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Analysis on the Accounting Treatment of Income Tax in the New Government Subsidy Standard

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Abstract

In order to further align with the International Financial Reporting Standards, the Ministry of Finance revised the "Accounting Standards for Business Enterprises No. 16-Government Subsidies" (Cai Kuai [2017] No. 15) (hereinafter referred to as the "New Standards") in 2017. This article uses actual cases to illustrate and analyze the impact of the "net method" and "total amount method" on the current income tax expenses of the enterprise in the actual treatment of government subsidies in both taxable and tax-exempt situations. It aims to help enterprises choose according to their actual conditions Specific accounting methods suitable for the enterprise itself.

Keywords

Government subsidies; Net method; Gross method; Income tax expense.

1. Overview of Government Subsidies

Government subsidies [1] refer to companies obtaining monetary or non-monetary assets from the government for free. According to relevant regulations, government subsidies must be derived from the government's economic resources and be free. The main forms of government subsidies include the government's financial discounts to enterprises, gratuitous appropriations, tax rebates, and non-monetary assets for free. Government subsidies are divided into two types: asset-related government subsidies and income-related government subsidies according to their relationship. There are two accounting methods for government subsidies: the capital method and the income method. The capital method refers to the final flow of government subsidies into the owner's benefit, while the income method refers to the final flow of government subsidies into income. Under the income method, there are two specific accounting methods: the gross method and the net method. my country's old standards stipulate that the total amount method under the income method is used to account for government subsidies. The new standard supplements the net amount method on the basis of the total amount method.

The total amount method is to recognize government subsidies in full once or in installments as income, rather than as a deduction for the book value of related assets or costs.

The net method is to recognize government subsidies as deductions from the book value of related assets or the cost of compensation.

2. Regulations on Government Subsidy Income Tax

The "Corporate Income Tax" [2] law stipulates that government subsidies that meet the following conditions at the same time can be regarded as non-taxable income and deducted from the total income when calculating the taxable income:

2.1 The enterprise can provide funds appropriation documents, and the documents specify the special purpose of the funds;

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2.2 The financial department or other government departments that allocate funds have special fund management methods or specific management requirements for the funds;

2.3 The enterprise separately accounts for the funds and the expenditures incurred by the funds.

hose who meet the above conditions at the same time can be regarded as non-taxable income and deducted from the total income when calculating the taxable income; the expenses caused by the non-taxable income used for expenditure cannot be deducted when calculating the taxable income; The depreciation and amortization of the assets formed for expenditure shall not be deducted when calculating the taxable income. If the above three conditions cannot be met at the same time, the government subsidy should be treated as taxable income.

3. Case Analysis

Income-related government subsidies have almost the same impact on corporate income tax expenses under the gross method and net method accounting treatment methods due to the short cycle. Therefore, this article mainly focuses on asset-related government subsidies as the research object and interprets them through actual cases. The difference between the "total amount method" and the "net amount method" accounting treatment of government subsidies in the initial measurement, subsequent measurement and early disposal of corporate assets and the impact on the current income tax expense. The main forms of government subsidies include financial appropriations, financial discounts, tax rebates, and free allocation of non-monetary assets. This article mainly studies the most common ways of financial appropriation.

Assume that Company D submitted an application for subsidy of 2.1 million yuan to purchase management-related equipment to relevant government departments in November 2×17, and received a government subsidy of 2.1 million yuan on January 1, 2018. On December 30, 2017, Ding Company purchased a related equipment. The actual cost of the equipment is 4.8 million yuan, the service life is 10 years, and the depreciation is calculated using the straight-line method, and the net salvage value is 0.2x. On December 25, 21, Ding Company sold this equipment for a price of 3 million yuan. Assuming that Company D does not consider the equipment, the annual pre-tax accounting profit is 8 million yuan, and the income tax rate is 25%. Accounting and tax laws are consistent with the expected service life, expected net residual value and depreciation methods of the asset. There are no tax adjustments other than the equipment, and relevant taxes other than income tax are not considered.

