

Original Article

Research on the Financial Impact of Out-of-Price VAT on Farm Heating Enterprises

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Abstract - In view of the long-term loss and capital turnover of the state-owned farm heating enterprises far away from the urban area but we can't find the objective reality of financial reasons, This paper aims to discuss the situation under the policy implementation impact of "Tax control by invoice" levied by the state. Methodologies adopted in this paper include inductive deduction, judgment, and reasoning, case analysis, etc. The paper outlines the policy basis of invoice-controlled taxes and their impact on farm heating companies. The paper also analyzed the policy implementation impact of "VAT levied in addition to price" - it could effectively avoid profit and loss while directly affecting companies' capital flows and purchase, whose failure to obtain VAT special invoice would result in the inflated operating costs for the companies. The paper is expected to provide technical guidance and valuable applications in practice for further research on the purchase agreement price and payment equilibrium point under the tax deduction policy environment and for heating companies to establish purchase internal control and finance to strengthen purchase invoice management.

Keywords - Out-of-price VAT; invoice-controlled tax; financial impact.

The state-owned farms in the north are all large-scale agricultural production organizations built-in remote wilderness. Most of them are located within the borders of the country to survive and develop independently. Therefore, the supply of heating products in winter depends entirely on the production of the farm's self-built heating station. Due to the pressure of operating losses, most of the farm heating stations have adopted a contract management model. To save production costs, contractors have canceled government purchases from urban material distribution offices but switched to purchasing raw coal at low prices from coal mines and private coal companies. The condition that mine owners and other raw coal suppliers give them low prices is not to provide special value-added tax invoices (hereinafter referred to as "special invoices"), but only to issue ordinary value-added tax invoices (hereinafter referred to as "general invoices"), or not even issue any formal invoices. Under the

"Invoice-controlled Tax" policy, the farm heating station has a large number of general Invoice or non-invoice purchases, which will not be able to deduct the input tax and pay more VAT. As a result, many financial impacts such as cash outflows and cost inflation that cannot be noticed by accounting have been caused, and a severe shortage of funds has become the norm. For this reason, it is important to study the financial impact of "Invoice-controlled Tax" on state-owned farm heating companies.

I. THE POLICY BASIS OF "INVOICE – CONTROLLED VAT"

A. Definition of "Invoice – controlled Tax."

Invoice-controlled tax refers specifically to the policy measures that taxpayers should rely on legally valid invoices to deduct the tax amount and to list costs and expenses before the income tax. It includes situations when general taxpayer enterprises purchase goods and services, they should deduct the input VAT amount by special invoices and import goods value-added tax payment documents; and those who have purchased taxed consumer goods and continuously produced taxable consumer goods must rely on special Invoices, import goods consumption tax payment documents, tax collection, and payment certificates to deduct the consumption tax paid in the procurement process; the costs and expenses paid to obtain taxable income are allowed to be paid before the income tax, but a legal and valid invoice must be obtained^[1]. In terms of value-added tax, the specific manifestation of voucher-based tax control is "voucher-based deduction", that is, general taxpayers and enterprises must deduct the value-added tax paid in the procurement process with the special voucher obtained, that is, the input tax. Controlling taxes with invoices is an effective means for the state to prevent taxpayers from stealing value-added tax. It is also an important measure to encourage enterprises to strengthen financial self-discipline and standardization.



B. The objective basis for controlling tax by Invoice

The objective basis for controlling value-added tax by Invoice is divided into two levels. The first is the "Interim Regulations of the People's Republic of China on Value-Added Tax" and its "Implementation Rules" at the regulatory level, and the "People's Republic of China Invoice Management Measures" and "Implementation Rules"; The second is the policy-level "Notice on Comprehensively Launching the Pilot Program for the Reform of Business Tax to Value-added Tax" (Caishui [2016] No. 36) and "Announcement on Deepening Relevant Policies for the Reform of Value-Added Tax" (Caishui Customs Announcement [2019] No. 39), and other relevant document regulations. The "invoice" mainly include special VAT invoices obtained by general taxpayers for corporate purchases and imported goods, uniform invoices for tax-controlled motor vehicle sales, special customs import VAT payment certificates, tax payment certificates, certificates for export goods to be sold domestically, agricultural By-product purchase invoices, as well as general electronic invoices obtained from the purchase of transportation services, air transport e-invoice itineraries with passenger identification information, railway, road and waterway invoice, etc.^[2]. After the implementation of electronic invoices, paper-based special invoices and industry-specific invoices such as unified invoices for tax-controlled motor vehicle sales will be canceled, but special invoices for the purchase of agricultural and sideline products will continue to be used.

