



A Study of China's Tax Environment (2016-2020)

**The Belt and Road Initiative Tax Administration
Cooperation Mechanism Secretariat**

Part 1 Introduction

It is universally acknowledged that a good business environment is essential to the development of enterprises. A market-oriented, rule of law-based, and internationalized business environment is not only highly relevant to China's further opening-up, but also crucial for the country's high-quality development and modernization of governance. In recent years, China has continued the reforms of delegating power, streamlining administration, and improving government services, focusing on the transformation of government functions, in order to stimulate the initiative and resilience of market entities. China is committed to optimizing the "soft" business environment to boost its "solid" economic development.

Tax environment is an important part of the business environment. Since 2016, China's tax authorities fully implemented decisions made by the Chinese government to promote China's business environment, and thereby made a series of remarkable achievements.

Based on three strategic goals, strengthened the top-level design of the tax environment.

Building a convenient, efficient, and intelligent market-oriented tax environment

01

From 2016 to 2020, China's tax authorities fully implemented the major decisions of the Chinese government on tax and fee cuts, including tearing down unreasonable institutional obstacles, following market rules, optimizing tax payment procedures and simplifying documentation submission with new tax service measures introduced and "smart taxation" promoted, service for market entities further elevated, greatly unleashing vitality of market and social innovation.

Building a stable, fair, and transparent law-based tax environment

02

From 2016 to 2020, China promoted the rule of law to a new and higher level concerning the state, government and society. China's tax authorities adhered to the principle of statutory taxation, continued to improve tax legal system, strengthened the legal basis for taxation, and standardized tax law enforcement, which provided strong support for building a rule of law-based tax environment.

Building an open, inclusive, shared, and internationalized tax environment

03

From 2016 to 2020, China's tax authorities supported the country's high-level opening-up to the outside world, earnestly strengthened international tax exchanges and cooperation, and improved international tax administration. A multi-level and multi-dimensional framework of international tax cooperation is built to promote high-quality development under the Belt and Road Initiative, in which multilateral cooperation and bilateral cooperation enhance each other, and international and regional organizations support each other. This framework is aiming at building a growth-friendly internationalized tax environment.

Undergoing three stages of development, continuously improved tax governance capabilities and built a market-oriented, law-based and internationalized tax environment.

China sped up the reform of its tax regime as part of its efforts to improve its business environment. According to the arrangements of the Chinese government, China's tax authorities focused on streamlining administration, delegating power, strengthening regulation, and improving services.

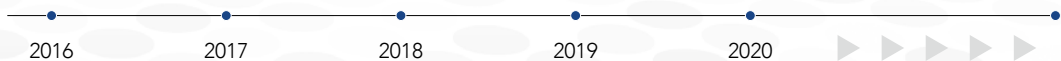
**The Starting Stage
(2016-2017)**

The Chinese government adopted decisions to boost tax modernization and deployed China's own "doing business" environment measurement. The State Taxation Administration of China led local tax authorities to complete the merger of state and local tax administrations at the provincial level and below. At the same time, efforts were spent around some key objectives such as "reducing steps and visits, simplifying procedures and documentation requirements, lowering the threshold and costs." China's tax authorities at all levels were actively engaged in building a market-oriented, law-based, and internationalized tax environment.

**The Progressing Stage
(2018-2019)**

China has been implementing the *Regulations on Improving the Doing-business Environment*, which proposed higher requirements on optimizing China's doing business environment. China's tax authorities have conscientiously implemented the *Regulations* and, together with other relevant departments, issued the *Notice on Implementing Measures to Promote Tax Payment Facilitation and Optimize the Tax Environment*. In the meantime, China's tax authorities are committed to improving the quality and efficiency of tax services and promoting tax modernization in four aspects.

**The Leading/
Exceeding Stage
(since 2020)**



The tax and fee service system being enhanced, market entities' sense of gain and satisfaction continued to increase.

Measures to relief tax and fee burdens have been fully implemented in a holistic manner to really benefit businesses and people at large. From 2016 to 2020, China's tax authorities took a range of measures to ensure the smooth transition from Business Tax (BT) to Value Added Tax (VAT), which completes the chain of deduction for the secondary and tertiary industries and create substantial benefits for taxpayers.

From 2016 to 2020, tax and fee cuts totalled more than **7.6 trillion yuan**.

2016	Total tax cut by replacing BT with VAT	reached 573.6 billion yuan
2019	The VAT reform was implemented in full swing	a total of 9,791,400 general VAT taxpayers benefited from tax reduction
	Monthly VAT exemption enjoyed by small scale VAT taxpayers was raised to 100,000 yuan	an increase of 4,557,700 small-scale VAT taxpayers enjoying exemptions or reductions
	The threshold for small and thin-profit enterprises eligible for tax incentives was significantly lowered	an increase of 522,000 taxpayers enjoying Corporate Income Tax (CIT) exemptions or reductions
	The reductions for "six taxes and two fees"	an increase of 41,085,000 taxpayers were benefited

Innovative tax payment measures were implemented to simplify the procedures.

China's tax authorities managed to reduce the burden on taxpayers through the reduction or merger of tax matters, the relaxation of requirement for documentation submission, and the simplification of tax payment procedures.