3.1. Government Subsidies Are Taxable Income

	Gross method	Net method
early beginning meter the amount	(1) December 30, 2017: Dr: fixed assets 480 Cr: bank deposit 480 (2) January 1, 2018: Dr: bank deposit 210 Cr: Deferred income 210	(1) December 30, 2017: Dr: Fixed assets: 480 Cr: bank deposits 480 (2) January 1, 2018: Dr: bank deposit 210 Cr: Deferred income 210 Dr: Deferred income 210 Cr: Fixed assets 210 Dr: Deferred income 210 Cr: Fixed assets 210

3.1.1Initial measurement

At the initial measurement stage, the standard stipulates that government subsidies are included in the deferred income account at one time. Under the gross method, the deferred

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income shall be included in the current profits and losses in installments within the useful life of the fixed assets according to a reasonable and systematic method. Under the netting method, when the fixed assets reach the intended usable state, the deferred income formed by government subsidies is directly used to offset the recorded value of the fixed assets. See Table 1 for specific accounting treatment.

3.1.2 Follow-up measurement

In the subsequent measurement stage, under the gross method, deferred income is transferred to other income items in installments based on the depreciation period of the fixed assets. With the net method, companies only need to accrue depreciation on a monthly basis according to the book value of fixed assets. Under the gross method, the reason for the formation of deferred income tax assets is that the book value of the deferred income is greater than the tax base. Under the net method, the reason for the formation of deferred income tax assets is that the book value of fixed assets is less than the tax base.See Table 2 for specific accounting treatment.

	Gross method	Net method
Rear Continued meter the amount	(1) Depreciation amount accrued in 2×18 years: Annual depreciation: 480⁄10 = 48 (ten thousand yuan) Dr: Management fees 48 Cr: accumulated depreciation 48 The amount of deferred income carried forward: 210⁄10 = 210,000 yuan) Dr: Deferred income 21 Cr: other income 21 (2) December 31, 2018: Current income tax: (800+210-21)×25%=247.25 (ten thousand yuan) The book value of deferred income is 189 (210-21) million yuan and the tax base 0 forms a deductible temporary difference of 1.89 million yuan, confirm the delivery The balance of deferred income tax assets is 189×25%=47.25 (ten thousand yuan) Confirm deferred income tax expense: 0-47.25=-47.25 (ten thousand yuan) Confirm the income tax expense: 247.5-47.25=200 (ten thousand yuan) Dr: income tax expense 200 Deferred income tax assets 47.25 Cr: Taxes payable-Income tax payable 247.25 Similar accounting processing in subsequent years	(1) Depreciation amount accrued in 2×18 years: Annual depreciation: (480-210)⁄10 = 27 (ten thousand yuan) Dr: Management fees 27 Cr: accumulated depreciation 27 (2) December 31, 2018: Current income tax: (800+210-21)×25%=247.25 (ten thousand yuan) The book value of fixed assets is 243 (480-210-27) million yuan and the tax base is 432 (480-48) yuan to form a deductible temporary The gender difference is 1.89 million yuan, and the balance of deferred income tax assets is confirmed to be 189×25%=4725 (ten thousand yuan) Confirm deferred income tax expense: 0-47.25=-47.25 (ten thousand yuan) Confirm the income tax expense: 247.5-47.25=200 (ten thousand yuan) Dr: income tax expense 200 Deferred income tax assets 47.25 Cr: Taxes payable-Income tax payable 247.25 Similar accounting processing in subsequent years

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3.1.3 Dispose of in advance

In the early disposal stage, the gross method records the gains from the sale of fixed assets in the asset disposal profit and loss account, and transfers the balance of the deferred income account to other income accounts. Under the net method, the deferred income has been fully offset from the original value of the fixed asset at the time of initial measurement, and the deferred income account has no balance when disposing of the fixed asset, so only the accounting treatment of the sale of fixed assets is enough. In addition, the amount reported in the "asset disposal gains and losses" item in the income statement of the 2×21 year-end net method and the total amount method is different. The "asset disposal gains and losses" listed in the total amount method are 120,000 yuan and the "other income" is 1.26 million yuan. The "asset disposal gains and losses" listed by the net method is 1.38 million yuan. Although the total amount method and the net amount method are inconsistent with the specific items in the income statement, they have no effect on the total profit. See Table 3 for specific accounting treatment.