C. The sensitivity of farm heating companies on the impact of tax control policies

In China, the Northeast, Northwest, and North China (hereinafter collectively referred to as "North") have long winters. Heating companies are generally established in various regions to produce thermal products and provide uniform heating for indoor heating. In order to reduce the burden on the people and on the operating pressure of thermal product manufacturers, local governments have given urban residents certain financial subsidies. The state has also continued to issue and implement tax policies to support heating companies, such as the "Notice on the Extension of Preferential Tax Policies on Value-Added Tax, Property Tax, and Urban Land Use Tax of Heating companies (Caishui [2019] No. 38) ", which stipulates that the heating fee income of heating companies produced and supplied to residential households shall be exempted from value-added tax and its surcharges, real estate tax, and urban land use tax. It fully embodies the government's determination to unswervingly construct people's livelihood projects. Since most of the state-owned farms in the northern agricultural reclamation area are located in the borders far away from the towns, their unified indoor heating in winter can only be solved by the farm's own "heating station". However, heating companies have weak accounting power, poor accounting skills and poor control of value-added tax

policies, confusion between the tax exemption boundaries of heating income to residents and unit heating income, or accounting errors in tax-free business, which are often compensated by tax inspections. Their taxation risks are more severe. At the same time, due to the geographical location and investment capacity, the thermal product manufacturing enterprises of Northern Farms still use raw coal as fuel to produce thermal products, and their material purchases are large. The average purchase of raw coal in the hot season is about 30,000 tons. As we all know, state-owned farms are agricultural production organizations dominated by plantations, supplemented by aquaculture, and supplemented by agro-processing. Very few farms have large coal mines. In this way, the channels for the farm heating station to purchase raw coal are limited to the government-purchased urban material distribution companies, the small coal mines adjacent to the farm, and the individual traders who buy and sell raw coal. Generally speaking, the heating stations directly operated by the farms are required to adopt government procurement in accordance with the regulations. The winning bidders of raw coal supply are all urban material distribution offices with general taxpayer qualifications. The raw coal purchased by the farms can obtain special Invoices and increase the value of advanced items. Tax deduction. At present, most of the farms are under the pressure of severe operating losses, and they have implemented contracted operations for heating stations. After state-owned heating companies are privately operated, owners or contractors are not subject to the government procurement law and bidding law. To reduce operating costs, they directly choose individual coal mines and coal dealers who are small-scale VAT taxpayers to purchase at low prices. As a result, there will be a large number of raw coal purchases that have obtained general invoices and cannot pay the value-added tax in the purchase link-input tax, which leads to an increase in the value-added tax paid out of the price. The cash outflow increases virtually, and the financial burden is heavy. The vast majority of farm heating stations are weak in operation due to excessive capital turnover, and they have requested farms to subsidize losses or even abandon their contract operations.

It can be seen that VAT's invoice-controlled tax policy will have a financial impact on any tax-paying company that will interfere with the flow of funds. Still, the impact will vary depending on the volume of its procurement business and the scale of general invoice procurement. Farm heating companies that provide independent heating and are located remotely are more sensitive to the impact.

