

Analysis on Some Difficult Problems in the Teaching of Tax Accounting Course

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Abstract: In recent years, China's accounting standards and tax laws have been constantly revised and adjusted; hot and difficult problems have emerged. As a course integrating accounting and tax law, tax accounting often encounters some special problems in the teaching process, which needs to be carefully analyzed and studied.

1. Introduction

Tax accounting is a course integrating accounting and tax law. With the implementation of new accounting standards and tax laws, some problems have emerged. It is necessary to analyze these specific situations, so as to facilitate the teaching of this course.

2. Accounting and Tax of Mixed Sales and Concurrent Business

2.1 Tax Analysis on the Difference between Mixed Sales and Concurrent Business

Mixed sales and concurrent business are two kinds of behaviors that often occur in the business activities of enterprises, and there are also relevant provisions in the tax law. In *Implementation Measures for Pilots Replacing Business Tax with Value-Added Tax*, namely the Annex 1 of *Notice on Comprehensively Promoting the Pilot Project of Replacing Business Tax with Value Added Tax* issued by the Ministry of Finance and the State Administration of Taxation, the Article 39 stipulates that if a taxpayer concurrently sells goods, services, intangible assets or real estates, and these items are apply to different tax rates or collection rates, tax rates shall be accounted separately; if they are not accounted separately, the higher tax rate shall be applied. [1] Article 40 provides that if a sale behaviour involves both services and goods, it should be the mixed sale. Value added tax shall be paid on the basis of goods sold by units engaged in the production, wholesale or retail sale of goods or by individual industrial and commercial households; for other units and individual businesses, the value added tax shall be paid in accordance with sales services. However, in practice, it is difficult to distinguish the mixed sales and concurrent business activities clearly. In addition, the value-added tax applies different tax rates to goods and services, resulting in great differences in the tax treatment results of mixed sales and concurrent business, which often leads to disputes between companies and tax enterprises. For example: company A sells a batch of goods to company B and is responsible for transporting the goods to the place designated by company B. The contract stipulates that the total price including tax is 500000 yuan, but the prices of sales and transportation are not listed separately. The contract also stipulates that party A shall provide the corresponding VAT special invoice. The commodity cost of company A is 350000 yuan and the transportation cost is 10000 yuan. Under the condition that the total contract price remains unchanged, company A hopes to recognize sales revenue and transportation service income respectively to reduce the VAT burden, while company B hopes to invoice at 13% in full amount to obtain more input tax deduction.

2.2 Accounting Analysis on the Difference between Mixed Sales and Concurrent Business

After the promulgation and implementation of new revenue standards, from the perspective of accounting standards, this situation belongs to the category of single performance obligation of contracts in revenue standards. Single performance obligation is the basic unit of revenue recognition and measurement. A contract may contain multiple single performance obligations. The recognition of individual performance obligations in the new revenue standard is helpful to

determine the type of income in tax law, which is embodied in the co-processing of finance and taxation departments. The fundamental difference between mixed sales and concurrent business lies in, whether the sale of goods and the provision of services belongs to one or two sales activities, that is, whether the contract contains one single performance obligation or two single performance obligations. Combined with relevant provisions of the new revenue standard, this paper focuses on whether transportation constitutes a single performance obligation. The recognition of individual performance obligations in the new revenue standard is realized based on clearly distinguishable goods. Here, the clearly distinguishable goods not only include goods produced by enterprises, but also include goods or the right to use certain goods (such as air tickets) purchased for resale, various services provided to customers, goods or services available to customers at any time (such as software update services for customers), and other companies arranged to provide goods, authorized usage license, and the option to purchase additional goods to customers. Article 10 of the *No. 14 Accounting Standards for Business - Income* stipulates that if the commodity promised by an enterprise to a customer simultaneously meets following conditions, it shall be regarded as a clearly distinguishable commodity. First, the customer can benefit from the commodity itself or from the use of the commodity together with other readily available resources; second, the commitment of the enterprise to transfer the commodity can be distinguished from other commitments in the contract. When analyzing whether the transportation constitutes a separate performance obligation, we should also consider whether it occurs before or after the transfer of commodity control. If the transportation occurs before the transfer of control right, for example, the control right is transferred to company B only when the control right is delivered to the place designated by company B, the transportation is essentially the same as internal production activities such as transporting the finished products from the workshop to the warehouse, and the transportation cost constitutes the performance cost of company A.

