax payable needs to be determined by

both the out tax and the input tax. Due to the different compositions of raw materials in different industries and enterprises, the amounts of input tax deduction vary in different enterprises. Therefore, the decrease of VAT tax burden caused by the reduction of VAT rates will be quite different in different industries and enterprises. If the company's product sells good in the market, and the market price can remain unchanged when the amount of deducted input tax decreases, or the sales volume can increase significantly after the price reduction and the income can increase, then the tax reform will ultimately lead to the increase of enterprise profits. If the company's product has common sales situation, and under the reduced amount of deducted input tax, the sales volume cannot increase significantly after the price adjustment, then the tax reform will not change corporate profit. If the company's product market sales situation is poor and the amount of input tax that can be deducted decreases, the sales volume cannot increase after the price reduction, the tax reform will ultimately lead to a decline in corporate profits.

3. One-time Deduction for Real Estate Input Tax

The Announcement on Deepening VAT Reform stipulates that as of April 1, 2019, the implementation of Item 1 of Article 1 (4) and Item 1 of Article 2 (1) of the Provision on the Reform of Transforming Business Tax into VAT (Finance and Tax Document [2016] 36) shall cease. The amount of input tax of purchasing real estate or real estate under construction cannot be deducted in two years anymore. The amount of input tax to be deducted which has not been completed in accordance with above provisions can be deducted from the amount of output tax in the income year from April 2019.

Above measures are amendments on the Implementation Measures for Transforming Business Tax to VAT promulgated by the Ministry of Finance and the State Taxation Administration on March 24, 2016. That document stipulates that, starting from May 1, 2016, pilot projects will be launched nationwide. All business tax taxpayers in construction, real estate, finance and life service industries will be included in the scope of the pilot projects, and the business tax will be changed to VAT. The introduction of this policy means that the real estate purchased by enterprises can also deduct input tax if the company obtains special VAT invoices. However, considering the large amount of real estate input tax, in order to avoid the value-added tax decrease caused by the substantial increase of enterprise input tax, the State Administration of Taxation issued the Interim Measures for Staged Deduction of Real Estate Input Tax (Announcement No. 15 of 2016 issued by the State Administration of Taxation) which stipulates that, if the general taxpayer of value-added tax acquire real estate after May 2016 and the estate should be calculated as fixed assets in the accounting system, or purchase real estate under construction projects occurring after May 1, 2016, the input tax shall be deducted from the amount of output tax in two years in accordance with relevant provisions. The proportion of deduction in the first year is 60%, and that in the second year is 40%.

For example, in January 2018, Company A purchased a factory building and obtained a special VAT invoice indicating that the price was 50 million yuan and the VAT value was 5.5 million yuan. The enterprise paid off. Accounting treatment should be as follows.

(1) In January 2018, the purchase of factory buildings and the payment of goods can deduct 60% of the input tax

Debit: Fixed Assets, 5000 Tax Payable - Value Added Tax Payable - Input Tax 330
 Tax Payable - Value Added Tax Payable -Input Tax to be Deducted 220
 Credit: Bank Deposit 5550

(2) In February 2019, deduct 40% of the input tax

Debit: Tax Payable - Value Added Tax Payable - Input Tax 220
 Credit: Tax Payable - Value Added Tax Payable - -Input Tax to be Deducted 220

If the above-mentioned business happens after April 2019, the enterprise does not need deduct tax by stages, but can declare the deduction one-time in the same year after obtaining the special invoice for value-added tax, thus increasing the input tax and reducing the value-added tax paid, and ultimately reducing the tax burden of the enterprise. Then the enterprise can have more funds

for expanding the production scale and technological transformation. However, for real estate purchased before April 2019, the value-added tax input tax that has not yet been deducted should still be deducted after 12 months according to the original provisions.

For example, in May 2019, Company A purchased a factory building and obtained a special VAT invoice indicating that the price was 50 million yuan and the VAT value was 4.5 million yuan. The enterprise has paid off. Accounting treatment should be as following.

Debit: Fixed Assets 5000 Tax Payable - Value Added Tax Payable - Input Tax 450
Credit: Bank Deposit 5450

4. Domestic Passengers' Transportation Fees can Deduct Input Tax

The Announcement on Deepening the Value Added Tax Reform stipulates that when taxpayers purchase domestic passenger transport services, the input tax can be deducted from the output tax. Considering that at present the transportation industry in China mainly provides professional invoices instead of VAT invoices, the announcement stipulates that if taxpayers did not obtain VAT invoices, the input tax can be determined according to following provisions.

(1) If an ordinary electronic invoice for VAT is obtained, the amount of tax indicated on the invoice shall be the tax amount.

(2) If the electronic airplane ticket itinerary sheet with the passengers' identity information is obtained, the input tax shall be calculated according to the following formula: air transport input tax = (ticket price + fuel surcharge) / (1 + 9%) * 9%.

