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Discussion on Important Problems of Corporate Income Tax Accounting Treatment

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Abstract: With the rapid development of the Chinese market economy system, income tax as an economic lever has become more and more prominent in regulating the economy. Since the beginning of the accounting reform, the Ministry of Finance has promulgated the accounting standards for income tax and put forward the corresponding procedures and methods, which is a leap forward in the development process of domestic income tax accounting. The relationship between income tax and accounting, the nature of income tax, and the basic characteristics and the apportionment of income tax accounting are expounded in this paper. Payable tax with impact accounting regulations, deferred with debt regulations, and balance sheet debt with income statement debt regulations are compared given the existing problems in the accounting treatment of domestic income tax, and the choice of applicable treatment methods are discussed. Finally, the accounting treatment of important income tax such as consolidated accounting statements, construction enterprises, tax losses, and discount of income tax liabilities are analyzed, and the treatment methods and corresponding countermeasures are put forward to improve the domestic income tax accounting problems.

Keywords: Corporate income tax; Income tax accounting; Treatments

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1. Introduction

The accounting treatment of corporate income tax is an important accounting activity that recognizes, calculates, and reports corporate income tax following corresponding accounting standards and systems under the tax law, and provides an important basis for enterprise operation, management, and the development and improvement of enterprise accounting system [1]. With the reform and continuous improvement of the social market economic system in our country, the corresponding accounting standards are set up for corporate income tax accounting treatment, which is used to guide and regulate corporate tax behavior. However, in practical application, the accounting treatment of corporate income tax may be affected by many factors. Therefore, it is of great practical significance to conduct in-depth research on the current income tax treatment methods and explore the application value of various treatment methods to practical accounting treatment problems.

2. Corporate income tax and accounting problems

2.1. Relationship between income tax and accounting

Corporate income tax is a tax levied on enterprises and other income-earning organizations in China in respect of their production and business income and other income. As soon as the income tax appeared, it had a natural connection with accounting. Because the determination of taxable income is mainly derived from the results of accounting records and calculations, the rules and methods of collecting income tax are now gradually improved with the continuous development and innovation of accounting. In addition, the collection of income tax also plays a powerful role in promoting the development of accounting, prompting it to continuously improve the accounting system.

Since the income tax and accounting perform different functions, they follow different principles and serve different purposes in the economic field. Hence, these two different branches are formed. The payment of income tax should be determined by the tax law, while accounting follows the accounting standards, the calculated tax amount will be different due to the differences.

Taxpayers, in the calculation of income tax, cannot be separated from the total profit calculated according to the accounting method and the accounting information. It needs to make full use of the accounting information based on the adjustment following the provisions of the tax law. Because accounting information has provided the basis for tax calculation. Modern income tax can be mature and perfect with the support of modern accounting theory.

Therefore, there is no reasonable connotation of modern income tax without the support of accounting theory. In addition, the tax adheres to the historical cost principle, which does not allow for the adjustment of accounting data to the actual situation during the calculation process, whereas accounting theory tends to be more responsive to the accounting environment. As income tax and accounting have a close relationship, and the income tax law is mandatory, the processing of income tax is always relatively lagging behind the accounting processing, so the income tax on the development of accounting has a certain negative effect [2].

2.2. Basic features of income tax accounting

The basic characteristics of income tax accounting are mainly reflected in three aspects, namely, independence, legality, and unity [3]. Independence mainly refers to the difference between the processing method of tax accounting and financial accounting, and the boundary between accounting profit and taxable income is distinguished. The legal nature of the tax accounting work is mainly refers to the development of tax accounting based on the current national tax laws and regulations as its fundamental basis, the main body of the business need to fulfil their tax obligations following the law, with the accounting regulations and tax laws and regulations to carry out the tax payment and supervision of the formation of taxes and other work. Uniformity means that tax accounting is the same among different taxpayers.

