

# Taxation Policy and Application of Sewage Treatment Industry

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**Abstract:** The sewage treatment industry, as one of the environmental protection industries, is not rich in China's water resources, and the natural environment with severe water pollution is extremely important. It has been supported and encouraged by the state for a long time, and has more preferential policies. After going through the 12th and 13th five-year plans, China's sewage treatment industry has already reached a certain scale. How to make reasonable use of the industry's preferential tax policies to improve the profits of enterprises and enable the entire industry to continue its effective and standardized long-term development. This article will analyze and explore the taxation policies and applications of the wastewater treatment industry.

## 1. Introduction

In recent years, with the development of science and technology, China's economic level has continued to rise, and China's industrial level has also been continuously improved. As the world's second largest industrial power, at the same time as industrial development, domestic forms of environmental protection have become increasingly severe. In order to reduce environmental pollution, China has paid more and more attention to environmental protection. From January 1, 2018, the "Environmental Protection Law of the People's Republic of China" was officially implemented. As one of the key areas of environmental protection, the government's supervision and policy support that the sewage treatment industry is facing today also continues to increase, and the preferential tax policies formulated and implemented for the sewage treatment industry are one of them.

Sewage treatment, that is, sewage treatment services, refers to the use of professional equipment to treat sewage (including urban sewage and industrial wastewater) to achieve water quality that meets the "Urban Wastewater Treatment Plant Pollutant Discharge Standards" or the corresponding national or local water pollutant discharge The direct emission limit business in the standard belongs to processing, repair, and repair labor.

According to the National Bureau of Statistics, by the end of 2018, China's total water resources were 2.796 billion cubic meters, the total population of the country reached 1.395 billion people, and the per capita water resources were 2,004.3 cubic meters. It is one of the poorest countries in the world in terms of per capita water resources.

At the same time, as a large industrial country, while the per capita water resources are scarce, China's total wastewater discharge has been increasing year by year, and it has only declined slightly in recent years. A large number of wastewater discharges have shown environmental problems. It reflects the country's growing demand for sewage treatment industry.

Therefore, in the context of the era of scarce water resources, intensified water pollution and increasing environmental awareness, China's policy support for the sewage treatment industry is obvious. "National Urban Sewage Treatment and Recycling Facilities Construction Plan" notice to monitor and support the development of the wastewater treatment industry. According to the statistics of the "Report on the Construction and Operation of National Urban Sewage Treatment Facilities in the First Half of 2017" issued by the Ministry of Housing and Urban-Rural Development of the People's Republic of China, "As of the end of June 2017, a total of 4,063 sewage treatment plants were completed and operated in cities and towns nationwide It has a sewage treatment

capacity of 178 million cubic meters per day. Among them, there are 2,327 sewage treatment plants built and operated in cities across the country, forming a sewage treatment capacity of 148 million cubic meters per day. There are 1,470 counties in the country (accounting for the total number of counties). (94.2% of the total) have sewage treatment plants, and a total of 1,736 sewage treatment plants have been completed, resulting in a sewage treatment capacity of 31 million cubic meters per day. A total of 570 sewage treatment plants were completed and operated in 36 key cities, with a sewage treatment capacity of 65 million cubic meters per day." By the end of 2017, China's urban sewage treatment capacity increased from 52 million tons in 2005 to 187 million tons, making it one of the countries with the largest sewage treatment capacity in the world. At the same time, the number of urban sewage treatment plants in China has grown rapidly. From 2005 to 2017, the number of urban sewage treatment plants in China increased from 764 to 4,802, an increase of nearly 7 times.

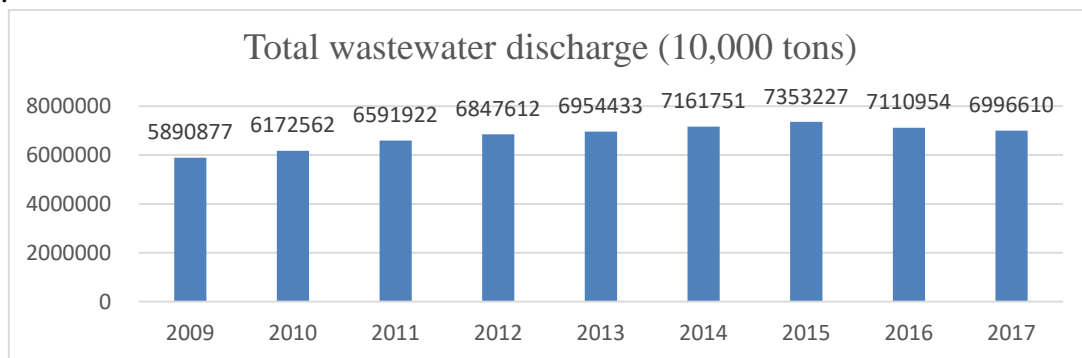


Figure 1. China's total annual wastewater discharge.

In 2016, China also proposed the "Thirteenth Five-Year Plan" National Urban Sewage Treatment and Recycling Facility Construction Plan to increase China's urban sewage treatment capacity from 217 million cubic meters per day to 268 million cubic meters per day. And the investment amount of newly added sewage treatment facilities project was 150.6 billion yuan.

It can be seen that the sewage treatment industry is the object that China attaches great importance to and vigorously develops. Regarding the pollution caused by sewage, the state severely controls high-energy-consumption and high-polluting enterprises on the one hand, and imposes heavy penalties on illegal enterprises; on the other hand, it vigorously supports the sewage treatment industry. The promulgation of preferential tax policies has played an important role in the development of the industry. On the one hand, it has reduced the extra costs of the enterprise, which can increase corporate profits, improve the company's cash flow and operating conditions; on the other hand, it has also played a guiding role in the industry. It will attract more capital to the industry and bring better and healthier development to the industry.

