



China tax brief and reform of the tax administration system

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Audit • Tax • Advisory



Reforming Tax Administration System in China:

Towards a Digitalized and Smarter Tax
Administration

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Overview

1. The impact of big data technology on the Chinese tax administration
2. Introduction to a digitalized and smarter taxation: the 'Golden Tax Project' (Phase IV)
3. Creating a digitalized and smarter tax administration system in China

Big Data Technology and Tax Administration

— Achievements of China's Tax Administration Reform

Impact of Big Data Technology in the Chinese Tax Administration

Tax Evasion Case: 'Queen of Livestreaming' – Viya's Influencer Marketing on Taobao

The tax authority required Viya to pay off taxes, late payment fines and penalties on Viya, which reached RMB1.34 billion yuan on December 20, 2021 (BBC, 2021). It showcases the following new features:

- The tax authority detected the tax evasion by **big data technology**:
- **Multiple corporates involved**: between 2019 and 2020, more than 20 firms and organisations in multiple provinces were involved in the case (Reuters, 2021)
- **Significant amount of tax avoidance**: on the first day of the 'Double eleven' cyber shopping festival in 2021, Viya achieved sales of RMB 8.5 billion (Reuters, 2021)
- **Intentional tax evasion**: one or more professional agencies were engaged in the tax planning (BBC, 2021).
- **High efficiency in tax investigation**: the tax authority only spent two months finding clues, collecting evidence and deciding penalties (Xinhua News, 2021).
- **Benchmarking**: the tax authority presented the case as a benchmark in the tax administration (Xinhua News, 2021).

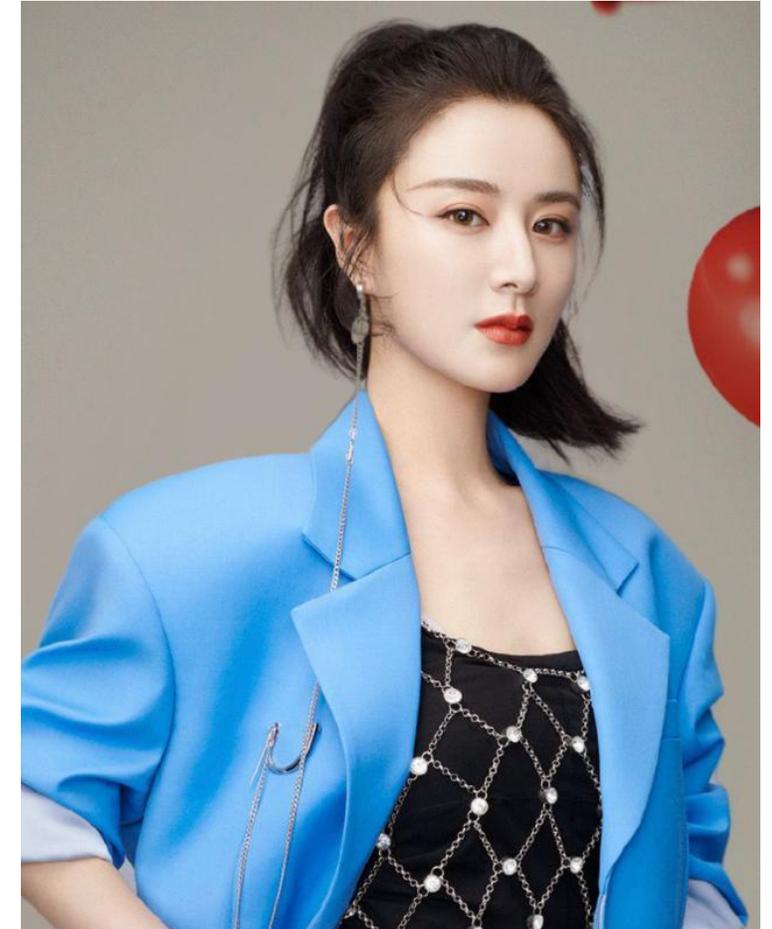


Figure 1. Viya Profile Photo (Xinhua News, 2021)

Tax Audit Process in the Viya's Case



Step 1

Monitor the sales data of each live show of the live-streamer.



Step 3

Compare the tax payable and the actual tax payment, based on the actual tax payment records in the system. The live streamer will be further investigated if a significant gap is detected.



Step 2

Estimate the average sales revenue and tax payable for a live event based on the calculation of the sales commission of a single product.



Step 4

Investigate the financial data of suspected live-streamers, such as balance records in the related bank accounts. The tax evasion can be initially determined if the balance records are significantly inconsistent with tax ratios and/or actual tax payments without reasonable justifications.