3. Comparative analysis of accounting treatment for income tax

The enterprise income tax accounting treatment method should start through four steps: Firstly, the calculation of enterprise assets and enterprise liabilities should be identified; Secondly, the accounting book value and income tax calculation should be accurately determined; subsequently, the division and continuity of enterprise liabilities and enterprise income tax assets should be clarified; finally, the corresponding amount of tax payable should be calculated [4]. However, a clear explanation of the policy rules does not exist for the calculation of tax liabilities and determination of assets, so enterprises need to employ external professionals to accurately check the accounting income tax processing work and choose different forms of income tax processing.

3.1. Comparison of the tax payable method and tax effect accounting

3.1.1. The tax payable method

The tax payable method, which is calculated by the provisions of the Tax Act, generally establishes a liability account for income tax payable as well as an income tax expense account and uses the income tax payable as the current income tax expense. Under the tax payable method, the accounting treatment is relatively simple. For example, the timing difference between taxable income and pre-tax accounting profit does not need to be apportioned across periods so that the current income tax expense is equal to the current income tax payable.

3.1.2. The tax effect accounting method

The core of the tax effect accounting method is the inter-period apportionment of income tax expense, which implements the matching principle. This method involves the creation of a deferred tax account, together with an income tax payable and its income tax account. The tax impact method tries to make up for the shortfall that tax payable possesses in the description above by recognizing income tax expense mainly using matching with pre-tax accounting profit, which adjusts for permanent differences using the current period's pre-tax accounting profit.

3.1.3. Differences and connections

The tax payable method and the tax effect accounting method have both commonalities and differences. Accounting profit before tax should be calculated by the accounting system, income tax expense is recognized in the period in which it arises or is used to offset the cost of income tax, and this point is the same as the permanent difference between the taxable income in the calculation of the cost of the same by the provisions of the tax law. The difference between the two methods are mainly follows: Firstly, when the tax rate is unchanged, the treatment of timing differences between the two methods of accounting basis differences; secondly, the recognition of income tax expense, offsetting income tax expense, while the impact of timing differences on income tax using the tax effect accounting method to confirm, and then credited to the debit or credit of deferred tax, using the amount of income tax impact of the timing differences confirmed [5].

3.2. Comparison of the deferred and debt methods

3.2.1. Comparison of commonalities

The commonality between the deferral method and the debt method is reflected in the following: Firstly, the accounting treatment of permanent differences is the same. Both of them will be the income tax effect of permanent differences in the amount of income tax expense, recognized as current income tax expense or offset current income tax expense, no longer deferred allocation to future periods, reflecting the accounting principles of cash basis. Secondly, the accounting treatment of timing differences is consistent. They defer the amount of income tax effect when the timing difference arises and allocate it to the future accounting periods, which reflects the accounting principle of accrual basis. At the same time, the tax rates used in recognizing the income tax effect of timing differences are the same. The total amount of income tax expense measured by either the deferred method or the debt method is the same for the entire accounting period from the creation to the full reversal of the timing differences, with the difference being in the measurement of the income tax expense for each period by the two methods [6].

3.2.2. Comparison of differences

Firstly, the tax rates applied to the calculation of the amount of the income tax effect when timing differences are reversed are different. The difference between the deferral method and the debt method is rooted in "adjustments," i.e., the debt method is applied when a change in tax rates or a change in tax levies affects the adjustment of previously fixed deferred tax liability balances, whereas the deferral method does not give rise to adjustments. As a result, the debt approach is more adjustable and more flexible, and controllable than the deferral approach. The deferral method is simpler when dealing with timing differences, but the results may be inaccurate when tax rates change; the debt method is better able to adapt to changes in tax rates.

Secondly, the focus of the impact on the accounting statements is different. The objective of the deferral method of accounting is to match the income tax expense with the income recognized in the computation of accounting profit before tax, and therefore the amount of the income tax effect of timing differences in the current period is deferred and is treated as a reversal of the income tax expense or benefit in the period in which the timing differences arise. The objective of the liability method of accounting is to treat the amount of the income tax effect of timing differences as either an asset or a liability in the balance sheet, thereby satisfying the definitions of an asset and a liability in the conceptual framework of accounting, and accordingly, the amount of the expected income tax effect of timing differences is defined and reported as the amount of income tax that will be payable or receivable in the future.

