

Analysis on the Financial and Tax Processing of the Income Tax of Agricultural Products plus Deduction

Fan Mei

School of Accountancy, Yunnan Technology and Business University, Kunming, Yunnan, 651700, China

Keywords: Agricultural products; Taxes; Fiscal and tax treatment

Abstract: With the implementation of the simplified policy of VAT tax rate, the new problem of "adding and deducting the input tax of agricultural products" comes along. The author analyses the financial and tax treatment of the input tax plus deduction of agricultural products. It is found that the announcement of No. 37 of Finance and Taxation in 2017, Notice on Policies Concerning the Reduced VAT Tax Rate and No. 19 of Notice Concerning the Adjustment of VAT Tax Declaration, further improves the relevant issues of agricultural products plus deduction. Therefore, in order to encourage enterprises to engage in research and development activities, it is necessary to increase investment in independent innovation, improve the ability of independent innovation, and enhance the core competitiveness of enterprises.

1. Introduction

The Circular on Policies Concerning the Reduced VAT Tax Rate issued by the Ministry of Finance and the State Administration of Taxation stipulates that the reduced VAT tax rate will be implemented from July 1, 2017. That is to say, the tax items that used to apply the 13% tax rate are taxed at the 11% tax rate since then. The paper points out that the deductible input tax for agricultural products purchased by ordinary taxpayers is no longer calculated directly at the deduction rate of 13%. However, the deduction rate of 13% for agricultural products purchased by general taxpayers during the transition period is still allowed to remain unchanged when they are used for production, sale or commissioned processing (the applicable tax rate is 17%). The core content of document 37 is to reduce the VAT tax rate from four to three and abolish the 13% tax rate from July 1, 2017. The value-added tax rate on agricultural products and natural gas will be reduced from 13% to 11%. In order to encourage enterprises to engage in research and development activities, increase investment in independent innovation [5]. According to the Enterprise Income Tax Law of the People's Republic of China, we can deduct the R&D expenses in the process of R&D according to law in order to improve the ability of independent innovation and enhance the core competitiveness of enterprises [6]. One of the highlights of the document is that the policy objective of "maintaining the original deduction strength unchanged" has been formulated for specific purposes of purchasing agricultural products. That is, after the tax rate is simplified, the deduction of the first 13% of the tax rate for purchasing agricultural products for production or entrusted processing of goods with 17% tax rate is given, which belongs to the preferential tax policy for specific business. However, policy conditions such as limited use and separate accounting should be met.

In order to implement the policy of "maintaining the original deduction strength unchanged" in No. 37, the State Administration of Taxation issued a Notice on the Adjustment of VAT Tax Declaration on May 23, 2017 (No. 19 of 2017, abbreviated as "Notice No. 19") [7]. That is to say, if an enterprise produces, sells or acts as a trustee of entrusted processing (the applicable tax rate is 17%), its corresponding purchase of agricultural products will continue to be calculated as a 13% input tax deduction. Specifically, a 2% deduction is added to the 11% deduction rate in order to ensure consistency and consistency of policies [8]. Official Gazette No. 19, 2017 of the State Administration of Taxation (hereinafter referred to as bulletin No. 19) stipulates that it is used for the production, sale or commissioned processing of goods with a 17% tax rate. According to the difference between the deduction rate before the reduced tax rate and 11% in the current period of

production and consumption, the input tax of agricultural products that can be deducted in the current period is calculated. At the same time, the original deduction of agricultural products purchased by deep processing enterprises will remain unchanged, so as to avoid increasing tax burden due to the reduction of input deduction. With "the amount of agricultural products produced and received in the current period" and 2% of the accrued deduction rate, we can calculate the added deduction of the input tax [10]. However, the tax preferential policy of R&D expense plus deduction will also bring greater and potential tax risks to enterprises. This paper discusses the tax risk and prevention of R&D expense plus deduction.

2. Sectional Deduction of Input Tax of Agricultural Products

2.1 On the goal of maintaining the original deduction strength unchanged

In order to achieve the goal of "maintaining the original deduction strength unchanged" in No. 37, Announcement No. 19 adjusted the structure of the relevant forms and the filling requirements of the VAT tax returns of general taxpayers. This paper points out that if there are agricultural products in line with the policy of adding and deducting, the input tax can add two columns to the tax return when declaring VAT. Special invoices for VAT obtained from small-scale taxpayers, sales invoices for self-produced agricultural products obtained from agricultural producers, and purchase invoices for self-produced agricultural products take the invoice amount and 11% deduction rate as input tax. Announcement No. 19 also specifies how to fill in column 8A of "Increasing and Deducting Input Tax of Agricultural Products". In the current period of production and utilization, the amount of input tax of agricultural products that can be deducted in the current period is calculated according to the difference between the deduction rate of 13% and 11% before the degenerate tax rate. National Science Fire (2016) 195 included the evaluation fee in other fees and separately listed the design fee. Mainly includes eight categories: direct investment, external R&D fees, intangible assets, design fees, equipment commissioning fees, depreciation fees, labor costs, and other costs. If the competent tax authorities have objections to the R&D projects declared by enterprises, they may request enterprises to provide appraisal opinions issued by scientific and technological committees at or above the municipal level.

