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Analysis of Tax-Accounting Differences for Declared Cash Dividends Not Yet Paid

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ABSTRACT. *As an indispensable member of the socio-economic society, the definition of society is still more inclined to "economic people": the purpose of economic activities of enterprises is to maximize their profits. Companies seeking to maximize their profits need to maximize the use of their funds in order to maximize profits for the company. And long-term equity investment is the most common type of investment. When companies make long-term equity investments, tax treatment of cash dividends is involved, especially for tax-related treatments that have been announced by the other party but have not yet issued cash dividends. The impact of tax-related issues is an issue that needs to be addressed in this article, with a view to providing appropriate opinions or suggestions for enterprises to make optimal treatments when making long-term equity investments.*

KEYWORDS: *Declared cash dividends have not been paid; Transactional financial assets; Tax analysis difference analysis*

1. Introduction

The primary task of an enterprise is to survive, relying on its daily business activities to maintain and increase its assets. For enterprises to develop, they not only need to manage their daily business operations, but also make good use of their existing funds to invest so that they can play their biggest role, bring financial benefits to the enterprise, and enable the enterprise to obtain the maximum benefits. The purpose of taxation is to meet the demand for public services. A good comprehensive social environment can provide fundamental guarantees for the long-term development of enterprises. At the same time, the collection of certain taxes is also a cost for enterprises with the attribute of "economic people", which not only affects the net income of an enterprise will also have a significant impact on the operation and management of the enterprise, such as corporate income tax.

Therefore, when investing in an enterprise using its existing funds for long-term equity investment, it is necessary to consider the cash dividend distribution of the investee. There is a difference between the accounting treatment and the tax treatment for the invested enterprise which has already declared the cash dividend but has not yet been paid to the invested enterprise.

Therefore, how the handling of this matter will affect the investment company, how to use the corresponding tax policy to maximize the investment income of the enterprise and minimize the tax-related costs are also aspects that enterprises need to consider.

2. Related Tax Laws and Accounting Standards

2.1 Relevant Provisions of the Tax Law on Cash Dividends

For the specific provisions of cash dividends, tax laws and accounting standards are different. Tax law includes it into investment assets for disposal. The investment assets tax law includes both equity investment and bond investment. According to the Enterprise Income Tax Law and the detailed implementation rules of the Income Tax Law, the investment asset's tax basis of an enterprise varies according to the consideration paid when it is acquired. If the consideration paid is cash, tax basis is the purchase price; if it is non-cash payment, tax basis is to pay the fair value of the assets and relevant taxes.

According to the Enterprise Income Tax Law and the Implementing Rules of the Tax Law, it is tax-free for an investment enterprise to obtain cash dividends and profits distributed from the investee if the conditions are met. The time requirement specified in the satisfied conditions is: to continuously hold shares of the investee for not

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less than 12 months.

However, there is no clear stipulation that the cash dividends and profits distributed by the invested enterprise are already announced by the investee before the invested enterprise invests, or the invested enterprise holds them for a period of time after investing, and then the invested enterprise announces the distribution. Therefore, in tax law, it can be attributed to investment benefits, while it is feasible to include part of the consideration paid in tax basis. However, according to the substance over form, in tax law, it is also not prohibited for investors to obtain cash dividends and profits declared by the investee but not yet paid out as creditor's rights. Because the tax law stipulates that dividends and dividend equity investment income obtained by investors are recognized according to the date when the investee makes the profit distribution decision. At the time of initial investment, the investee announced that the cash dividends and profits distributed occurred before the investor invested, and the cash dividends generated at this time are equivalent to the creditor's rights generated at the same time when the investor invests.