## 2. Tax incentives for sewage treatment industry

### 2.1 VAT

As mentioned earlier, the operating income of the sewage treatment industry is classified as processing, repairing, and distributive labor services, and VAT is paid after the "tax reform". The original sewage treatment industry was listed as one of the exemption from business tax and related additional items in the 2008 State Administration of Taxation document "Notice on Comprehensive Utilization of Resources and Value-Added Policies for Other Products"; The document of the Ministry of Finance and State Administration of Taxation's June 2015 document "VAT Preferential Catalogue for Comprehensive Utilization of Resources and Services" stipulates that from July 2015, the sewage treatment industry will levy full value-added tax at the tax rate for processing, repairing, and servicing labor. The water quality after processing reaches the "Emission Standards for Pollutants from Urban Sewage Treatment Plants" (GB18918-2002) or reaches the direct emission limit in the corresponding national or local water pollutant emission standards, and 70% of the taxes paid are levied immediately Immediate refund, but the city maintenance and construction tax and

education surcharge levied with the value-added tax will not be refunded.

## **2.2 Corporate income tax**

### **(1) Three half-free policy**

Article 27 (3) of the Corporate Income Tax Law stipulates that income from engaging in qualified environmental protection, energy saving and water saving projects can be exempted or reduced. Corporate Income Tax Law 88 According to the Articles, the income of an enterprise engaged in the qualified environmental protection, energy saving and water saving projects referred to in Article 27 (3) of the Enterprise Income Tax Law shall be the first since the tax year in which the project obtains the first production and operation income From the third to the third year, the enterprise income tax is exempted, and from the fourth to the sixth year, the enterprise income tax is halved.

### **(2) Special Equipment Credit**

According to Article 33 of the Enterprise Income Tax Law, an enterprise that comprehensively utilizes resources and produces products that meet the requirements of national industrial policies may deduct income when calculating taxable income. According to Article 100 of the Implementing Regulations of the Enterprise Income Tax Law, enterprises purchase and actually use the "Environmental Income Tax Concession Catalog for Special Equipment for Environmental Protection", "Energy Concession Catalog for Enterprise Income Tax for Energy-Saving and Special Equipment" and "Enterprise Income Tax Concessions for Special Equipment for Safety Production" For the special equipment for environmental protection, energy conservation, water saving, and safe production stipulated in the Catalogue, 10% of the investment amount of the special equipment can be deducted from the taxable amount of the enterprise for the year; Carry-over credit for tax year.

### **(3) Special Product Credit**

According to the "Notice on the Management of Corporate Income Tax Preferential Issues for Comprehensive Utilization of Resources", when an enterprise produces the products listed in the "Catalogue of Corporate Income Tax Preference for Comprehensive Utilization of Resources" and the raw materials and standards meet the requirements of the document, the income obtained is reduced by 90% Total income for the year. The 6th item in the "Comprehensive Utilization of Resources for Corporate Income Tax" is the raw material with industrial and mining wastewater and urban sewage as 100%, and the product is recycled water and meets relevant national standards.

## **3. Application of taxation policy in sewage treatment industry**

### **3.1 Organize submissions in a timely manner**

According to the provisions in the Notice on Printing and Distributing the "VAT Preferential Catalogue for Comprehensive Utilization of Resources and Services", taxpayers should provide the competent tax authorities with written declaration materials that comply with their requirements, such as tax refunds, when handling tax refund related matters. Application form, etc. If the company is unable to sort out the submitted materials in time, the cycle of collection and withdrawal will be prolonged. The sewage treatment industry has a relatively large proportion of fixed assets and a long investment recovery period because the industry's own assets account for a relatively large proportion of its dedicated assets. Characteristics. If there is a tax refund but the company's funds are occupied for a long time in the process of collecting and refunding because the information is not submitted in time, it may cause problems in the sewage treatment industry enterprises such as reduced capital turnover and increased operating pressure.

### **3.2 Pay attention to equipment maintenance operation**

According to the provisions in the notice on the issuance of the "VAT Preferential Catalogue for Comprehensive Utilization of Resources and Services", taxpayers who have enjoyed the VAT refund policy provided in this notice are punished for violating tax and environmental protection laws and regulations (warning or a single fine of less than 10,000 yuan), within 36 months from the month following the decision on punishment, shall not enjoy the VAT refund and refund policy stipulated

in this notice. If there are penalties caused by aging equipment and improper operation that cause water quality to exceed standards, you will not be able to enjoy the 70% tax refund policy within 36 months.

### **3.3 Precautions when purchasing special equipment**

When an enterprise purchases and builds special equipment that conforms to preferential tax policies, it should ensure that the equipment meets the standards set by the tax policy, and specify the special equipment names and indicators in the purchase contract signed with the supplier and the invoice issued by the supplier to ensure meet the tax preference requirements. When filing tax preferences, provide contracts, invoices, etc. that can clarify the performance parameters of special equipment. Enterprises can also entrust a qualified third-party agency or government inspection department to issue a formal inspection result as an attachment to the tax preference record for the tax department to ensure that they can enjoy the preferential income tax deduction for investment in special equipment.

## **4. Conclusion**

Nowadays, China is transforming from an industrial power to an industrial power. This not only requires Chinese companies to do a good job in scientific and technological innovation and technological revolution, but also requires environmentally-friendly enterprises such as the sewage treatment industry to develop healthily and sturdy, laying the foundation for the country's future development. Provide environmental protection. With national macro support, companies should make full use of the policy support and tax incentives provided by the state to improve themselves. This is not only conducive to the realization of corporate value and long-term goal planning, but also to the overall social environment and the government's macro development direction closely related.

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