93%

The number of tax administrative approval items has been reduced by

50%

The submission of statements and documentation has been reduced by

8 working days

The time needed for export tax refund has been reduced to

By the end of 2020

With steady progress, tax legislation entered a new stage. The Legislation Law of the People's Republic of China, as amended in 2015, clearly defines the principle of statutory taxation, under which the "one law for one tax" approach began to take effect.



11 out of 18 taxes had been legislated, laws are being formulated for other taxes

By the end of 2020

Through joint efforts of all related parties, the tax administration system was optimized by improving quality and efficiency.

After two rounds of tax administration reform, state and local tax administrations at the provincial level and below have completed the process from "cooperation" to "merger", involving millions of personnel of tens of thousands of units at four level and below, as well as hundreds of millions of taxpayers.



As the reform put people in the first place in the drive to improve services, the taxpayers satisfaction has improved year by year.

China's tax authorities paid close attention to the needs and concerns of taxpayers, and gradually improved the quality and efficiency of services by optimizing service measures.



The score of taxpayer satisfaction according to third parties

2016	83.61
2020	86.1

Part 2 Actions

1. Rule of Law-Based Taxation

From 2016 to 2020, China advanced rule of law-based governance to a new stage. China's tax authorities adhered to the principle of statutory taxation, continued to improve tax legal system, strengthened the legal basis for taxation, and standardized tax law enforcement, which provided strong support for building a rule of law-based tax environment.

1.1 Promoting the rule of law in all aspects of taxation

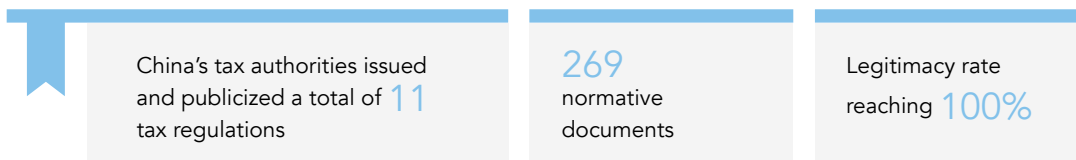
The principle of statutory taxation was strictly followed. In 2013, the Chinese government clearly put forward the requirement to "implement the principle of statutory taxation" for the first time. In 2015, the Legislative Affairs Committee of the Standing Committee of the National People's Congress made clear arrangements concerning when the existing 15 tax regulations should be made into laws or revoked, after which tax legislation sped up. China's tax authorities have actively participated in tax legislation and accelerated the process of statutory taxation. From 2016 to 2020, eight tax regulations were revised and made into laws.

China's tax laws enacted from 2016 to 2020

2016	.....	Environmental Protection Tax Law of the People's Republic of China
2017	.....	Tobacco Tax Law of the People's Republic of China; Vessel Tonnage Tax Law of the People's Republic of China
2018	.....	Farmland Occupation Tax Law of the People's Republic of China; Vehicle Purchase Tax Law of the People's Republic of China
2019	.....	Resource Tax Law of the People's Republic of China
2020	.....	Urban Maintenance and Construction Tax Law of the People's Republic of China; Deed Tax Law of the People's Republic of China

The process of adopting departmental regulations and normative documents was optimized. In 2019, China's tax authorities successively revised the Measures for the Formulation and Implementation of Tax Regulations and the Measures for the Formulation and Administration of Tax Normative Documents, which provide clear and specific rules for the formulation and administration of department-level rules and normative documents, and establish a long-term mechanism for regularly and intensively reviewing tax normative documents.

From 2016 to 2020



1.2 Standardizing tax law enforcement

The exercise of discretionary power concerning taxation was well regulated. China's tax authorities are working to standardize the exercise of discretionary power for administrative penalty and improve tax law enforcement on an ongoing basis to increase the fairness of law enforcement and taxpayers' compliance.

In 2016

China's tax authorities issued the Rules on the Exercise of Discretionary Power for Tax Administrative Penalty

It clearly defines the principles and procedures for the exercise of discretionary power for tax administrative penalty, including the principle of "no punishment to first violation". This document offers a unified benchmark for the exercise of discretionary power. Based on this benchmark, provincial-level tax authorities have formulated and implemented their own benchmarks, clarifying the standards, procedures, and scope of the exercise of power for tax administrative penalty, which has effectively addressed the problem of "different punishments for the same situation".

In 2019

China's State Taxation Administration issued the Measures for the Implementation of Case Guidance for Tax Law Enforcement

It offers interpretive guidance for tax law enforcement, and urges tax authorities and tax staff at grass-roots levels to exercise discretion legally, reasonably, and moderately, putting an end to the arbitrariness of law enforcement.

In the course of supervision, the government was mandated to select cases and tax inspectors randomly, and made public the results of random investigations in a timely manner. China's State Taxation Administration has formulated and issued the Implementation Plan for Promoting Random Tax Inspection, including measures for the random selection of inspection objects and inspectors, and has gradually established a new inspection and supervision model based on credit. Relying on the Golden Tax III project and the work platform for random tax inspection, the whole inspection process is controllable and traceable, and the effect can be clearly evaluated. In this way, differentiated law enforcement, arbitrary inspection, and power abuse can be effectively avoided.