II. THE IMPORTANT PERFORMANCE OF VALUE-ADDED TAX ON THE FINANCIAL IMPACT OF FARM HEATING COMPANIES

A. Potential serious capital flow risks

Value-added tax is the "exclusive tax" that does not include tax. When the company achieves sales, the

accountant should separate the "output tax" from the income, and the remaining sales are book income. It can be seen that the value-added tax has been "diverted" before the book income is confirmed, and it has nothing to do with the profit and loss of the enterprise, but it is always reflected in the cash outflow. The accounting of farm heating companies lacks a deep understanding of the impact of non-value-added tax calculations and cannot accurately account for the tax-free business of residential heating. It is common for tax inspections to make up taxes. More importantly, finance does not participate in procurement management and only pays attention to accounting based on the invoices returned by the purchaser. As a result, the actual value-added tax paid by many purchases without special invoices cannot be deducted in accordance with the regulations, causing enterprises to inadvertently flow out more funds. For example, the MJ farm heating station (general taxpayer) needs more than 30,000 tons of raw coal annually, and the bid price for government procurement has always been maintained at around 22 million yuan. After the implementation of contract operations in September 2019, the contractor chose to supply raw coal from lower-priced individual coal mines and coal distribution companies and offered a total preferential price of about 20 million yuan by providing ordinary invoice terms. The contractor saved about 2 million yuan in material costs. According to the calculation of the current basic rate of value-added tax (13%), when the farm is operating, it can obtain at least 2.53 million yuan [$2200/(1+13\%) \times 13\%$] of input tax deductions by asking for a special invoice for green government procurement. The actual purchase cash flow was 19.47 million yuan (2200-253); relatively speaking, although the new contractor lowered the price, he paid 2.3 million yuan in value-added tax because the general Invoice was not deducted from the input tax [$2000/(1+13) \times 13\%$], which is equivalent to more than 22.3 million yuan (2000+230) paid by the farm heating station for the purchase price of raw coal and the value-added tax paid in addition to the purchase price. As a result, serious cash flow risks are formed. This can reveal the main reasons for the prevalence of daily capital shortages in northern state-owned farm heating companies, profitability at the end of the year, and no corresponding funds for distribution.

B. Inflated business operating costs

Operating cost is the total cost of cash outflow, that is, the difference between the total operating cost of the enterprise after deducting the fixed asset depreciation and amortization expenses that do not form cash outflow, and the interest that does not need to be borne by the investment of net working capital. The main component of the operating cost of the farm heating station is the raw coal price. Facing the VAT deduction system, only when the heating station obtains a special invoice, the purchase cost recorded on the book can be the tax-exclusive price after the input tax is deducted. However, most of the farm heating stations that implement contractual operations do not require expert

argumentation. In addition to the loss of internal financial management, they often sacrifice special Invoices for general votes to seek lower supply prices, such as the MJ farm heating station contractor in the previous example. In this way. The result of obtaining a large number of all of the general votes not only promotes the increase of corporate cash flow risks but also purchases value-added tax paid into the cost of raw coal. The purchase price that should have been tax-free has become a tax-included cost due to invoice issues. Even if the current tax rate is 13%, the contractor will have to pay more than 970 thousand yuan [$2000-2150/(1+13\%)$] because of the acceptance of the general invoice conditions. If we further consider the value-added tax, the cost burden. The increase will exceed 1 million yuan. This also reveals the root cause of many farm contractors complaining that operating heat supply generally "loses money" and applying for farms to give "subsidies" to operating losses.

To sum up, the general purchase of a large amount of raw coal has caused the farm heating station to pay more value-added tax, on the one hand, resulting in a continuous cash flow payment risk, which puts the heating enterprise in a long-term capital shortage; on the other hand, the production cost is calculated at a tax-included price. , Resulting in an inflated cost of heating companies and a decline in operating profits. As a result, the peculiar phenomenon of "who loses money" and "profits have no money to distribute" has formed.

III. RELEVANT SUGGESTIONS TO OVERCOME THE IMPACT OF TAX CONTROL BY INVOICE

Invoice-controlled tax is a vital safeguard measure for the state to standardize the deduction of input tax for enterprises, and its objective impact on corporate cash flow and operating costs will continue for a long time. In this regard, farm heating companies should seriously take adequate measures to eliminate the adverse effects of tax control by invoices.

