

Research on the Construction of Sales Tax Accounting Framework and Industry Application in Hainan Free Trade Port

Fang Huang

Hainan Vocational University of Science and Technology, Haikou 571126, Hainan, China

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Abstract: As a strategic fulcrum for China's deepening reform and opening up, Hainan Free Trade Port (HFTP) will implement the "four taxes and two fees" merger reform after closing the port for operation in 2025, and uniformly levy sales tax at the retail link. This innovative tax system measure poses significant impacts and challenges to China's current accounting processing system. Based on the reference of international tax reform experience and the analysis of the adaptability of China's accounting standards, this paper systematically constructs a theoretical framework for sales tax accounting. It focuses on the application scenarios of trade enterprises in the tertiary industry, deeply explores the accounting connection paths and industry adaptation schemes during the tax system transition, and provides solid theoretical support and feasible practical guidance for the smooth implementation of this policy.

Keywords: Hainan free trade port; Sales tax; Accounting treatment; Industry application of sales tax

Online publication: April 16, 2026

1. Introduction

1.1. Research background

The *Master Plan for the Construction of Hainan Free Trade Port* issued in 2020 clearly proposed the tax reform goal of "zero tariff, low tax rate, and simplified tax system". The *Hainan Free Trade Port Law* in 2021 further established the direction of turnover tax merger reform after the whole island is closed for operation, integrating "four taxes and two fees" including value-added tax (VAT), consumption tax, and vehicle purchase tax into sales tax at the retail link^[1]. This reform is not only a major adjustment of China's tax structure but also a key measure to align with the tax system of internationally high-level free trade ports.

By 2025, HFTP has formed a policy system covering corporate income tax preferences, personal income tax reductions and exemptions, and "zero tariff" list management. However, as a new tax system integrating multiple taxes, sales tax has no practical experience in China. Issues such as its accounting rules, tax system connection mechanism, and industry adaptability urgently need to be solved^[2]. As the main industrial entity focused on

developing in HFTP, trade enterprises are facing multiple challenges such as the transition between VAT and sales tax dual-track system, cross-regional transaction tax treatment, and tax system adaptation for import and export business. It is imperative to build a scientific and standardized accounting processing system.

1.2. Research purpose and significance

The purposes of this study are:

- (1) To construct a theoretical framework for sales tax accounting in line with the positioning of HFTP by drawing on international experience;
- (2) To explore the specific application paths of sales tax in the industry focusing on the characteristics of trade enterprises;
- (3) To solve the accounting connection problems during the tax system transition and propose practical solutions.

The research significance is reflected in three aspects: theoretically, it breaks the current coupling mode of taxation and accounting, filling the gap in the collaborative theory of sales tax accounting in free trade ports. Based on the principle of “dual-track tax base identification”, the tax base determination logic of the destination principle (sales tax) and the origin principle (residual VAT) operates simultaneously in the accounting system to ensure the continuity of accounting during the tax system transition. Practically, it provides standardized accounting guidelines for enterprises, reducing uncertainty, complexity, and potential compliance risks in enterprise tax treatment and financial reporting, thereby lowering institutional transaction costs^[3]. Meanwhile, standardizing supporting accounting rules can ensure the authenticity and accuracy of tax calculation, providing standardized and verifiable data sources for tax collection and management departments, improving collection efficiency, and preventing tax source loss^[4]. Policy-wise, it provides reference for relevant departments to formulate supporting accounting policies, ensuring the smooth implementation of tax reform.

2. Institutional background and literature review

2.1. Research status of core elements of sales tax

Academic circles hold three viewpoints on the scope of sales tax: Zhang Yunhua (2020) advocates following the destination principle, limiting it to taxable goods and services at the retail link within the port; Cao Shengxin (2022) proposes a “narrow tax base, high tax rate” model focusing on specific commodities; Wei Suyu (2023) suggests expanding the tax base to be consistent with VAT and setting tax exemption items. In terms of tax rate design, scholars have calculated a reasonable range of 5%–10%, and some advocate adopting a multi-tiered tax rate structure, with tax exemptions for people’s livelihood necessities and high tax rates for special commodities.