The transportation may also occur after the transfer of commodity control right; for example, the commodity control right has been transferred to company B at the time of delivery, but company A still needs to be responsible for delivering it to the place designated by company B. At that time, the relationship between transportation and sales needs to be further analyzed. According to the new revenue standard, following situations usually indicate that the commitment of the enterprise to transfer the commodity to the customer cannot be distinguished from other commitments in the contract. Firstly, the enterprise needs to provide significant services to integrate the commodity and other commodities promised in the contract into a package and transfer the package to the customer. Secondly, the commodity will significantly modify or customize other commodities promised in the contract. Thirdly, the commodity is highly related to other commodities promised in the contract. If company A is not responsible for transportation, company B will give up the purchase; the goods are special and cannot be completed by other transportation companies on the market. These situations indicate that the transportation cannot be separated from sales, and does not constitute a single performance obligation. It is the incremental cost in the acquisition cost of a contract, that is, the expected cost that can be recovered and will not occur without signing the contract.

2.3 Conclusion

To judge whether the enterprise's sales activities belong to mixed sales or concurrent business, we can draw on rules of the new revenue standard on the identification of single performance obligations in the contract, and draw appropriate conclusions based on analysis of the specific business. In terms of the case, if the transportation activity occurs before the transfer of control right, the transportation activities will be necessary activities for company A to perform the contract, and the transportation expenses will belong to the contract performance costs and be regarded as a single sales behaviour. It should be invoiced and taxed in full amount according to the sales goods. If the transportation activities occur after the transfer of control, the transportation activities are transportation services provided by company A for company B. If the transportation service constitutes a single performance behavior, the behavior is regarded as concurrent business; the revenue is recognized, and the invoice is made out according to the sales of goods and

transportation services respectively. If the transportation service does not constitute a single performance behavior, the transportation expenses should belong to the incremental cost of the cost obtained in the contract; the behaviour should be regarded as mixed sales and fully invoiced according to the goods sold.

3. How to Determine the Commodity Price after Implementing the New Vat Rate

From April 1, 2020, the value-added tax rate is further reduced. If the general VAT taxpayer has VAT taxable sales or imports, the tax rate will be adjusted to 13% if the original 16% tax rate is applied, be adjusted to and 9% if the 10% tax rate is originally applied. It is allowed to add 10% of the current deductible input tax to offset the tax payable.[2]

The market transaction price is generally tax inclusive; the adjustment of VAT rate will inevitably lead to the change of transaction price. As a buyer, how to balance the price between general taxpayers and small-scale taxpayers? If the supplier of small-scale taxpayers cannot issue VAT special invoice, how much should the selling price be lowered? As a seller, how to choose the status of general taxpayer or small-scale taxpayer when providing goods and services with different tax rates? What is the impact of the new policy on the choice of identity? The analysis is carried out from the perspectives of the buyer and the seller respectively.

3.1 How the Buyer Chooses Suppliers

If the buyer selects suppliers from the perspective of tax burden, he needs to consider the amount of input tax of VAT that can be deducted (offset) and the amount of enterprise income tax deduction that can be deducted before tax based on the price of the tax burden balance. The amount of input tax of VAT obtained in purchase is actually the money paid by the buyer on his own; the amount of enterprise income tax deduction that can be deducted before tax is generally the price of goods or services excluding tax. When the special VAT invoice cannot be obtained, the non deductible VAT input tax can be converted into cost and deducted before the enterprise income tax, with the conversion rate of 25%. Namely, 1 yuan of input tax of VAT that cannot be deducted can offset 0.25 yuan of enterprise income tax.

