

Analysis of the Impact of Further Increasing the Policy of Value Added Tax End of Period Deduction and Refund on the Environment of Tax Enterprises

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Abstract: Further expanding the scope of the leave for tax rebates, increase enterprise capital circulation, reducing the pressure of corporate lending and equilibrium of supply and demand to meet the new development. At the same time, conduct an audit of the non-standard enterprise accounts, sound an alarm bell on the enterprise account, standardize the enterprise accounts, improve the accounting access threshold, and promote the harmonious growth of tax revenue and enterprise activity.

Keywords: Tax Rebate; Financial Policy; Check and Pay Taxes

1. The meaning of retained tax refund and the changes made by the new policy

1.1. Reasons for tax refund retention

The retained tax amount refers to the difference between the current output tax amount of an enterprise and the input tax amount, indicating the existence of input tax amounts that have been certified but not yet deducted by the enterprise.

Retained tax refund, as the name suggests, is a tax refund for the retained (input) tax amount.

This policy is exclusive to general taxpayers and cannot be enjoyed by small-scale taxpayers, as small-scale taxpayers pay value-added tax based on the collection rate, while general taxpayers pay taxes based on the algorithm of subtracting input tax from output tax.

The value-added tax implements a chain deduction mechanism: the taxable amount equals the current output tax amount minus the current input tax amount.^[1] Among them, the output corresponds to the revenue end, and the input corresponds to the cost end. In theory, the output tax amount of value-added tax is generally greater than the input tax amount. But there are some situations, such as the inconsistency between the input tax and output tax of taxpayers in terms of time, such as centralized procurement of raw materials and inventory, which have not yet fully realized sales; During the investment period, there is a large amount of procurement of machinery and equipment, but there is still a lack of income, which will result in the output tax amount being less than the input tax amount. In addition, in the case of multiple tax rates (13%, 9%, 6%, zero tax rate) coexisting, if the applicable tax rate for sales is lower than the applicable tax rate for input, it will also form a retained tax amount.

For example, the instruments and equipment required for precision machining in manufacturing enterprises are extremely expensive, and the input tax pressure is extremely high. It takes a considerable amount of time to gradually release the output. The portion of input tax that is retained for deduction in the account is called the retained tax amount, which is retained for future deduction of input tax. The retained tax amount actually squeezes out the funds of the enterprise, which is a huge pressure on the cash flow of enterprises with insufficient cash flow.

There are two ways to handle the deferred tax at the end of the period: one is to carry it forward to the next period for further deduction, and the other is to directly refund the deferred tax if certain conditions are met. If the tax refund is retained, the enterprise can immediately receive a sum of funds for fund circulation, reducing borrowing pressure.

1.2. Comparison of New and Old Policies for Tax Deduction and Refund

The characteristic of the new policy of tax retention and refund is to focus on small and micro enterprises and key supporting industries; Incremental allowance and stock allowance are refunded together; Institutional, one-time, and phased arrangements should be implemented simultaneously. There are three “upgrades”:

On the basis of increment, stock tax has also been refunded. The retained tax refunds generated after April 2019 are incremental retained tax refunds, and vice versa is the stock retained tax policy. The old policy only refunded the incremental portion of retained tax credits

The second is early refund. The old policy of value-added tax refund is to deduct the input from the output at the time of tax payment, and refund the tax based on the difference. The new policy is called “purchase tax refund”, which means that the difference between the output tax and input tax will be refunded after the sales are completed. Once the equipment is purchased, this part of the input tax can be refunded. This minimizes the time it takes for value-added tax to occupy funds.

The third is to expand the scope of application and increase the refund ratio. The old policy only provided a 100% tax refund for advanced manufacturing enterprises, and a 60% refund for other enterprises and small and micro enterprises. The new policy includes a 100% refund for all medium-sized enterprises and large enterprises in six industries, including small and micro enterprises and manufacturing. The support is very strong.

2. Retained tax refund is a financial policy

2.1. Retaining tax refunds reduces the financial flow pressure on enterprises

Before the implementation of the value-added tax deduction and refund policy, enterprises could only gradually offset the output tax generated by the retained tax amount, and this part of the funds was occupied, thereby increasing the burden on the enterprise. After implementing the retention and refund of taxes, the incremental retention and refund of business will be fully refunded on a monthly basis, greatly alleviating the financial flow pressure on enterprises.