Smart Taxation

- Smart taxation refers to a new taxation supervision mechanism based on big data analytics and classified management, significantly improving taxation risk supervision accuracy and efficiency (STA, 2021).
- Thanks to digital technologies such as machine learning and data mining, the tax authority can make a 'taxpayer persona' based on various tax-related information. Judging the tax risk level of taxpayers and then implementing differentiated supervision based on credit evaluation and different risk levels.
- Preliminary: the system posts relevant tax policies to medium or high-risk taxpayers to mitigate tax risks through the big data.
- Processing: the system uses big data technology to monitor tax risks throughout the process. It also regularly sends customized risk reminders to taxpayers to reduce tax risks.
- Completion: the system synchronizes the taxpayer's tax risk results with the credit evaluation system and updates tax risk indicators according to the actual situation.

Rachel
Small Business Owner

- Social Media Marketing
- Key decision-maker

Demographics

- Age 32-39
- Skews female
- \$90,000/yr
- Urban location
- Master's degree
- Married, no kids

Goals and Challenges

- Save time online
- Find interesting content to share
- Maximize social media resources

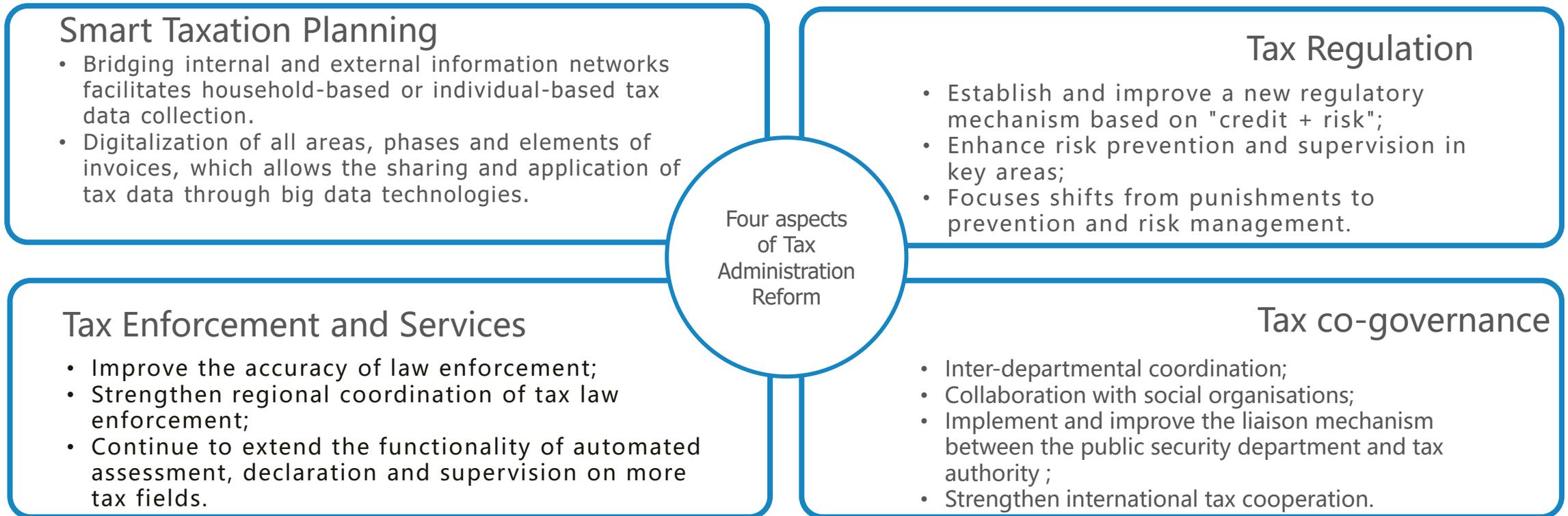
How we can help

- Schedule posts to a queue
- Content suggestions

Figure 2. Sample Taxpayer Persona (User Testing, 2022)

Reforms of Tax Administration in China

- Towards 'smart taxation'



to Digital and Smart Tax "Golden Tax Project
(Introduction Phase IV)"

Introduction to Golden Tax Project (Phase IV)

Golden Tax Project (Phase IV) is a nationwide online platform (STA, 2021), in which digitalized invoices will be used to cover:

- **All fields of invoicing:** various invoices types and industries, and integrating multiple invoices types into a single invoice type through label management;
- **Full process of invoicing:** invoice issuing, delivering, bookkeeping and tax filing, and related service management;
- **All items in tax filling:** payment data is collected and organized in the form of electronic documents, including dynamic QR code, invoice number, invoice date, buyer information, seller information, project name, specification model, unit, quantity, unit price, amount, Tax rate/collection rate, tax amount, the total amount of transaction, price plus taxes (incl. conversion of numbers in different formats), remarks, drawer and so forth.