3.1.1 The Applicable Tax Rate of Purchased Goods or Services is 13% with Percentage Charges of 3%

In the case of obtaining VAT special invoice, the tax inclusive price of small-scale taxpayers is about 91.2% of that of ordinary taxpayers. Therefore, if the price of small-scale taxpayers is higher than 91.2% of the price of ordinary taxpayers, it is more cost-effective to purchase from ordinary taxpayers. Otherwise, it is more appropriate to purchase from small-scale taxpayers. If the small-scale taxpayers cannot issue special invoice, the tax inclusive price of small-scale taxpayers is 89.2% of the price of ordinary taxpayers. If the price of small-scale taxpayers is higher than 89.2% of the price of ordinary taxpayers, it is more cost-effective to purchase from ordinary taxpayers. Otherwise, it is more appropriate to purchase from small-scale taxpayers.

3.1.2 The Purchase of Goods or Transportation, Construction and Other Services Applicable to the Tax Rate of 9% and the Percentage Charges of 3%

In the case of obtaining VAT special invoice, the tax inclusive price of small-scale taxpayers is about 94.5% of that of general taxpayers. Therefore, if the price of small-scale taxpayers is higher than 94.5% of that of ordinary taxpayers, it is more cost-effective to purchase from ordinary taxpayers. Otherwise, it is more appropriate to purchase from small-scale taxpayers. If small-scale taxpayers cannot issue special invoices, the tax-inclusive price of small-scale taxpayers is about 92.4% of the price of general taxpayers. Therefore, if the price of small-scale taxpayers is higher than 92.4% of the price of ordinary taxpayers, it is more cost-effective to purchase from ordinary taxpayers; otherwise, it is more appropriate to purchase from small-scale taxpayers.

3.1.3 The Applicable Tax Rate of Purchased Services is 6% with the Percentage Charges of 3%

If the special VAT invoice can be obtained, the tax inclusive price of small-scale taxpayers is about 97.2% of that of ordinary taxpayers. Therefore, if the price of small-scale taxpayers is higher than 97.2%, it is more cost-effective to purchase from general taxpayers; otherwise, it is more appropriate to purchase from small-scale taxpayers. If small-scale taxpayers cannot issue special invoices, the tax inclusive price of small-scale taxpayers is about 95% of that of ordinary taxpayers. Therefore, if the price of small-scale taxpayers is higher than 95% of the price of ordinary taxpayers, it is more cost-effective to purchase from ordinary taxpayers; otherwise, it is more appropriate to purchase from small-scale taxpayers.

3.2 How to Choose the Status of General Vat Taxpayer or Small-Scale Taxpayer

If the seller wants to choose the status of general taxpayer or small-scale taxpayer of VAT from the perspective of tax burden, he should consider the comprehensive tax burden of value-added tax, enterprise income tax, urban construction tax and education surcharge, and base on the value-added rate (gross profit rate) at the tax burden balance. Because the value-added rate (gross profit rate) constitutes the object of value-added tax, enterprise income tax, urban construction tax and education surcharge.

Firstly, when the applicable tax rate of goods or services is 13% and the percentage charges is 3%, the calculation formula of the value-added rate (gross profit rate) at the tax burden balance of general taxpayers and small-scale taxpayers is as follows:

$$13\%T \times (1+7\%+5\%) = (1+T) \times (1+7\%+5\%) \times 3\% - 13\% \times 25\%$$

Value added rate (gross profit rate) at tax burden balance $T = 1\%$

When $T > 1\%$, the tax burden of general VAT taxpayers is higher than that of small-scale taxpayers

Secondly, in transportation, construction and other industries with applicable tax rate of 9%, the calculation formula of the value-added rate (gross profit rate) at the tax burden balance of general taxpayers and small-scale taxpayers is as follows:

$$9\%T \times (1+7\%+5\%) = (1+T) \times (1+7\%+5\%) \times 3\% - 9\% \times 25\%$$

Value added rate (gross profit rate) at tax burden balance $T = 16.5\%$

When $T > 16.5\%$, the tax burden of general VAT taxpayers is higher than that of small-scale taxpayers