This study argues that to ensure the smooth transition from “four taxes and two fees” to sales tax and maintain necessary fiscal revenue, the scope of taxation should be basically consistent with the current VAT. The taxpayer shall be the units and individuals purchasing taxable goods and services at the retail link, and retailers shall act as withholding agents. Sales tax shall be clearly levied at the terminal retail link. The use of tax-exempt sales certificates can be referenced to determine the terminal retail link or final consumption link. In the process of issuing tax-exempt sales certificates, the judgment standards for small-scale VAT taxpayers such as tax credit, sound financial accounting, and cargo flow supervision can be appropriately cited to reduce collection and management costs^[5]. From the perspective of promoting development patterns, tax system innovation, and reducing tax burden, on the basis that the scope of taxation is basically consistent with VAT, this study advocates

a three-tiered tax rate structure: the sales tax rate for most commodities should be maintained at around 5%, the original VAT tax exemption list should be continued for daily necessities, and a list management system should be implemented for commodities with regulatory functions (ecologically destructive, negative externalities, or health-hazardous), applying a high tax rate of 20%.

2.2. Research progress on sales tax accounting treatment

Existing research shows that there is relatively little research on sales tax accounting. Tang Yu (2024) points out the need to revise accounting standards accordingly but does not clarify specific paths^[6]. In terms of international experience, the United States adopts a single liability account of “Sales Tax Payable” for accounting; Singapore sets refined accounts such as output tax and input tax; Malaysia adjusts accounting methods according to the tax system model. These experiences provide important references for China to build a sales tax accounting system.

The urgency of the accounting system lies in the fact that after HFTP formally implements the merger of “four taxes and two fees” into sales tax, the current *Provisions on the Accounting Treatment of Value-Added Tax* (Caikuai [2016] No. 22) will no longer apply^[7]. Since sales tax is a newly established tax with no prior experience, it is imperative to formulate and issue a special “Provisions on the Accounting Treatment of Sales Tax”. This is essentially different from the situation when “replacing business tax with VAT”, where VAT was not a new tax and the delayed issuance of accounting rules had limited impact.

2.3. Research trends on tax system connection

Wan Yiyun (2023) proposes three ideas for connecting the sales tax with the mainland tax system, including unified market management, treatment as export, and national synchronous reform^[8]. Liu Lei (2021) suggests adopting a tax-exempt entity filing system and split tax payment method to solve cross-regional collection and management issues. Existing research has not conducted in-depth discussions on the special accounting treatment of cross-regional, import and export businesses of trade enterprises.

3. Reference and enlightenment from foreign experience

3.1. Sales tax accounting practices in typical countries

The United States adopts a decentralized sales tax model, where each state independently formulates tax rates and scopes. In accounting, an independent liability account of “Taxes Payable–Sales Tax Payable” is established. During sales, income and tax are separated, and during procurement, sales tax is included in asset costs or expenses. Cross-state transactions confirm tax rates according to the “destination principle”, and automatic tax calculation and declaration are realized through e-commerce platforms^[9].

Singapore’s Goods and Services Tax (GST) adopts a tax-exclusive model, setting accounts such as output tax, input tax, and GST Payable, implementing an input-output tax offset mechanism, and separately accounting for zero-rated and tax-exempt transactions^[10]. Its invoice management is standardized, requiring complete transaction information, and the electronic declaration system improves collection and management efficiency.

Malaysia has undergone a transformation from Sales and Service Tax (SST) to GST and then to SST 2.0. Its experience shows that accounting treatment must be closely adapted to the tax system model. Accounting under the single-stage taxation model is simpler, but attention should be paid to the fiscal pressure caused by the narrowed tax base.

3.2. Enlightenment for China

3.2.1. Coordinate tax system design and collection and management

Clarify the scope of taxation and tax exemption lists, reference the “physical connection” rule to define taxpayers, clarify which enterprises need to register and pay sales tax in Hainan, and avoid tax disputes in cross-regional transactions^[11].