In recent years, the number of such related research is increasing. Therefore, we can see that this kind of research project is being concerned by the majority of scholars. Fig. 1 shows the trend of increasing and decreasing the number of related research on the fiscal treatment of agricultural input tax plus deduction in recent years.

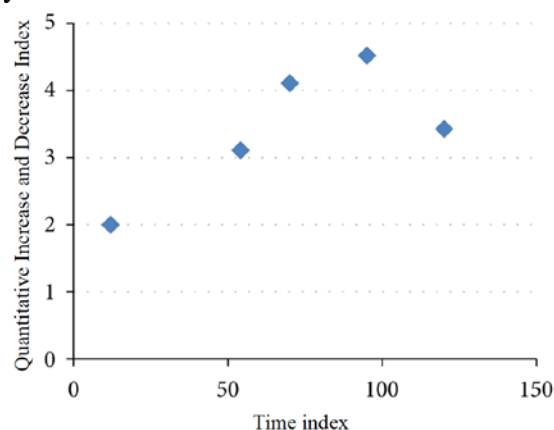


Fig.1. Trends of Increase and Decrease in Relevant Research in Recent Years

2.2 Definition of Taxpayer Acquisition Tax

Taxpayers are required to purchase goods with a 17% tax rate for production, sale or commissioned processing of agricultural products, and meet the policy conditions of "maintaining the original deduction strength unchanged" in No. 37. Since May 1, 2018, the relevant documents that enterprises can use to deduct input tax for purchasing agricultural products are specific. Mainly

for: direct deduction of vouchers: various special VAT invoices with 10% tax rate obtained by ordinary taxpayers from other general taxpayers, and special payment forms for import VAT obtained from customs, etc. This kind of income tax can be deducted directly from the VAT input tax recorded on the ticket. If the cost of agricultural products is further processed, the additional deduction rate is 2%, and the actual consumption deduction method is adopted. Taxable fee - input tax to be deducted is used to account for the situation that the deduction voucher is not synchronized with the actual deduction, and the "additional deduction of input tax for agricultural products" happens to be the case. The deduction voucher (purchase time) is not synchronized with the actual deduction (production time). For the second group of people, based on the announcement No. 97 issued by the State Administration of Taxation in 2015, if they are engaged in non-research and development work. At the same time, it shall submit a project decision signed by the general manager of the enterprise or the board of directors of the company, entrust or cooperate in the development, and provide relevant contracts or agreements. The competent tax administrator shall handle the notification of the registration information of R&D projects of enterprises after acceptance.

3. Determination of Standard for Income Tax Increase and Deduction of Agricultural Products

3.1 On the Calculation of the Income Tax of Agricultural Products

In the calculation of input tax plus deduction of agricultural products, the standard of calculation should be "the amount of tax deducted at 11% tax rate (deduction rate) at the time of current adoption". Generally speaking, according to the current regulations, the agricultural products purchased by the general taxpayers are used for either the purposes specified in "Fiscal and Tax Document 37" or other purposes. According to the "importance principle" of accounting, the small and micro enterprises that declare VAT quarterly only do the accounting treatment of VAT withdrawal monthly, excluding tax withdrawal and additional charges. The reason for this method is that "add and deduct the input tax of agricultural products" is a special case, the state in order to ensure that the tax burden of the vast number of agricultural products processing enterprises is only reduced but not increased and give enterprises a preferential treatment. Then it is necessary to record in detail the use of intangible assets, instruments and equipment in the process of their work, and calculate them as accurate costs, and allocate them between production and operation costs and R&D costs. In order to prevent misuse and abuse of the deduction policy, Document 37 stipulates that "taxpayers shall calculate the input tax of agricultural products for the production, sale or commissioned processing of 17% tax rate goods and other goods and services respectively". Therefore, the agricultural products produced and used in the current period may include both the purchased products in the current period and the purchased balances in the earlier period. According to the relevant policies of VAT, the current input tax can be determined and deducted by the relevant invoices or vouchers according to the 10% tax rate or the 10% deduction rate. This article refers to the 10% as the "basic deduction rate".

With the rapid development of science and technology, science and technology is not only the vitality of enterprises, but also the basis of sustainable development of enterprises. In order to encourage enterprises to innovate independently and actively carry out various R&D activities, the State Tax Administration issued the Circular of "Measures for Pre-tax Deduction of Enterprise R&D Expenses (Trial Implementation)" in 2008. From the perspective of accounting, we can deduct according to law the cost of process equipment and mould used in product trial production and intermediate test in the process of research and development, mainly including depreciation, rental, material and labor costs of equipment, workshop, etc. The Accounting Standards for Enterprises - Inventory stipulates that "Enterprises shall adopt the first-in-first-out method, the moving weighted average method, the weighted average method at the end of each month, and the individual valuation method to determine the actual cost of issuing inventories". Only when the standard of accounting for fixed assets is constituted can the purchase fee of the prototype, sample

and other fixed assets be directly included in the cost. When purchasing timber from a general taxpayer, a special VAT invoice is obtained indicating the price of 40,000 yuan, the quantity of 4 parties and the tax amount of 4,400 yuan. Maintaining the deduction rate of 13% is essentially the government transferring the tax receivable to taxpayers. It is the same as exemption from VAT for small and micro enterprises whose monthly sales are not more than 30,000 yuan. It is a kind of government subsidy, so it should be regarded as "off-business income".