From August 2015 to the end of December 2020

A total of **402,000** randomly selected taxpayers were inspected by tax auditing departments at all levels nationwide.

1.3 Safeguarding taxpayers' rights and interests

Taxpayers' rights and interests have been protected by law. China's tax authorities have actively improved the mechanism of dealing with taxpayers' complaints.

In June 2019

The revised Measures for the Administration of Taxpayers' Complaints was issued, which extends to fee payers, promises to shorten the time span for handling complaints by 50%, defines the fast-processing mechanism applicable for tax and fee cuts as well as natural persons' complaints, and adds clauses governing complaint review.

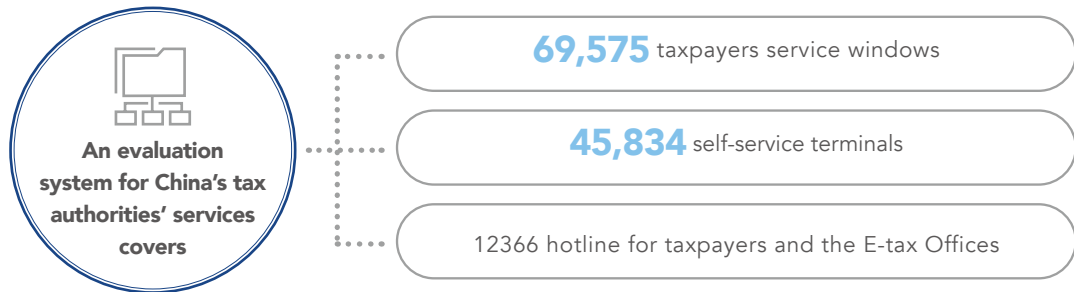
In July 2020

A rule has been put into effect requiring the public announcement of taxpayers' complaints in order to further strengthen and regulate supervision. In short, every complaint from taxpayers will be heard, answered, and addressed.

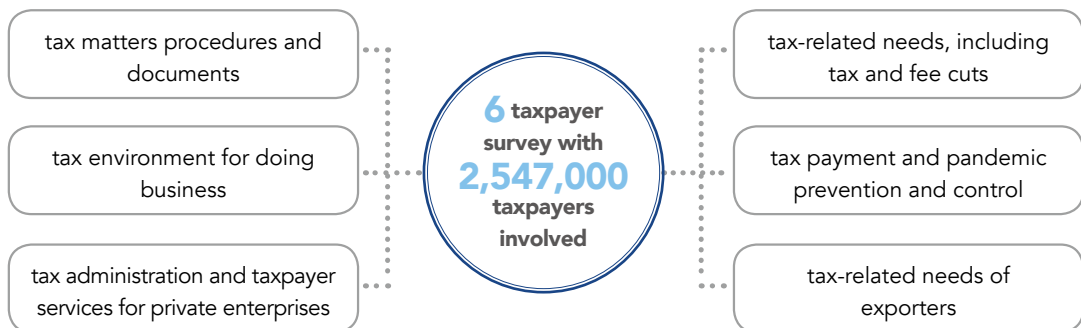
From November 2015 to the end of December 2020

China's tax authorities received a total of **56,000** complaints about taxpayer services, all of which had been addressed within the promised time span.

At the end of October 2020, China's tax authorities launched an evaluation system for their services under the deployment by the State Council, and service evaluation has been carried out in full swing since November 1, 2020.



Response to concerns has been precisely targeted. Since 2017, China's tax authorities have conducted six surveys on taxpayer's needs. Based on the common concerns of taxpayers, China's tax authorities have adopted practical and vigorous measures to address the needs of taxpayers in a timely manner: introducing targeted tax policies; streamlining tax payment procedures; reducing documentation submission; standardizing tax law enforcement; and optimizing and upgrading E-tax Offices.



2. Streamlined administration procedures

From 2016 to 2020, China's economy entered a "new normal" state, shifting from high-speed growth to high-quality growth and shifting from factor and investment-driven growth to innovation-driven growth, while the economic structure is continuously optimized and upgraded. Under the "new normal" circumstances, China's tax authorities have offered to use taxation as a tool of counter-cyclical adjustments, hoping to maximize market dynamics through a series of coordinated measures.

2.1 Revoking tax-related matters subject to examination and approval

As mandated by the Chinese government, China's tax authorities have gradually revoked and delegated to lower level authorities tax-related matter subject to administrative examination and approval.

By the end of 2020

The number of tax matters subject to administrative approval had been sharply reduced from 87 to 6, down by 93%.

46 tax administrative approval matters delegated by the central government to local tax administrations have been cleared from the list, and all tax matters subject to administrative approval on the list have been abolished.

2.2 Streamlining the procedures of submitting tax-related information

China's tax authorities have always endeavored to optimize and upgrade their services, and increase tax payment facilitation to improve taxpayer satisfaction.

Tax matters have been streamlined. China's tax authorities have consolidated repetitive procedures and revoked the requirement for many credentials, in order to streamline procedures and facilitate the enjoyment of tax and fee preferences.

By the end of 2020

61 tax related credentials (involving 232 tax matters) had been revoked



26 documents and statements had been revoked



638 tax incentives, or more than 95% of the total, had been granted through a simplified procedure of "self-evaluation, claiming benefits, and keeping documentation for reference".