2.2 Relevant Regulations on Cash Dividends of Enterprise Accounting Standards

Accounting standards for enterprises give cash dividends based on different enterprise sizes. It is mainly stipulated in the small business accounting standards and accounting standards for enterprises. Cost measurement is adopted for long-term equity investment in the accounting standards for small enterprises. The assets paid to the investment enterprise are in the form of cash, and the cost of the initial investment is the purchase price+relevant taxes .Cash dividends declared but not yet paid by the invested enterprise included in the payment consideration are separately recognized as dividends receivable and not included in the cost of long-term equity investment. The long-term equity investment obtained through the exchange of non-monetary assets shall be measured according to the assessed value of non-monetary assets and relevant taxes and fees .

In the basic accounting standards for enterprises, the treatment of the consideration paid by the investing enterprise at the time of initial investment, including the cash dividends declared by the invested enterprise but not yet paid, is not clearly given. Explained in accounting standards for enterprises no. 3 [2009] No.8 in finance or accounting, only recognizes as investment income the cash dividends and profits declared and distributed by the invested enterprise obtained from the long-term equity investment calculated by the cost method of the invested enterprise, while there is no relevant explanation for the cash dividends and profits declared but not distributed by the investee when obtaining the investment. In the guideline for the application of accounting standards for enterprises, it is clearly stated that the declared cash dividends or profits included in the initial investment cost, no matter how the investing enterprise obtains the long-term equity investment, are all receivable items and do not constitute the initial investment cost for obtaining the long-term equity investment.

3. Case Analysis of Tax-Related Treatment

M The resident enterprise purchased 2 million shares of the stocks issued by resident enterprise A from the secondary market as trading financial assets on May 10, 2017. The purchase price of each share includes the declared but not yet paid cash dividend 1 yuan in 11 yuan. The transaction fee shall be RMB 150,000.The proceeds have been paid through bank deposits and received cash dividends from A on June 10.The fair value of trading financial assets did not change on December 31, and the total profit of the enterprise in 2017 was 5 million yuan. Without considering other factors, there are no other tax adjustment items.

3.1 Accounting Treatment

In 2017, Company M will make the following accounting treatment:

(1) When buying stocks:

Debit: Trading Financial Assets-Cost 20 Million

Dividends Receivable-Company A 2 Million

Investment income 150,000

Credit: 22.15 million bank deposits

(2) Upon receipt of cash dividends:

Debit: Bank Deposit 2 Million

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Credit: Loan: Dividends receivable 2 million

(3) Balance sheet date:

Asset responsible statement date, accounting treatment: the initial book value of the tradable financial asset is 20 million yuan, and the cash dividend of 2 million yuan that has been declared by the investee but has not yet been paid is treated as its creditor's right and included in the dividend receivable, not as the cost of the tradable financial asset. The fair value at the end of the period has not changed, and its book value is still 20 million yuan.

3.2 Tax Treatment

In the tax law, transactional financial assets are not separately classified but classified as investment assets. For the cost of acquiring investment assets, namely tax basis, the tax law stipulates that there are mainly two situations: for investment assets acquired in cash, the tax basis is the purchase price; For investment assets acquired by non-cash means, the tax basis shall be based on the fair value of the assets paid and relevant taxes. Therefore, in the tax law, part of the consideration paid by the investor for cash dividends declared by the investee but not paid is included in the cost of investment assets and treated as tax basis. The tax law stipulates that deductible items are based on the principle of rationality and require that regular expenditures that conform to production and operation are necessary and normal expenditures that can be included in the current profits and losses or the cost of related assets, allowing deductions. At the same time, in combination with the provisions of the tax law on the confirmation time of investment income and considering the essence of business transactions of enterprises, in accordance with the provisions of the tax law, it is also possible for investors to obtain cash dividends and profits declared by the investee but not yet paid out as creditor's rights.

(1) Treat as claims

When buying stocks, the tax basis for long-term equity investment is 20 million yuan, the dividend receivable is 2 million yuan, and the bank deposit paid is 22.15 million yuan. The transaction cost 150,000 yuan can be deducted before tax. After receiving cash dividends, creditor's rights decreased by 2 million yuan and bank deposits increased by 2 million yuan.This plan is completely consistent with the accounting treatment. There is no difference between the two and no tax adjustment is required. The current payable enterprise income tax is 1.25 million yuan.