3.2 Practicality of Weighted Average Method

The method of weighted average at the end of each month is more practical. However, after the reduction of tax rate, the benchmark tax rate of agricultural products has been adjusted to 10%, in order to ensure that the deduction intensity is consistent with that before the reduction of tax rate. For example: a furniture factory in July 2017 related business: imported timber batch, get customs import VAT special payment note indicating the amount of 5 parties, the price of 50,000 yuan, the tax of 5,500 yuan. On the one hand, from the balance sheet point of view, the non-accounting treatment of "added and deducted input tax of agricultural products" will lead to the balance of "taxable fees - non-paid value-added tax" which can not correctly reflect the actual non-paid value-added tax of taxpayers at the end of the period. Considering such factors as individual valuation method, first-in-first-out method, moving weighted average method, heavy workload, great difficulty and cost-benefit considerations, it should be considered as a sub-optimal choice. On the other hand, from the point of view of the profit statement, without accounting treatment of "added and deducted input tax of agricultural products", its impact on profits and losses can not be reflected. In fact, "add and deduct the input tax of agricultural products" will inevitably affect the total profit, and then affect the enterprise income tax. If the end-of-season income exceeds 90,000 yuan, the additional accounting treatment shall be exempted from levy. The actual working hours and other records used for cost allocation are kept for reference, and only the labor costs incurred during R&D activities can be deducted.

4. Conclusion

After the reduction of the tax rate, the tax rate of agricultural products will be adjusted from 13% to 11%, and the purchased agricultural products meeting the target of "maintaining the original deduction strength unchanged" in No. 37 will be changed. The input tax shall be deducted by 11% basic deduction rate and 2% plus deduction rate in the purchase and production phases respectively. If a 3% VAT special ticket is obtained before 30 June 2017, it will be certified within the current deduction period and the input tax will be deducted according to the specified tax declaration. Although the standards have been revised, the tax law still follows the original provisions. Accounting is the haze on the left bank and tax law is the mist on the right bank. Although there are some blends, they always follow different paths and do not compromise with each other. The principle of VAT is the collection of ring, deduction of road links, how much is levied on the upper link and how much is deducted on the lower link. It is the general trend of the reform of the VAT system to implement the method of checking and deducting the input tax of agricultural products. In the future, the input tax deduction of agricultural products processing enterprises will be decoupled from the deduction vouchers. That is to say, these industries are no longer based on the deduction of input tax indicated on the special invoice for VAT and calculated by themselves, but on the deductible amount of input tax which can be verified by output in a certain way. Information technology should also be applied to all aspects of R&D cost plus tax risk management, and R&D risk management process and internal control risk management information system should be established.

References

- [1] Zhang T T, Zhang Q Y. [WORLD SCIENTIFIC The 2015 International Conference on Design, Manufacturing and Mechatronics (ICDMM2015) - Wuhan, China (17 – 18 April 2015)]

Design, Manufacturing and Mechatronics - The application of Internet of Things in the logistics of agricultural products[J]. :558-567.

[2] Wang Z. Willingness of Agricultural Workers to Conduct E-commerce of Agricultural Products Based on GEM Model[J]. Asian Agricultural Research, 2018, v.10(05):26-30.

[3] Zhang Y, Zhang J H, Tian Q, et al. Virtual water trade of agricultural products: A new perspective to explore the Belt and Road[J]. Science of The Total Environment, 2018, 622-623:988-996.

[4] Bourgeois C, Fradj N B, Jayet P A. How Cost-Effective is a Mixed Policy Targeting the Management of Three Agricultural N-pollutants?[J]. Environmental Modeling & Assessment, 2014, 19(5):389-405.

[5] Bolinger M, Holt E. A Survey of State and Local PV Program Response to Financial Innovation and Disparate Federal Tax Treatment in the Residential PV Sector[J]. Clinical Implant Dentistry & Related Research, 2015, 11(2):69-80.

[6] Sørensen, Peter Birch. Taxation and the Optimal Constraint on Corporate Debt Finance[J]. International Tax & Public Finance, 2014, 24(5):1-23.

[7] Boadway R, Cuff K. Tax treatment of bequests when donor benefits are discounted[J]. International Tax and Public Finance, 2015, 22(4):604-634.

[8] Dennis-Escoffier, Shirley. Preserving Tax-Free Treatment of Employee Parking Benefits[J]. Journal of Corporate Accounting & Finance, 2017, 28(6):62-65.

[9] Dennis-Escoffier, Shirley. Surprises on Tax Treatment of Scholarships[J]. Journal of Corporate Accounting & Finance, 2015, 26(5):113-118.

[10] Ernst C, Richter K, Riedel N. Corporate taxation and the quality of research and development[J]. International Tax and Public Finance, 2014, 21(4):694-719.