Documentation submission has been simplified. China's tax authorities have continued to rationalize requirements for taxpayers to submit documentations, and tried to decrease the tax-related processing time in order to relieve the compliance burdens of taxpayers.

The number of taxpayers' filings has been reduced

Eligible taxpayers may file **4** VAT returns a year only, down from 12.

Small and micro enterprises may submit their financial statements every quarter, rather than every month.

Self-employed individuals whose actual operating income and taxable income do not exceed the quota are exempted from the annual reconciliation filing.

Promote paperless tax processing

Digital tax documentation

Reduced tax filing requirements by **50%** through information sharing and other measures

Tax filing has been simplified

Annual CIT return has been updated and optimized from time to time

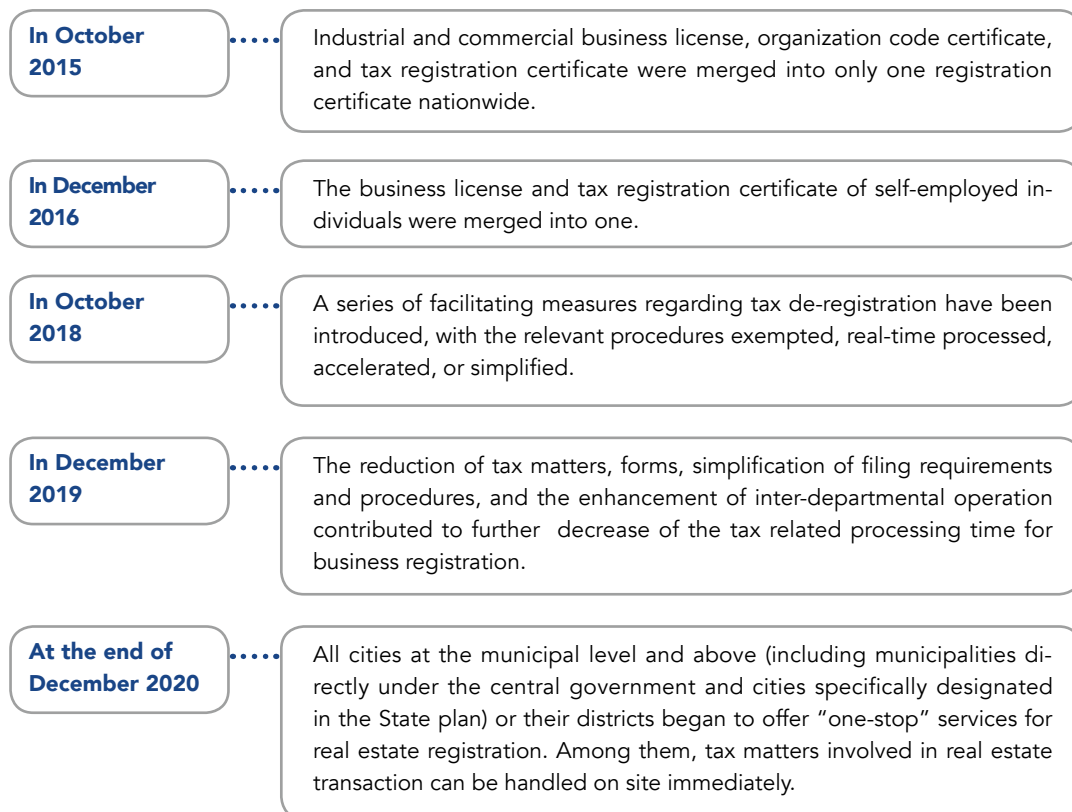
Reducing the number of forms and schedules by **10%** from 2014

Annual CIT filing of small and thin-profit enterprises has been streamlined.

With more than 95% of small and thin-profit enterprises exempted from filling out six schedules, such as the Income Statement of General Enterprises (A101010), and the number of commonly used forms reduced by **40%**.

2.3 Strengthening inter-departmental cooperation

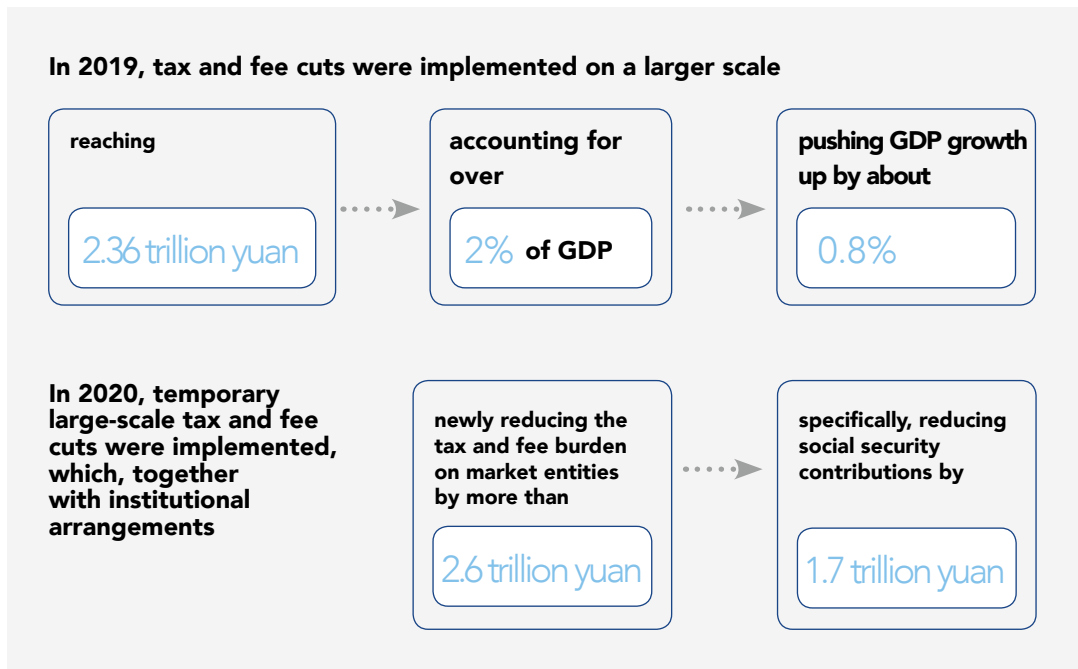
China's tax authorities have proactively strengthened cooperation with market regulators, housing departments, the natural resources administration and other departments to optimize commercial registration and property registration procedures.