(2) As a basis for tax calculation

When buying stocks, the tax basis for long-term equity investment is 22 million yuan, the transaction costs can be deducted before tax, and the bank deposit is 22.15 million yuan. When cash dividends were received, bank deposits increased by 2 million yuan, while tax basis's was still 22 million yuan. With this plan, if there is a temporary difference with accounting treatment and a tax increase of 2 million yuan is required, the enterprise income tax payable by the enterprise will be 1.75 million yuan.

(3) Asset Liability Statement Date

On the balance sheet date, in this case, the cost of transactional financial assets is 20 million yuan without considering other factors. However, if the tax law chooses to deal with creditor's rights, it will be 20 million yuan in tax basis, which is a trading financial asset. There is no difference between the two. The tax law takes the cash dividend of 2 million yuan corresponding to the consideration paid as tax basis, and the total amount of tax basis, a transactional financial asset, is 22 million yuan, and the difference between accounting and tax law is 2 million yuan. According to the relevant provisions of China's income tax law, tax adjustment and income tax treatment are required. As the book value of assets is 20 million yuan less than 22 million yuan in tax basis, a deductible temporary difference is formed, which corresponds to deferred income tax assets. In 2017, the current taxable income according to the tax law shall be 7 million yuan, and the payable enterprise income tax shall be 1.75 million yuan.

4. Analysis of the Impact on Corporate Taxation

When M enterprise deals with this business, if cash dividends are treated as creditor's rights in the tax law, the book value of the tradable financial assets is 20 million yuan and that of tax basis is 20 million yuan. There is no difference between the two and no tax adjustment is required. In 2017, M enterprise shall pay 1.25 million yuan of enterprise income tax, 1.25 million yuan of income tax expense and 3.75 million yuan of net profit after tax. If the cash dividend of 2 million yuan is included in tax basis, the book value of M enterprise is 20 million yuan and that of tax basis is 22 million yuan, resulting in a difference of 2 million yuan, which requires income

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tax treatment.

Debit: Income Tax Expenses 125

Deferred Income Tax Assets 500,000 Yuan

Credit: taxes payable-income tax payable: 1.75 million yuan

The current payable enterprise income tax is 1.75 million yuan, the income tax expense is 1.25 million yuan, and the net profit after tax is 5.75 million yuan. Under the two treatment methods, the undistributed cash dividend included in the payment consideration is selected as the tax basis, with the net profit of 5.75 million yuan for the enterprise and 3.75 million yuan for the creditor enterprise. Moreover, the amount of enterprise income tax paid by enterprises in the current period is also different. In the tax law, cash dividends are treated as creditor's rights, and the tax paid is 1.25 million yuan, while when included in tax basis, the tax paid is 1.75 million yuan, with a difference of 500,000 yuan, which mainly affects the cash flow of enterprises. As we all know, capital has a time value. For an enterprise, capital flow plays an important role in the enterprise. From the perspective of financial management, it is more advantageous for an enterprise to include cash dividends into its creditor's rights.

5. Conclusion

In the process of operation, enterprises should not only consider the net income of enterprises, but also consider the operation of enterprise funds. As for the accounting and tax laws involved in the business process, there are some differences between them due to their different purposes and principles. How to use the relevant provisions of tax law and the differences between tax committees to make effective choices is more beneficial to enterprises and is an essential part of the business process of enterprises. The right choice can help the enterprise to further develop under the implementation of relevant tax laws and regulations. Improper choice will increase the tax-related risks of the enterprise and increase the operating costs of the enterprise, which is not conducive to the development of the enterprise. Therefore, how to make good use of relevant tax laws and regulations to reasonably arrange production and business activities is also an important link in the process of enterprise development.

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