	Gross method	Net method
mention before Place Set	(1) December 25, 21: Dr: Fixed assets liquidation 288 Accumulated depreciation 192 Cr: fixed assets 480 Dr: bank deposit 300 Cr: liquidation of fixed assets 288 Asset disposal gains and losses 12 Dr: Deferred income 126 Cr: other income 126 (2) December 31, 21: Current income tax: (800-126)×25%=168.50 (ten thousand yuan). The book value of 2×21 deferred income at the end of the year was 126 (210-4×21) million yuan and the tax base 0 formed a deductible temporary difference of 1.26 million yuan. The balance of deferred income tax assets is 126×25%=315,000 (ten thousand yuan). Due to the sale of fixed assets in 2×21 years, which led to the transfer of deferred income to other income, the book value and tax base of the deferred income account were both 0, so the balance of deferred income tax assets was transferred to 0. Return entry: Dr: income tax expense 200 Cr: Taxes payable-Income tax payable 168.5 Deferred income tax assets 31.5	(1) December 25, 21 Dr: liquidation of fixed assets 162 Accumulated depreciation 108 Cr: fixed assets 270 Dr: bank deposit 300 Cr: liquidation of fixed assets 162 Asset disposal gains and losses 138 (2) December 31, 21: Current income tax: (800-21×6)×25%=168.50 (ten thousand yuan). The book value of fixed assets at the end of 2×21 is 162 (270-27×4) million yuan and the tax base is 288 (480-48×4) million yuan to form deferred income tax assets of 288-162=1.26 million yuan. The balance of deferred income tax assets is 126×25%=315,000 (ten thousand yuan). Since the fixed assets are sold in 2×21 years, the book value and tax base of the fixed assets are both 0, so the balance of deferred income tax assets needs to be transferred out. Return entry: Dr: income tax expense 200 Cr: Taxes payable-Income tax payable 168.5 Deferred income tax assets 31.5

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3.2. Government Subsidies That Meet the Conditions of Tax Exemption Are Not Taxed

3.2.1Initial Measurement

The initial measurement stage is completely consistent with the treatment of government subsidies as taxable income, so I won't make too many statements here. See Table 1 for details

3.2.2 Follow-up measurement

When government subsidies are regarded as non-taxable income, under the net method, the accounting treatment is completely consistent with the tax law, and there will be no temporary difference. The total amount method is relatively complicated. The book value of the deferred income account at the end of 2×18 is greater than the tax base, which forms a deferred income tax asset, and the book value of the fixed asset account is greater than the tax base, which forms a deferred income tax liability. See Table 4 for specific accounting treatment.

	Gross method	Net method
Rear Continued meter the amount	(1) Depreciation amount accrued in 2×18 years: Dr: Management fees 48 Cr: accumulated depreciation 48 Dr: Deferred income 21 Cr: other income 21 (2) December 31, 2018: The current income tax is: (800+21-21)×25%=200 (ten thousand yuan). The book value of fixed assets of 432 (480-48) million yuan and the tax base of 243 (270-27) million yuan form a taxable temporary difference of 10,000 yuan, resulting in a deferred income tax liability of 189×25%=47.25 (ten thousand yuan) . The book value of deferred income is 189 (210-21) million yuan and the tax base 0 forms a deductible temporary difference of 1.89 million yuan, forming a deferred income tax asset of 189×25%=47.25 (ten thousand yuan) Confirm deferred income tax expense: 47.25-47.25=0 (ten thousand yuan) Confirm income tax expense: 200+0=200 (ten thousand yuan) Dr: income tax expense 200 Deferred income tax assets 47.25 Cr: Taxes payable-Income tax payable 200 Deferred income tax liabilities 47.25	(1) Depreciation amount accrued in 2×18 years: Dr: Management fees 27 Cr: accumulated depreciation 27 (2) December 31, 2018: When government subsidies are regarded as non-taxable income, under the net method, the accounting treatment is completely consistent with the tax law, and there is no temporary difference in income tax. The current income tax is: 800×25%=200 (ten thousand yuan) Dr: income tax expense 200 Cr: Taxes payable-Income tax payable 200