(3) If a railway ticket with the passengers' identity information is obtained, the input tax shall be calculated according to the following formula: Railway transport input tax = par value / (1+9%) * 9%

(4) For other passenger tickets such as highways and waterways with information on passengers' identity, the input tax shall be calculated according to following formula: the input tax for other transport such as highways and waterways = the par value / (1+3%) * 3%.

The above provisions expand the deduction scope of VAT input tax, which is conducive for the passenger transport industry to increase passenger flow, reduce costs, and improve service quality and efficiency. It is also good news for other enterprises, because the travel tickets of company staff was not included in the deduction scope in the past. After carefully studying above provisions it can be found, not all personnel transportation expenses paid by the enterprise can deduct VAT input tax. (1) Only domestic passengers' freight can deduct VAT input tax, and the freight paid for foreigners can deduct. (2) Only invoices indicating passengers' identity information can be used, and handwritten invoices are invalid; (3) The Civil Aviation Development Fund is not included in the sales revenue of aviation enterprises and cannot be calculated in VAT input tax deduction. (4) Input tax deduction should still comply with basic provisions of VAT regulations. For instance, tickets purchased by enterprises for customers should still be included in the management fee-hospitality fee. Tickets and airplane tickets purchased by employees of an enterprise for organizing staff tourism should still be included in employee welfare. (5) Employees must have work contracts with the company.

For example: (1) In May 2019, the personnel of Company A traveled on business and purchased a high-speed railway ticket amounting to 2200 yuan, which was reimbursed by the financial personnel. Accounting treatment is as following.

Debit: Management Expense 1818.35 Tax Payable - Value Added Tax Payable - Input Tax 181.65

Credit: Bank Deposit 2200

(2) In May 2019, Company A reimbursed airline tickets for its customers. The airline tickets amounted to 4000 yuan, and the financial personnel had paid. Accounting treatment is as following.

Debit: Management Fee 3669.92 Tax Payable - Value Added Tax Payable - Input Tax 330.28

Credit: Bank Deposit 4000

(3) In May 2019, Company A organized staff tourism. The tickets cost 40,000 yuan, and the financial personnel had paid. Accounting treatment is as follows.

Debit: Employee Salary - Employee Welfare 36697.25
Tax Payable - Value Added Tax Payable - Input Tax 3302.75
Credit: 40,000 bank deposits

It should be noted that the passenger transport services declared by taxpayers, whether special tickets or other deduction vouchers, need to be counted in column 10 of Schedule 2 of VAT Tax Return Form “(4) deduction vouchers for passenger transport services in the current period”. The data in this column will not be summarized in column 12 of “total amount of input tax deducted in the current period”.

5. Taxpayers in the Service Industry can Enjoy the Preferential Policy of Incremental Tax Credit

The Announcement on Deepening the VAT Reform stipulates that from April 1, 2019 to December 31, 2021, taxpayers of production and life services are allowed to add 10% of the current deductible input tax to offset the tax payable. The connotation of this regulation is very rich, which can be analyzed from following perspectives

(1) Enterprises that can enjoy the preferential policy are strictly restricted. Taxpayers of production and life services refer to taxpayers who provide postal services, telecommunications services, modern services and life services (hereinafter referred to as the four services) and whose sales account for more than 50% of the total sales. The specific scope of the four services shall be implemented in accordance with the Notes on Sales Services, Invisible Assets and Real Estate (Finance and Tax Document, [2016] No. 36).

(2) The calculation of tax credit is very complex.

1) Incremental tax credit accrual for the current period = input tax deductible for the current period * 10%

2) Deductible incremental tax credit accrual for the current period = balance of incremental tax credit accrual for the last period + incremental tax credit accrual for the current period - incremental tax credit deduction for the current period

Note: according to the current regulations, input tax that cannot be deducted from output tax shall not be calculated and deducted.

3) Calculation of tax payable

If the tax payable is already less than or equal to zero before deduction, namely the current input is greater than the output, there will be no tax at all. Then the deductible amount for the current period can be transferred to the next period. If the amount of tax payable before deduction is greater than zero and greater than the amount of deductible incremental tax credit in the current period, the deductible incremental tax credit accrual for the current period shall be deducted in full from the amount of tax payable before deduction. If the amount of tax payable before deduction is greater than zero and less than or equal to the amount of deductible incremental tax credit accrual for the current period, the amount of deductible incremental tax credit accrual for the current period shall reduce the tax payable to zero. In the current period, the uncompleted amount of deductible incremental tax credit accrual for the current period will be carried forward to the next period.

6. Conclusion

Under the background of the global economic downturn, increasing downward pressure and the rise of trade protectionism, our government has made effective reforms in adjusting industrial structure, increasing effective supply and stimulating domestic consumption. This paper mainly makes an in-depth analysis of the impact of a series of VAT reform measures introduced by our government in 2019.

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