A. Improve the comprehensive quality of the accounting profession and the ability to control value-added tax policies

Although paying taxes is a statutory obligation undertaken by enterprises, the accountant entirely takes their daily payment results. Therefore, accounting has an inescapable job responsibility to fulfill corporate tax obligations and to eliminate the financial obligation of Invoice – controlled. For this reason, the farm and its heating station accountants should carefully study the value-added tax regulations and related policies and use reverse thinking to deeply understand the impact of the invoice-controlled tax policy on the heating enterprise; that is, the system considers how to respond to the invoice-controlled tax policy. First of all, accountants must ensure that all economic and business accounting and processing are performed. They must first

consider the value-added tax and other issues that should be involved, and actively carry out tax planning, to pay taxes by the law and reason, and there must be no hidden concerns of under-tax or un-taxed; Secondly, it is necessary to clearly recognize the impact of the "natural nature" of the "specialization" of taxpayers' cash flow of foreign tax. Correctly confirm and calculate the value-added tax exemption business, and accurately grasp that the exemption of VAT on the heating income of residential households belongs to the "exempt amount" rather than the "exempt amount", that is, the accountant cannot mistakenly assume that the residents' heating income is exempt and does not accrue VAT, And should normally withdraw the output tax on the heating income of residents, and reasonably allocate the input tax that should be deducted according to the ratio of the residents heating fee to the total heating fee, and finally carry the value-added tax payable to the accrued income "subsidy income". Regarding the heating income of non-residents, regardless of whether the heating fee is actually received, they must strictly abide by the income recognized by the accounting standards and calculate the output tax in a timely manner. At the same time, it should be noted that the self-use heat of the farm heating station does not belong to the scope of "deemed sales" and should not be counted as value-added tax, but correspondingly, input tax cannot be deducted. The accountant should calculate the input tax of the raw coal, electricity, water, and other purchased goods consumed by self-heating based on the proportion of self-supplied heating products in all thermal products produced, and do the accounting treatment of "input tax-transfer out". Only in this way can we fully confirm and correctly collect and calculate the VAT tax obligations and prevent the occurrence of the wrong calculation of VAT.^[3]

B. Actively strive to increase residential heating prices

There are significant differences in winter temperature in northern provinces. Provinces with low temperatures, such as Heilongjiang and Inner Mongolia, have large heat supply and high thermal product costs. At the same time, the spatial distance of fuel resource supply and market price fluctuations also have a great impact on heating costs. As far as Heilongjiang Reclamation Area is concerned, the raw materials for the production of thermal products in all farms are raw coal. For farms that own or are adjacent to coal mines, the price of raw coal purchased by their heating stations is relatively low, and the cost of heating power production is also lower. "Heilongjiang Province Urban Heating Regulations" and related documents stipulate standards; on the contrary, the cost of heating power produced by long-distance transportation of raw coal will increase significantly, and the price of heating will increase substantially. According to the survey, the average heating price of non-residential residential buildings during the heating period of each farm in Heilongjiang Province is about 45 yuan/m², the average heating price of residential houses is about 30 yuan/m², and garages and storerooms are

35 yuan/m²^[4]; actively seek to organize and arrange hearing procedures for heating product price adjustments from farms, and apply to the government price agency for an appropriate increase in the heating price of residents through the farms, and some newly added farms give residents subsidies. In this way, it will not increase the burden of residents' heating expenses but also increase the proportion of tax-free sales of heating stations and reduce the impact of value-added tax on corporate cash flow.

C. Strictly control the purchase of special invoices

Establish an invoice control system for raw coal purchases to ensure that special invoices are obtained for each purchase business, to achieve the deduction of input tax, and never allow the overpayment of taxes to inflate the cost and interfere with the profit and loss of the enterprise, and protect the enterprise funds to the greatest extent. The tax cost is put in place. For this reason, heat supply companies that advocate farm operations fully implement the raw coal procurement bidding system, and the public bidding announcement must clearly state that only coal mines and material supply companies that can fully issue special invoices or apply for special invoices on behalf of taxation can participate in the registration. In this way, it is possible to ensure that each batch of raw coal purchases obtain a special invoice and deduct the input tax amount, avoid the risk of corporate cash flow, and obtain lower price negotiation opportunities, reduce the operating cost of thermal products, and create more profit margins.