3.2.3 Disposal stage

When government subsidies are regarded as non-taxable income, the advantages of the "net method" can be clearly seen. The "netting method" is the same in the treatment of accounting

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and tax laws without any difference, which greatly simplifies the adjustment of income tax at the end of the year. In contrast, the "total amount method", although the adjusted income tax expense is consistent with the "net amount method". But its essence is the low consumption of "deferred income tax assets" and "deferred income tax liabilities". See Table 5 for specific accounting treatment.

	Gross method	Net method
mention before Place Set	(1) December 25, 21: Dr: Fixed assets liquidation 288 Accumulated depreciation 192 Cr: fixed assets 480 Dr: bank deposit 300 Cr: liquidation of fixed assets 288 Asset disposal gains and losses 12 Dr: Deferred income 126 Cr: other income 126 (2) December 31, 21: Current income tax: (800+6×21-126)×25%=200 (ten thousand yuan) The book value of fixed assets at the end of 2×21 is 288 (480-48×4) million yuan, and the tax base is 162 (270-27×4) million yuan. The balance of deferred income tax liabilities is 31.5 [(288-162) × 25%] ten thousand yuan. The book value of deferred income is 126 (210-21×4) million yuan, and the tax base is 0,. The balance of deferred income tax assets is RMB 315,000 (126×25%). Due to the sale of fixed assets, the balance of deferred income tax assets and liabilities formed in the previous period was transferred out. Dr: income tax expense 200 Deferred income tax assets 31.5 Cr: Taxes payable-Income tax payable 200 Deferred income tax liabilities 31.5	(1) December 25, 21: Dr: liquidation of fixed assets 162 Accumulated depreciation 108 Cr: fixed assets 270 Dr: bank deposit 300 Cr: liquidation of fixed assets 162 Asset disposal gains and losses 138 (2) December 31, 21: Current income tax: 800×25%=200 (ten thousand yuan) Dr: income tax expense 200 Cr: Taxes payable-Income tax payable 200

4. Sum up

The introduction of the "new standard" into the "netting method" has promoted the flexibility and autonomy of corporate accounting treatment, reduced the cost of the company's products, ensured the international competitiveness of domestic products, and increased the trade surplus. Through case analysis, it can be seen that the "net method" simplifies the treatment of corporate income tax issues and reduces the pressure and workload of accountants. However, the "netting method" also has certain limitations. For example, if the real purchase cost of the fixed assets of the enterprise is covered up, if the government subsidy is returned, the problem will be complicated. If an enterprise changes from the "total amount method" to the "net amount method", it should do a good job in the disclosure of related policy changes.

Although the "total amount method" is more complicated in accounting and tax processing, it imposes higher professional requirements on corporate accounting personnel and auditors. However, the "total amount method" can accurately reflect the process of the enterprise from

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receiving subsidies to distribution to various periods. To a certain extent, it is more in line with the principles of "income and expense ratio" and "comparability" and is more intuitive. "Total amount method" and "net amount method" are only two methods of accounting for government subsidies. Although there are certain differences in accounting entries, the two methods correspond to "total profits" and "taxable income". The values are all equal.

In the daily practice of enterprises, the "total amount method" and the "net amount method" have their own advantages and disadvantages. The advantages of the "net amount method" are also the disadvantages of the "total amount method", and vice versa. Therefore, enterprises can choose accounting treatment methods that are convenient for accounting according to their needs.

References

[1] Ministry of Finance. Regarding the issuance of "Accounting Standards for Business Enterprises No. 16-Government Subsidies" (Cai Kuai [2017] No. 15), 2017-5-10.

[2] "Notice of the Ministry of Finance and the State Administration of Taxation on Issues Concerning the Treatment of Enterprise Income Taxes on Special-purpose Fiscal Funds" (Caishui [2011] No. 70).