3.2.2. Optimize the setting of accounting accounts

Adopt a structure of a single core liability account plus auxiliary accounts for special scenarios. Liability accounts are independently accounted for, following U.S. practices to establish a “Sales Tax Payable” account, which is completely separated from enterprise operating income and shall not be included in main business income^[12]. In addition, establish a cost transmission mechanism after the cancellation of input tax.

3.2.3. Establish a special transaction handling mechanism

The mechanism includes accounting solutions for cross-regional transactions, returns and allowances, and synchronously reduce the liability of sales tax payable when consumers return goods.

3.2.4. Strengthen risk prevention and control

Set reasonable inspection time limits and compliance file management requirements.

4. Construction of Hainan sales tax accounting framework

4.1. Basic principles of accounting treatment

The basic principles are as follows:

- (1) Tax-exclusive model: Follow the principle of tax transparency, adopt tax-exclusive accounting, separate income and tax during sales, and enhance taxpayers’ sense of gain;
- (2) Simplification and efficiency principle: Streamline the accounting account system, reduce accounting levels, and lower enterprise compliance costs;
- (3) Smooth transition principle: Properly handle VAT carry-over tax and establish a transition period connection mechanism;
- (4) Industry adaptation principle: Formulate differentiated accounting rules according to the characteristics of key industries such as trade enterprises.

4.2. Design of core accounting accounts

Add the following under the “Taxes Payable” account:

- (1) Sales Tax Payable: Accounts for sales tax to be paid at the retail link. Credit records accrued tax amounts, and debit records paid tax amounts;
- (2) Withheld and Remitted Sales Tax: Accounts for sales tax withheld and remitted by enterprises at the terminal consumption link;
- (3) VAT to Be Refunded: Accounts for VAT input tax generated from off-island procurement, to be applied for tax refund or offset against sales tax.

4.3. Accounting standards for key businesses

When selling to terminal consumers, debit “Bank Deposits/Accounts Receivable”, credit “Main Business Income”

and “Taxes Payable–Sales Tax Payable”; when selling to intermediate links with tax-exempt certificates, recognize full income without accruing sales tax. For non-terminal consumption materials purchased on the island, fully include them in costs and expenses; for off-island procurement, separate procurement costs from VAT input tax, and record input tax into “VAT to Be Refunded”. The transition period treatment was carried out by transferring VAT carry-over tax to “VAT to Be Refunded”, offsetting against sales tax payable on a monthly basis, and applying for financial tax refund for the excess part.

5. Application practice of sales tax in trade enterprises

5.1. Scope and links of sales tax collection for trade enterprises

The scope of sales tax collection for trade enterprises is limited to commodity sales at the terminal consumption link, including on-island retail, sales to individuals, and sales to enterprises without tax-exempt certificates. In import and export business, retail of overseas procurement entering the island and retail of mainland procurement entering the island are subject to sales tax; export business applies zero tax rate, and VAT refund can be applied for mainland procurement entering the island and then re-exported^[13].

In terms of cross-regional transactions, procurement from the mainland entering the island is regarded as export, and the originally paid turnover tax can be refunded; procurement from the island sold to the mainland is not subject to sales tax, and the mainland handles it according to the current tax system. Deemed sales behaviors (such as gifts and samples) need to accrue sales tax based on the selling price of similar commodities.

5.2. Accounting treatment and connection of sales tax for trade enterprises

5.2.1. Handling of on-island retail business

A local YB trade enterprise in the island sells electronic products to terminal consumers at a tax-inclusive price of 7.35 million yuan (tax rate 5%). The accounting treatment is: debit “Bank Deposits 7.35 million yuan”, credit “Main Business Income 7 million yuan” and “Taxes Payable–Sales Tax Payable 350,000 yuan”; when paying taxes, debit “Taxes Payable–Sales Tax Payable 350,000 yuan”, credit “Bank Deposits 350,000 yuan”.