3. Tax and fee cuts

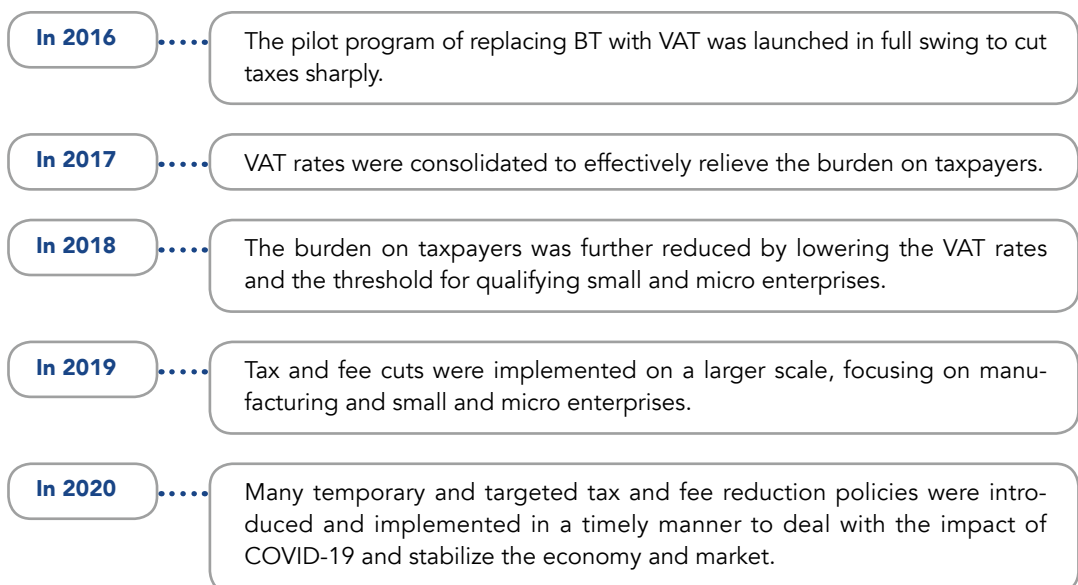
Tax and fee cut is an important decision of the Chinese government as well as an important measure to deepen the supply side structural reform. It is of great significance to reduce the burden of enterprises, optimize the business environment, and raise the people's wellbeing.

From 2016 to 2020, China's tax authorities managed to overcome many difficulties, including the diversity of policies, a tight deadline for implementation, and the difficulty of overall planning, and ensure that tax and fee cuts take effect and deliver a strong support for stabilizing and guaranteeing broader social and economic development. From 2016 to 2020, additional tax and fee cuts exceeded **7.6 trillion yuan**.



3.1 Fueling business development

From 2016 to 2020, combining tax reform with tax and fee cuts, China issued and implemented a whole range of policies, which features the combination of institutional arrangements and temporary incentives, inclusive and structural tax cuts.



**VAT Reform
achieving
substantial
results**

At the end of 2016, the total tax cut exceeded **1.17 trillion** yuan through replacing BT with VAT. Tax burden was relieved for all industries.

In 2019, the VAT reform was further deepened, resulting in a cumulative additional tax cut of **1,114,734 million** yuan, accounting for approximately **47%** of the total tax and fee cuts of that year.

**Small and micro
enterprises
lowering their
costs**

From 2018 to 2020, after the continuous relaxation of recognition criteria for small and micro enterprises, the total tax reduction came to **270.4 billion** yuan, with **6,423,800** enterprises harvesting the gains.