D. Predict the acceptable price of raw coal supplied by general Invoice

Some farms are too remote, and there are no coal mines in the nearby urban areas, so they are completely facing a "seller's market" situation; or the farm heating company has implemented contracted operations, and the contractors choose to purchase raw coal suppliers with relatively more favorable prices. In this case, the corporate accountant will not be able to control the procurement activities but can suggest to the contractor that the supplier applies for a special invoice issued by the local tax authority. If the other party does not have the conditions to apply for special invoice issuance and can only issue a general invoice, the accountant can use the cash flow actually paid for the purchase of raw coal on the special Invoice, that is, the difference between the purchase agreement price and the input tax and the value-added tax surcharge. Set the "critical point" of cash flow that should be controlled with the purchase of general Invoice; then, it is calculated that the supplier that issues general Invoice should give preferential prices for raw coal to the farm heating companies, that is, the heating companies can accept the preferential prices of general Invoice. Issued to raw coal purchasers or contractors for execution. The cash flow critical point formula is:

Acceptable general bill of raw coal price \leq actual cash flow paid for purchasing raw coal by special Invoice

The actual cash flow paid for purchasing raw coal with special Invoice = purchase price of raw coal with special invoice-input tax \times (1+ value-added tax surcharge)

Taking an independent farm as an example, The supply price of raw coal is 100, according to the current value-added tax policy, the applicable tax rate for raw coal should be 13%, the urban construction tax collection rate is 1%, the urban education surcharge is 3%, and the local education surcharge is 2%, then:

The actual cash flow paid for purchasing raw coal by special Invoice
= $100 - 100 / (1 + 13\%) \times 13\% \times (1 + 1\% + 3\% + 2\%)$
= 87.24

It shows that when the farm heating station purchases raw coal from small coal mines, and the preferential supply price given by the raw coal supplier does not exceed 87.24 of the purchase price to the general taxpayer who provides the special Invoice, the heating station can implement the general invoice purchase. In this way, the cash flow risk of overpayment of value-added tax can be controlled, and the inflated operating cost can be effectively controlled. However, it needs to be declared that the farm heating station will never allow purchase without an invoice to avoid more serious tax risks and audit penalties.

IV. CONCLUSION

Research shows, the financial impact of the Invoice – controlled tax policy on the general taxpayer enterprise exists objectively, but it is completely controllable. As long as the farm heating company attaches great importance to the role of accounting, actively creates training and learning opportunities for accounting, requires procurement and other related business departments and personnel to actively communicate business information with the accountant, solicit more accounting opinions, or require the accountant to carefully formulate invoices, and other financial management systems. If implemented, the impact of value-added tax on cash flow and operating costs can be controlled at an expected level. Meanwhile, the farm heating enterprise accountant should accurately grasp the state's preferential tax

policies for heating companies, determine the applicable condition and timing to enjoy the policy according to the life cycle of the enterprise, and also consider the best time to collect heat charges and etc. By taking such measures, the farm heating companies could avoid transferring more input tax due to the one-sided pursuit of limited tax exemption or the unnecessary boosted operating losses resulting from rising operating costs. In addition, accountants must strictly control purchase invoices and prices using financial regulatory rules. If they discover purchasing staffs who arbitrarily purchase raw coal at an acceptable price level that exceeds financial forecasts, the accountants can insist on settling at a critical point, whose price is based on special invoices purchasing cash flows. Or they could delay or even refuse settlement with approval from the manager – the consequences arising therefrom shall be unilaterally borne by the purchasing personnel. Thereby, it is ensured that the risk of VAT tax payment and cash flow risk of farm heating companies are minimized, the tightness of funds is eased at a maximum level, and to provide strong financial support for the sustainable development of farm heating companies.

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