5.2.2. Handling of off-island procurement and on-island sales

YB enterprise purchases from the mainland at a cost of 6 million yuan (tax-exclusive) with VAT of 780,000 yuan. The accounting treatment is: debit “Inventory Commodities 6 million yuan” and “Taxes Payable–VAT to Be Refunded 780,000 yuan”, credit “Accounts Payable 6.78 million yuan”. After the tax refund application is approved, debit “Bank Deposits 780,000 yuan”, credit “Taxes Payable–VAT to Be Refunded 780,000 yuan”.

5.2.3. Handling of export business

YB enterprise exports the above commodities to the United States with a sales volume of 7.8 million yuan (1.2 million US dollars, exchange rate 6.5). The accounting treatment is: debit “Bank Deposits 7.8 million yuan”, credit “Main Business Income 7.8 million yuan”. Export applies zero tax rate, so no sales tax needs to be accrued.

5.2.4. Handling of cross-regional sales

YB enterprise sells commodities to the mainland at a price of 7 million yuan and issues zero-rated sales tax invoices. The accounting treatment is: debit “Accounts Receivable 7 million yuan”, credit “Main Business Income 7 million yuan”, with no sales tax accounting involved.

5.3. Comparative analysis of tax-exclusive and tax-inclusive models

Trade enterprises have more advantages in adopting the tax-exclusive model as follows:

- (1) Transparent income accounting, consistent accounting and tax income calibers, and no differences between accounting and taxation;
- (2) Clear liability presentation, with sales tax separately recorded in liability accounts without affecting the income statement;
- (3) Facilitating cross-regional connection, compatible with the mainland VAT tax-exclusive model^[14].

Under the tax-inclusive model, income needs to deduct taxes, leading to differences between accounting and tax income and increasing the complexity of income tax adjustments.

5.4. Impact of sales tax on trade enterprises

Compared with multi-link VAT offset, sales tax is only accounted for at the retail link, reducing the workload of invoice certification and input tax offset, and lowering compliance costs. To optimize cash flow, the VAT mechanism of “advance payment before offset” should be optimized, and input tax from off-island procurement can be refunded, reducing capital occupation. To reduce tax burden, enterprises tend to increase the proportion of on-island procurement or establish branches in the island to optimize supply chain layout.

6. Research conclusions and policy recommendations

6.1. Research conclusions

Sales tax accounting should adopt a tax-exclusive model, constructing a framework system of “simplified accounts + accurate accounting + smooth transition”, with core accounts including “Sales Tax Payable” and “VAT to Be Refunded”. Trade enterprises need to implement differentiated accounting treatments for scenarios such as terminal and intermediate link transactions, on-island and off-island procurement and sales, and import and export businesses. Cross-regional transactions should be connected according to the “destination principle” and “export tax refund” rules. International experience shows that refined account setting, electronic collection and management, and transition period buffer mechanisms are key to ensuring smooth sales tax accounting^[15]. The implementation of sales tax has a profound impact on the accounting processes, cash flow management, and business layout of trade enterprises, which need to adapt to the new tax system through system upgrades and process optimization.

6.2. Policy recommendations

The following policies are recommended:

- (1) Formulate special accounting treatment regulations: Issue the *Interim Measures for the Accounting Treatment of Sales Tax in Hainan Free Trade Port*, clarifying requirements for account setting, accounting rules, and financial statement disclosure, and unifying enterprise accounting standards;
- (2) Improve supporting policies for trade enterprises: For import and export businesses, simplify the refund process of “VAT to Be Refunded”; for cross-regional transactions, establish a tax information sharing mechanism; for new formats such as cross-border e-commerce, formulate special accounting guidelines;
- (3) Strengthen transition period policy support: Extend the offset period of VAT carry-over tax, optimize the tax refund approval process, and establish special financial subsidies to alleviate enterprise capital pressure;
- (4) Build an intelligent collection and management system: Promote the connection between the tax system,

enterprise ERP systems, and e-commerce platforms, realizing automatic calculation, declaration, and payment of sales tax, and improving collection efficiency and accounting accuracy.

Disclosure statement

The author declares no conflict of interest.

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