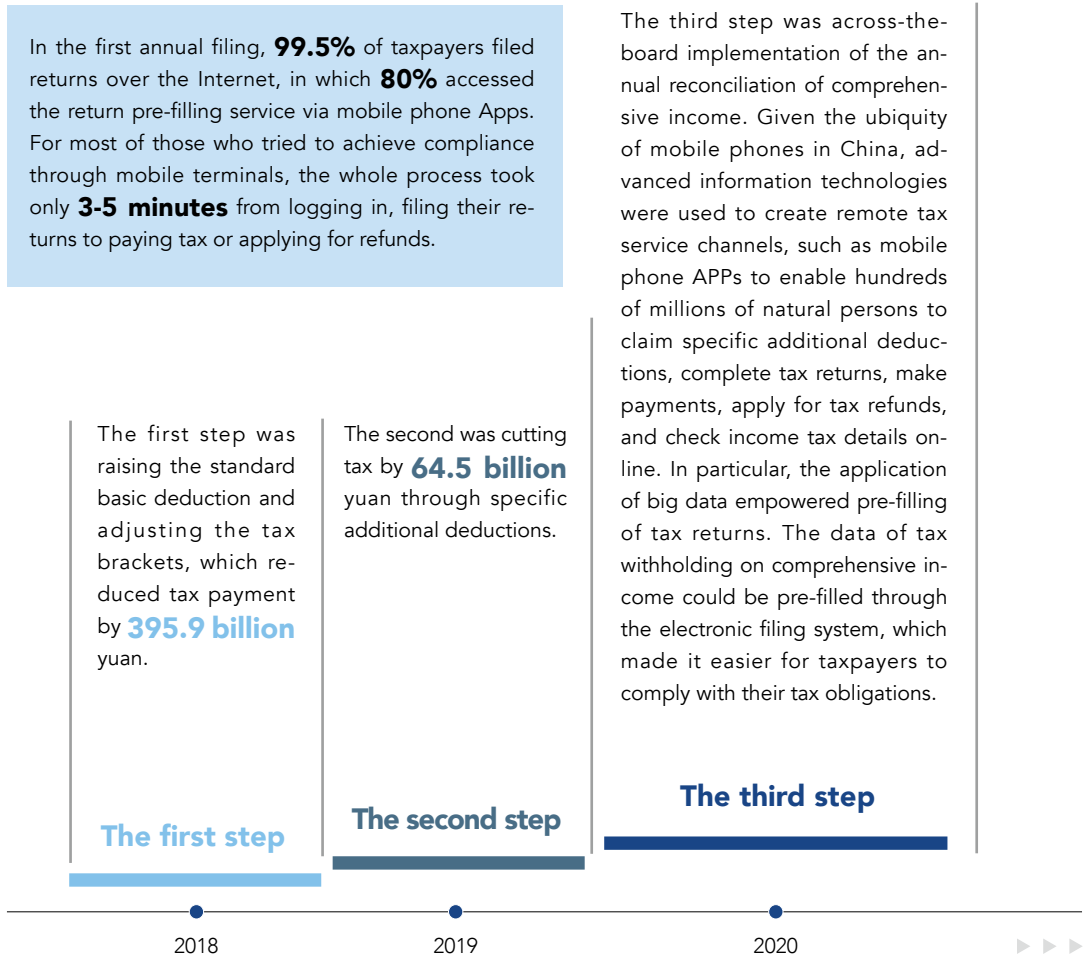
3.2 Reducing social security contributions and individual income tax burdens

Social security contributions by enterprises were lowered. From 2016 to 2020, China's tax authorities managed, through coordination with other departments, to reduce rates of social security contributions payable by enterprises and secure temporary reduction and exemption of employer contributions to social insurances, which substantially relieved the burden of enterprises, especially small and micro enterprises.

From 2019 to 2020

Social security contributions nationwide dropped by a total of **2,132.5 billion** yuan.

The Individual Income Tax (IIT) reform was implemented. The IIT reform implemented in 2018, which started the combination of comprehensive and scheduler taxation, was a profound reform with far-reaching effects in China, symboling fundamental transformation of the IIT system. The reform includes raising the standard basic deduction, optimizing the tax brackets, implementing specific additional deductions and annual reconciliation tax filing of comprehensive income. From 2018 to 2020, the IIT reform was advanced in three steps.



3.3 Adding momentum to society-wide innovation

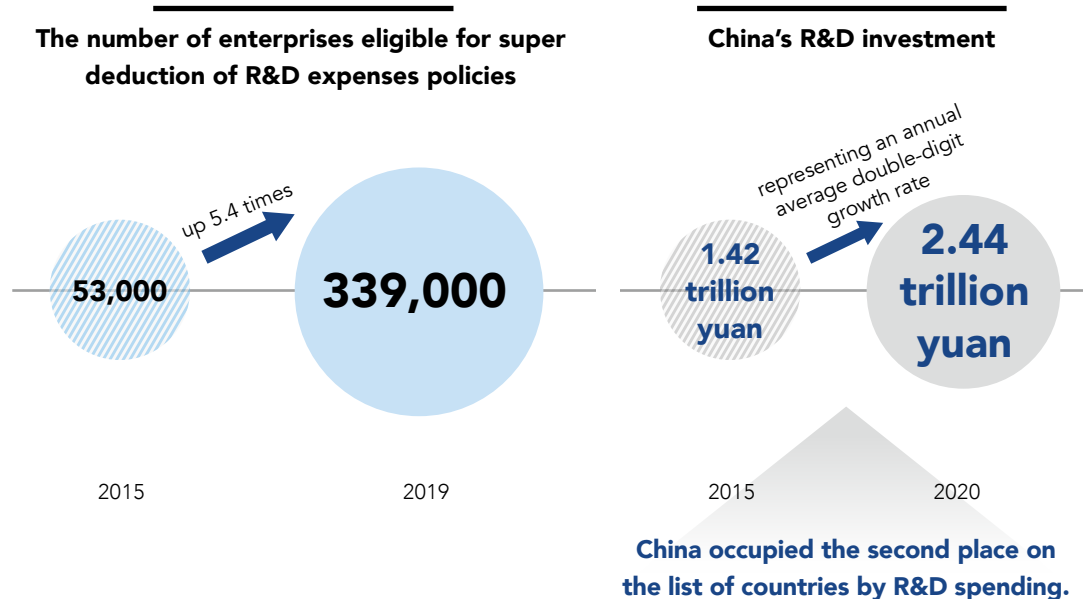
Mass entrepreneurship and innovation are expected to drive social and economic development and pave the path towards social equity, national prosperity, and people's wellbeing. Efforts in this regard have great significance for boosting economic restructuring, creating new engines of economic growth, and realizing innovation-driven development.