Thirdly, the treatment of special situations is different. Using the debt method of accounting, the amount of the income tax effect of timing differences is calculated at the current tax rate, but if the enterprise knows the income tax rate at which timing differences occurring in the current period will be reversed in the future, the timing differences can be calculated at the amount of their income tax effect based on the expected future income tax rate. However, when the deferred method is used, even if the enterprise knows the income tax rate of the differences occurring in the current period at the time of reversal in the future, the enterprise does not calculate the amount of its impact on income tax according to the tax rate at the time of reversal in the future, and still recognizes the amount of deferred tax according to the calculation of the current tax rate [7].

3.3. Comparison of balance sheet debt regulations and income statement debt regulations

3.3.1. Comparison of commonalities

Firstly, it has the same theoretical basis. The theory of owners' equity is the basis of everything, and both the income statement debt approach and the balance sheet debt approach are based on it. The theory states that the increase in the owner's equity is the income of the enterprise, and the decrease in the owner's equity is the expense, and the net income is formed when the expense is less than the income, which can be obtained by the owners of the enterprise. Secondly, the principle of going concern is matched with the principle of accruals. A business is a going concern if its production and operation activities continue for an indefinitely extended period in the future. Based on the definition of going concern, the business period is considered to be infinitely long based on the assumption, so that it can be deferred and adjusted to the period after the use of balance sheet debt method and income statement debt method to find out the impact of timing differences on income tax.

3.3.2. Comparison of differences

Firstly, differences in accounting results and their objects. The accounting method that uses inter-period accounting for timing differences is the income statement liability method. In contrast, the balance sheet liability method is a method of accounting that uses temporary differences to account for intervals. The content of the difference between the two methods is not the same. In addition to timing differences, the tax consequences of temporary differences can be reversed in future periods, as long as the balance sheet debt method as deferred income tax liabilities or tax assets as soon as the differences arise. Secondly, the focus is different. Income statement debt approach to the existence of different effects on the future as an adjustment to the income tax expense at the time, focusing on the income statement of the expense and income two items, and it needs to be identified one by one the timing of the difference between the expense and income items in accounting and tax law. The balance sheet debt approach focuses on the balance sheet liabilities and assets and regards the future tax effects of these differences as an asset and liability. It needs to identify the temporary differences between the tax base and the carrying amounts of assets and liabilities one by one.

4. Analysis of typical income tax accounting treatment problems

The new standard requires the balance sheet debt method to be applied in listed companies, and some commercial insurance companies, commercial banks, and large central enterprises have started to apply it, but overall, the adoption rate of the balance sheet debt method is still not high. Except for the tax impact accounting method, which is more frequently adopted by commercial banks, the tax payable method is the accounting treatment used by most enterprises before the implementation of the balance sheet debt method. As the application of accounting standards may be affected by various factors in actual operation, different issues need to be analyzed specifically in light of the reality. The accounting treatment of enterprise income tax under current Chinese accounting standards mainly involves the following factors: Revenue recognition, expense, asset measurement, and tax rate changes [8]. The following will analyze several types of important income tax accounting issues.

4.1. Consolidating accounting statement problems

Under the old accounting standards system, the scope of consolidation of an enterprise's accounting statements usually included the parent company and its subsidiaries. However, under the new accounting standards, the scope of consolidation of consolidated accounting statements has changed, expanding the scope of consolidation, the consolidation of accounting statements now includes the parent company and subsidiaries in addition to the traditional parent company, but also includes the parent company which plays a role in the actual control of the subsidiary, that is, as long as the enterprise can be able to carry out substantial control of subsidiaries including in the scope of the consolidated accounting statement preparation, this provision is in line with the international accounting standards, but there are a lot of difficult to solve the problem in the implementation of the process itself, especially the complex shareholding merger between enterprises, there is no precise definition and format terms, so the difficulties in the consolidated accounting statements of the problem is mainly in the recognition of income, expenses, assets measurement of the three major aspects.