Fully-digitalized Electronic Invoices (FDEIs)

Based on the trusted identity system and electronic invoice service platform, Fully-digitalized Electronic Invoices (FDEIs) is a new invoices covering all fields, complete process and invoicing items. It highlights labelling, categorization, credit granting, and code assignment systems without reliance on printing or formatting processes (Gao, 2021).

- **Labelling:** Classifying electronic invoice function, status, and purpose; an on-time collection of invoice circulation status.
- **De-structuring:** Decoding and simplifying invoices by different elements or tax filling items.
- **Credit-granting:** Realize the credit system management of "system credit mainly, manual adjustment supplemented". There will no longer be "invoice limit" and "invoice quantity" restrictions, and the central office only restricts "the credit limit of the total amount of invoices that enterprises can issue".
- **Code Assignment:** Waived invoicing process for a particular invoice number segment. The limitations on invoice quantities and the amount of each invoice has been removed. The system automatically assigns a unique invoice number.
- **Paperless:** Enterprises log in to the online electronic invoice service through identity authentication to complete invoice issuance.
- **Customized layout:** It can be delivered in the form of electronic documents and differentiated display according to different businesses.

Changes in the FDEIs Administration

- The tax authority is free from using tax control equipment, old invoice inspection, invoice verification and collection.
- In the pilot tax administration project, the tax authorities shall monitor and measure the total amount for the invoices issued by the taxpayers each calendar month.
- The electronic invoice service platform automatically collects taxpayers' invoice data to query, check, download, print, and confirm the use of invoices. It provides functions such as tax policy query, application for adjustment of the total amount issued, and risk alert for inappropriate invoices.
- FDEIs can be sent via emails or QR codes via the electronic invoice service platform.
- The invoice ID can be labelled as 'processed' on the electronic invoice service platform.



Creating a Digitalized and 'Smarter' Tax Administration System in China

Reforms in Tax Administration

- **Two types of Transformation:** Towards a 'Digitalized' and 'Smarter' Tax Administration
- **Three terminals:** A smarter taxation system with a taxpayer's terminal, tax enforcement terminal and decision-makers terminal
- **Four functionalities:** Based on cutting-edge information-communication technologies (ICTs), The tax authority could digitalize tax data collection and analysis, including big data, cloud computing, artificial intelligence, and blockchain. The new system will switch the focus from "calculation, algorithm, computing power" to 'technical function, system efficiency, organizational function'. Instead of emphasizing the theme of 'tax, finance, business', it now highlights 'tax administration, team management, governance'.

Capability-building for a Digitalized and Smarter Tax Administration

- Based on tax databases, the tax authority has built a complete risk prevention and control model, which provides real-time risk monitoring, tracking and alerting services (Gao, 2021).
- Automated data collection, analysis, document filing, and quality assurance. It can detect illegal enterprises, analyze suspicious clues, risks or method perception early warning, business data interaction analysis and judgment (PwC, 2021).
- Data sharing among relevant governmental departments: interconnection, data sharing, and business collaboration with market supervision, customs, commerce, ecological environment, natural resources, and other departments (Allbrightlaw, 2021).
- Risk alert supported by big data. Risk alert is sent to the tax enforcement team and taxpayers in real-time. Instead of relying on the traditional post-event tax risk management, the system allows the full-process dynamic risk prevention and control before, during, and after the tax event (Allbrightlaw, 2021)..
- Promote 'data + decision-making' by developing 'Data Display Pathways' (DDP). DDP is a visual data query platform which provides information exchange channels with other governmental organizations, including NDRC, a commission of economic and information, statistics bureaus, commerce bureaus and more (Allbrightlaw, 2021). It helps build the first comprehensive analysis center of financial and tax data in the Chinese tax administration system.

Prospects of China's Tax Administration System Reform

- Conform with the principle of statutory taxation and enact more tax legislation.
- Improve public tax service and coordination with other governmental organizations. For example, carrying out the 'Spring Breeze' Campaign to improve service for taxpayers promotes the efficiency of taxation and payment services (Wang, 2022).
- Strengthen tax enforcement and supervision. Investigate tax violations and maintain strict tax supervision and deterrence in the long term (Wang, 2022).
- Participate in international tax governance and contribute to a high-level opening-up of the Chinese market. Enhance data sharing and cooperation with other governmental departments and organizations. The tax authority should continue to provide convenient services for non-resident enterprises. It also needs to cooperate with foreign tax authorities to manage cross-border tax sources, establish a prevention and control system against tax evasion, and effectively safeguard China's tax sovereignty and interests.

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Thanks for listening!



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