From 2016 to 2020

Tax reduction and exemptions to encourage scientific and technological innovations rose by **28.5%** annually, and the cumulative tax cut for this purpose totaled **2.54 trillion** yuan.

Among all industries, manufacturing, data transmission and information technology services, and scientific research and technology services accounted for around **90%** of the total tax cut.

R&D and innovations were encouraged. From 2016 to 2020, policies for super deduction of R&D expenses were optimized to help innovation-oriented start-ups reduce overheads, which would encourage innovations.



Scientific and technological progress was boosted. From 2016 to 2020, China rolled out tax incentives to help high-tech start-ups embrace innovations and seize market opportunities as they appear.

Since January 1, 2016

Following the 15% preferential tax rate granted to high and new technology enterprises (HNTEs), the scope of HNTEs was expanded and the procedures for identifying HNTEs were streamlined.

Since January 1, 2020

Eligible integrated circuit enterprises are entitled to CIT exemption up to ten years, and key software enterprises encouraged by the state are entitled to CIT exemption for the first five years and a preferential 10% tax rate for the following years.

4. Optimized services

4.1 Online tax services

E-tax services have a wide range of application. E-tax services cover all online tax matters, including tax processing and inquiry, tax-related matters consultation, service appointment, and tax-related training. E-tax services are accessible via webpage, WAP, mobile phone Apps, WeChat, and PC clients. Such an innovative and comprehensive tax service model enables taxpayers to handle tax-related matters wherever they are.

By the end of 2020

The number of taxpayers accessing E-tax services nationwide reached **64.5 million**, accounting for over **90%** of the total taxpayers.

214 tax matters could be handled online, among which **203** did not require any offline visits. More than **90%** of taxpayers could handle tax matters online.

The efficiency of invoice services has been improved. From 2016 to 2020, China's tax authorities vigorously promoted electronic invoices, and continued to upgrade online invoice services.

The reform of electronic invoices has produced remarkable results

On December 1, 2015, China started to promote electronic VAT general invoices nationwide, and introduced electronic VAT special invoices for new taxpayers on a pilot scale on September 1, 2020.

Online invoice services have been realized As of the end of 2020, taxpayers can apply for VAT invoices, handle invoice-related matters such as the change of invoice type and tax rate, and apply for VAT invoices on behalf of other persons or entities via E-tax services.

Tax filing and payment From 2016 to 2020, China's tax authorities continued to facilitate tax processing. Reforms were advanced in order to create a better tax system in which tax processing is faster and tax services are more considerate.

<p>China is well on track with the goal of moving all tax services online</p>	<p>Since 2017, China's tax authorities have managed to move tax matters online steadily batch by batch and step by step. In February 2020, the State Taxation Administration released the List of Contact-free Online Tax Matters Processing, which specified 185 tax matters that can be handled online.</p>
<p>The integrated online VAT filing system has been introduced</p>	<p>The main table and nine schedules for VAT filing for general taxpayers have been consolidated into a basic data sheet, which has sharply reduced the need to input general taxpayers' data.</p>
<p>Financial statement conversion has been promoted</p>	<p>In March 2018, an interface was built to connect the E-tax services of the State Taxation Administration with individual corporate financial systems. According to a list issued by tax authorities, enterprises are able to convert their own financial statements into formats that meet the standards of the tax authorities, so that their financial data and invoice data can be automatically extracted and imported to achieve immediate one-click filing.</p>
<p>Online filing of tax correction has been optimized</p>	<p>Since September 2017, China's tax authorities have introduced online self-filing of tax correction on a pilot scale. Since 2020, taxpayers nationwide have been enabled to file online corrections and make corresponding tax payments during the filing period. In cities like Beijing and Shanghai, taxpayers can file corrections even after the tax filing period.</p>
<p>The whole process of excess input VAT refunding has been moved online</p>	<p>In 2019, after the full implementation of refund of excess input VAT, China's tax authorities have tried to process refund claim of excess input VAT online. In 2020, local Chinese tax authorities introduced innovative measures to promote online application and make the process easier. Meanwhile, China's financial, taxation and treasury departments worked closely to facilitate electronic tax rebate to ensure that eligible taxpayers receive tax rebates as soon as possible.</p>

Combined filing relieves burden on taxpayers. In 2020, China's tax authorities continued to expand the pilot scope for promoting combined filing based on comprehensively implementing combined filing for Urban and Township Land Use Tax and Real Estate Tax. Some cities have introduced combined filing for property and behavior taxes and corporate income tax.