2.2. Tax rebates can drive demand and supply towards a new equilibrium state

Enterprises order production based on sales and purchase based on production. The accumulation of a large amount of inventory before the implementation of policies can easily generate a large amount of retained tax credits. Withholding tax refunds can imply refunds that encourage companies to purchase more raw materials. Purchasing more raw materials is beneficial for reducing the purchase price, prolonging the supplier’s account period, reducing overall costs, and benefiting upstream enterprises. The increased sales revenue is beneficial for stabilizing employment, restoring or expanding production. Thus driving the entire industry chain. This will promote the restoration of production and stable employment, drive the development of demand and supply towards a new equilibrium, and help the economy recover better and faster.

2.3. The source of funds for withholding tax refunds

Value added tax belongs to the shared tax category between local and central governments. The value-added tax paid is 50% from the central government and 50% from the local government. And all the tax refunds for this time come from the central government. The central government bears the amount originally issued by the local government. This greatly alleviated the economic pressure on local governments.

2.4. Priority of retained tax refunds

Firstly, priority will be given to small and micro enterprises for tax retention and refund. The stock tax retention and refund of small and micro enterprises will be refunded in full by the end of June, and the incremental tax retention and refund will be fully refunded.

Priority will be given to the full refund of existing allowances, while the full refund of incremental allowances will be given. The portion of funds that previously formed allowances will be directly invested in the daily turnover of small and micro enterprises, which essentially alleviates the financial pressure on them.

Small and micro enterprises contribute 80% of employment and 50% of taxes, allowing them to turn around. When these enterprises turn around, employment and the economy will both improve, which will be beneficial for the recovery and growth of production and consumption.

The second is to focus on supporting the manufacturing industry and other industries with retained tax refunds, comprehensively

solving the problems of retained tax refunds in six major industries: manufacturing, scientific research and technical services, ecological protection, electricity, heat, gas and water production and supply, transportation, software and information technology services. The above six industries are closely related to people's livelihood

So, the essence of retained tax refunds is financial instruments.

3. Reason analysis for not eligible for tax refund

For the period of March 2022, the author inquired and summarized the reasons why enterprises in a certain county or district are unwilling to refund taxes. The main reasons are as follows:

The reason why it is expected that the incremental retained tax amount will be quickly digested in the near future is because companies have purchased a large number of goods in a short period of time but have not yet sold or sold but not invoiced, but are able to sell and recover the payment in a short period of time. In the case of abundant financial resources, some corporate accountants believe that tax refunds will increase the accounting burden and are unwilling to apply for them due to the inconvenience. The same reason is that the refundable amount is relatively small.

When enterprises engage in export business, exporting to avoid value-added tax can lead to a large amount of retained tax credits. Taxpayers can choose to retain or exempt tax refunds, both of which are essentially refunds of input tax. But the retention of tax refunds only temporarily changes the occupation time of input tax, and will not lead to a decrease in the overall value-added tax burden. And exemption from offset and refund refers to the actual refund of all or part of the input tax borne by exported goods or services in the domestic production process. Can achieve the effect of reducing the actual value-added tax burden on exported goods or services.^[2]

Some enterprises lack solid accounting knowledge and there are declaration errors. For example, the input tax amount of tax-free products cannot be deducted. If the enterprise is engaged in the sales of agricultural products, this is a tax-free project, and the input tax amount belonging to it cannot be deducted. Therefore, the input tax amount must be transferred out, so the actual retained tax amount does not exist.

Withholding tax refunds can easily lead to tax evasion and fraud. The tax department has increased its review efforts in the subsequent review process to prevent taxpayers from evading or defrauding taxes. Some enterprises have tax evasion issues such as issuing false invoices and concealing income. They are afraid of being reviewed by the tax authorities after applying for tax refunds, so they refuse to withhold tax refunds.^[3]

4. Conclusion

Previously, there was a lack of unified tax system, low compliance with corporate tax laws, and outdated regulatory measures in China. With the completion of the business tax reform and value-added tax reform, regulatory measures such as the fourth phase of the Golden Tax Project and the real name tax system have been continuously improved, and false invoicing has been greatly curbed. The policy of retaining and offsetting tax refunds is also forcing tax authorities to increase their regulatory efforts, standardize accounting information for enterprises, and create a better tax enterprise environment. The liquidity of 4 trillion yuan has gradually expanded from advanced manufacturing to all fields. For formal enterprises, the larger the initial investment, the more tax refunds they receive, and the stronger the liquidity of supplementary funds. In the context of economic downturn, it can significantly alleviate the operational situation of enterprises.

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