Thirdly, in service industry with applicable tax rate of 6%, plus deduction of 10% and percentage charges of 3%, the calculation formula of the tax burden balance value-added rate (gross profit rate) of general taxpayers and small-scale taxpayers is as follows:

$$6\% \times (T - 1 \times 10\%) \times (1+7\%+5\%) = (1+T) \times (1+7\%+5\%) \times 3\% - 6\% \times 25\%$$

Value added rate (gross profit rate) at tax burden balance $T = 75.4\%$

When $T > 75.4\%$, the tax burden of general VAT taxpayers is higher than that of small-scale taxpayers.

4. Accounting of Overdue Enterprise Income Tax Inspected by Tax Authorities

In practical work, some enterprises may fail to pay taxes in time due to various reasons. The authorities will investigate and deal with them according to law, and require enterprises to pay taxes, forfeits and overdue fines. In view of above business, the enterprise should pay attention to distinguishing the time of the overdue tax and make corresponding accounting treatment according to accounting standards or accounting system implemented by the enterprise.

4.1 Inspect and Pay Overdue Enterprise Income Tax of the Same Year

This situation is relatively simple to deal with. When the enterprise makes up the tax payment in

the current year, it directly withdraws the “income tax expense” account, and then pays the tax to bring forward the profit and loss. The accounting treatment is as follows. (1) The overdue income tax paid, Debit: income tax expense, Credit: tax payable - income tax payable. (2) Actually paid the tax, Debit: tax payable-income tax payable, non business expenditure: overdue fine and forfeit. Credit: bank deposit. (3) Bring forward profit and loss, Debit: profit of this year. Credit: income tax expense, non business expenditure: overdue fine and forfeit.

4.2 Inspect and Pay Overdue Enterprise Income Tax of Previous Years.

The accounting entries are the same as above.

4.3 Inspect and Pay Overdue Enterprise Income Tax of Previous Years, and the Accounting Standards for Business Enterprises Are Implemented

The handling of this case is more complicated. According to Article 9 of *Accounting Standards for Business Enterprises: Basic Standards*, enterprises should recognize, measure and report accounting on the basis of accrual basis. The income and expenses belonging to the current period shall be regarded as the income and expenses of the current period regardless of whether the payment is received or not; the income and expenses not belonging to the current period shall not be regarded as the income and expenses of the current period even if the funds have been received and paid in the current period. According to *Accounting Standards for Business Enterprises: Basic Standards* and the accrual basis principle stipulated in regulations on the implementation of the law of corporation income tax, the company shall make retroactive adjustments for profits and losses of previous years. When authorities investigate and require the enterprise to pay income tax underpaid in previous years, the accounting treatment can be realized through the item, “profit and loss adjustment of previous years”. However, forfeits and overdue fines are usually deemed to occur in the current year and be included in current year's profit and loss. As for the overdue fine, there may be some disputes about whether the fine should be accounted through or partially through the profit and loss adjustment account of previous years, because the additional period may include previous years. Most people think that it can be directly included in the current year.

The specific accounting treatment is as follows.

(1) Confirm the profit and loss adjustment of the previous year:

Debit: adjust the profit and loss of the previous year (adjust the income tax expense of a certain year), Credit: tax payable - income tax payable

(2) Actual pay the overdue tax:

Debit: tax payable- income tax payable, non business expenses- overdue fine and forfeit,

Credit: bank deposit

(3) Carry forward profit and loss:

Debit: profit distribution - undistributed profit.

Credit: adjustment of profit and loss of previous years (adjustment of income tax expenses of a certain year)

Debit: profit of this year. Credit: non operating expenses - overdue fine and forfeit.

5. Conclusion

This paper deeply analyzes some special problems in the teaching of tax accounting course, including the accounting and tax of mixed sales and concurrent business, how to determine the commodity price after implementing the new VAT rate, and how to determine the commodity price after implementing the new VAT rate, hoping to provide references for similar situations.

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