In this case, the main countermeasure is to take into account the income tax differences between parent and subsidiary companies and to ensure that the consolidated statements truly reflect the financial position of the enterprise group by adjusting items such as internal transactions and deferred income tax assets and liabilities [9]. From the practical application point of view, the main measures that can be taken are: Firstly, the scope of consolidation of the consolidated financial statements is determined, the doubts and difficulties encountered in practice with the provisions of the standard are to discussed, and the conditions and criteria for inclusion in or exclusion from the scope of consolidation are refined; secondly, some penetrating accounting models is established, and the internal transaction reconciliation is set up, which is responsible for reconciling the revenues, costs, and cash flows of the internal transactions of the enterprise at all levels. And actual equity share, etc., special attention to unequal capital contributions and partial sale of assets to the outside world; thirdly, the fair value assessment is clarified in the process of business combinations, and the market method is mainly carried out during the context of a high degree of marketization development in the assessment of the fair value of net assets.

4.2. Construction corporate tax planning problems

As a basic industry of the national economy, the construction industry plays an indispensable role in promoting social development. However, the complex operating environment and special business model make construction enterprises face greater tax pressure. Because of the long project cycle and large capital investment, construction enterprises have experienced great changes in the ideas and methods of income tax accounting for tax payments [10]. Therefore, it is necessary to coordinate the differences between the enterprise income tax law and accounting standards to ensure the truthfulness, accuracy, completeness, and reliability of accounting information. In this case, the choice of accounting policy is orientated towards income tax, the internal management process of construction enterprises is optimized, and then the reliability of professional judgement of financial managers is needed to be improved.

4.3. Tax loss problem

The relevant documents of the State Taxation Letter of the State Administration of Taxation of China stipulate that the year in which an enterprise commences production and operation is the year in which the calculation of profit and loss begins, and the expenditure on preparatory activities incurred by an enterprise in carrying out preparatory activities before engaging in production and operation shall not be counted as a loss for the current period, and shall be carried out by the provisions of the documents. It is stipulated that except as otherwise provided in the ASBE No.18-Income Taxes and standards, an enterprise shall recognize deferred income tax assets arising from deductible temporary differences to the extent, taxable income will probably be available against which the deductible temporary differences can be utilized [11].

According to the above norms, for the issue of tax losses during the period of preparation of the enterprise, it is necessary to consider separately the year in which the start-up expenses are incurred and the year in which the production operation is started. Firstly, for the purely preparatory year, since there is generally no income in the purely preparatory year, a loss must be incurred for accounting purposes as a result of the expenditure on the start-up costs, but the tax provisions stipulate that the expenditure on the start-up costs shall not be counted as a loss for the current period.

Secondly, the start-up cost is amortized during the establishment period in the pure production and operation year, and the tax return should be reduced by the amortized start-up costs until the deductible start-up costs are fully amortized for tax purposes. Thirdly, in the year in which start-up expenses are incurred and production activities are commenced at a later stage, an upward or downward adjustment should be determined based on the difference between the start-up expenses incurred in the current year and the amortization of the start-up expenses payable in the current year, in the same way as in the accounting treatment described above.

4.4. The problem of discounting income tax liabilities

Compared with asset items, the relationship between the book value of liabilities and the items that can be deducted before tax in calculating taxable income is more obscure, which leads to difficulties in understanding the tax basis of liabilities. In the author’s opinion, it can be started from the intrinsic relationship between the main factors affecting the taxable income, pre-tax deductible items, and the profit and loss items in accounting. The amount of the taxable base of a liability is determined by the impact of the liability on the accounting profit and loss, combining of taking into account the provisions of the tax law on whether the profit or loss and the periods of the taxable amount or deductible loss. The following steps can be used to analyze and judge the amount of the tax basis of a liability:

The first step is whether the carrying value of the liability relates to an item of profit or loss (whether past, present, or future), i.e., whether a change in the carrying value would directly result in a change in income or expense for accounting purposes. The second step is determining whether the carrying value of the liability has already affected the accounting profit and loss item. The third step is to determine whether the amount of the profit and loss item related to the book value of the liability is allowed to be deducted under the tax law. The fourth step is whether the cumulative amount of gains and losses related to and affected by the book value of the liability has been fully deducted at the statement date. If the full amount has been deducted, the carrying amount of the liability also no longer includes future deductible amounts, and the tax basis is the same as the carrying amount [12].

5. Countermeasures and suggestions

(1) Improvements on the harmonization of tax law and accounting standards

Firstly, enterprises need to establish a regular accounting and tax communication mechanism. Regular meetings should be set up to bring together accounting and tax professionals to discuss current issues in accounting treatment as well as the latest regulations and policy changes in the tax department. Secondly, accounting and tax personnel should work together to develop accounting treatment plans. Accounting and tax departments should work together to develop an accounting treatment plan, which can ensure that it complies with accounting standards and meets tax requirements at the same time. When it comes to revenue recognition, expenses, etc., both parties can discuss the best way to avoid the contradiction between accounting treatment and tax law. Thirdly, enterprises need to focus on optimizing the accounting process. Accounting and tax departments can discuss the accounting process together and identify potential problems and risks. Through joint analysis, more effective processing methods can be found to reduce the occurrence of inconsistencies and errors between the two, thus improving the accuracy and compliance of accounting processing.

(2) Enhancement of the internal control and compliance management

Firstly, enterprises should establish a sound internal control system. It needs to include the establishment of clear accounting policies and procedures to ensure that all accounting processing activities can be carried out within the framework of standards and regulations. The internal control system should cover revenue recognition, expenses, asset measurement, etc., while the division of responsibilities and the approval process need to be clearly defined to prevent errors and non-compliance. Secondly, enterprises should focus on strengthening internal audit and supervision. Through regular internal audits, enterprises can identify problems in accounting processing and take corrective measures promptly. Internal audits also help to assess the effectiveness of internal controls, provide timely recommendations for improvement, and ensure that compliance with standards and regulations is maintained.

(3) Reasonable construction of tax planning and risk management system

Legal compliance is the basic principle of tax planning. Enterprises must comply with local tax laws and regulations when carrying out tax planning and must avoid taxes through improper means. Firstly, it is necessary to clarify the planning objectives and choose tax planning strategies carefully. Enterprises in tax planning should be clear planning objectives, such as reducing costs and improving competitiveness. Appropriate planning strategies should be selected and chosen carefully to avoid overly aggressive or risky practices according to the objectives. Secondly, enterprises should focus on risk management. Tax planning is not only about current interests but also involves the long-term development of the enterprise. Enterprises should consider the impact of the planning strategy on the future and avoid the long-term risks brought by short-term behavior. In the planning process, risk assessment and management should be emphasized, and unnecessary risks should be avoided. Thirdly, the relevant work should be carried out transparently and ethically. Enterprises should maintain transparency in tax planning and ensure that accounting treatment and disclosure comply with standards and regulations.

6. Conclusion

Corporate tax planning is facing new opportunities and challenges with the development of society and the adjustment of accounting standards. The treatment of various income tax accounting methods under the current accounting standards is expounded in this paper, and the important income tax accounting treatment issues from the aspects of revenue recognition, expense, asset measurement and tax rate changes in the accounting treatment of corporate income tax are analyzed to provide references for enterprise income tax planning. The accounting standard of current society proposes new requirements for the accounting treatment of enterprise income tax, and there do exist some special cases in which the corporate income recognition, asset measurement, and other unspecific aspects. Corporates need to continuously improve the coordination of tax law and accounting standards, combine with their own experience, carry out scientific analyses, build a feasible tax planning system, and promote the sustainable development of corporates.

Disclosure statement

The author declares no conflict of interest.

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