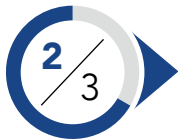
On July 1, 2020, Shanghai took the lead in consolidating the filing of five taxes: Corporate Income Tax, Urban and Township Land Use Tax, Real Estate Tax, Land Appreciation Tax, and Stamp Duty.

By the end of 2020

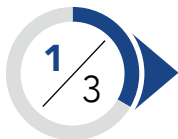
1,180,900 consolidated filings were successfully processed in Shanghai

Involving **43.566 billion** yuan in tax payable

Since December 1, 2020, Jiangsu, Anhui, Hainan, Chongqing and Ningbo have piloted the consolidated filing of ten types of property and behavior taxes. Taxpayers can use a Property and Behavior Tax Return to declare one or more of ten designated taxes: Urban and Township Land Use Tax, Real Estate Tax, Vehicle and Vessel Tax, Stamp Duty, Farmland Occupation Tax, Resource Tax, Land Appreciation Tax, Deed Tax, Environmental Protection Tax, and Tobacco Tax.



Taxpayers only need to maintain tax source management information to automatically generate tax returns, which reduced the number of forms to be filled out by 2/3.



The number of data items to be filled out by taxpayers reduced by 1/3, which has greatly relieved the compliance burdens of taxpayers.

As of December 31, 2020, a total of **2,913,000** taxpayers in the pilot provinces completed combined filing of property and behavior taxes.

4.2 Simplified offline taxation procedures

In 2018, the merger of state and local tax administration in China enabled taxpayers to pay only one visit and submit one set of materials to comply with their tax obligations. On this basis, China's tax authorities have tried to achieve the goal of "one visit at most" for all services, greatly reducing the compliance burdens of taxpayers and improving the convenience of paying tax.

Compliance can be achieved with one visit to one window for all services. After the merger of state and local tax administration, China's tax authorities implemented a new tax service mode covering "application acceptance, internal circulation, time-limited processing, and delivery by one service window", in which one set of materials suffices for all purposes. As of 2020, 100% of all tax matters in China can be processed in this mode.

As of August 2018

100% of all tax matters in China can be processed in this mode.

Only one visit is needed to comply with various tax obligations. Since 2018, China's tax authorities have continued to expand the list of "one visit at most" tax matters.

By the end of 2020	China's tax authorities issued an expanded list of "one visit at most"	List of "one visit at most" among 36 tax authorities at the province level
	Embracing 146 tax matters in 11 categories	The longest list now has 255 tax matters in 14 categories

Some tax matters will require "no visit at all" in the near future.

Tax matters can now be handled through self-service in a nearby location. From 2016 to 2020, China's tax authorities actively promoted self-service so that taxpayers can handle invoice application on behalf of other persons, invoice certification, invoice collection, IIT payment statement printing and the like on self-service terminals. The shift from "window service" to "self-service" has greatly shortened the processing time. By the end of 2020, basically all tax services nationwide have been equipped with self-service terminals. In order to deliver more convenient tax services, local tax authorities have brought self-service terminals to commercial complexes, industrial parks, banks, and post offices.

Cross-region service of tax obligations is more convenient. Since 2014, China's tax authorities have tried to promote cross-region tax services. In 2016, city-wide tax services gradually expanded to province-wide tax services, followed by cross-provincial tax services now available in the Beijing-Tianjin-Hebei region, the Yangtze River Delta, and the Sichuan-Chongqing region.

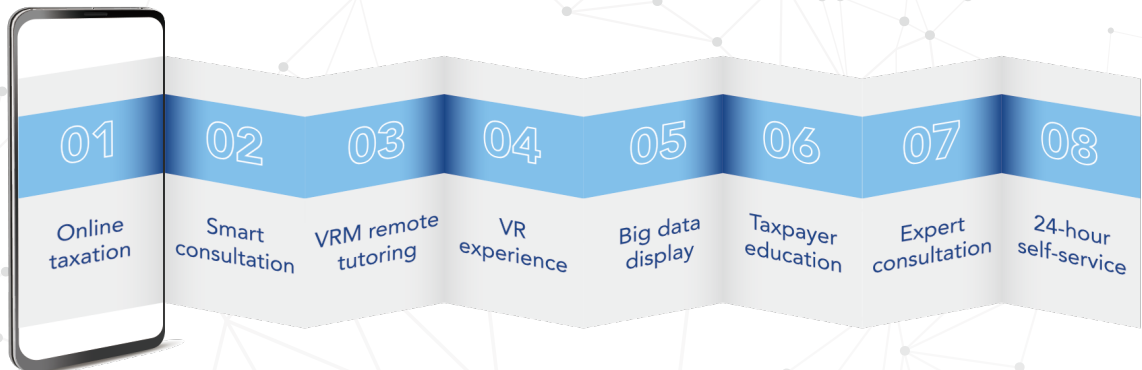
From 2016 to 2020

The State Taxation Administration assigned to local tax authorities the task to realize **city-wide** tax services for at least **53** tax matters in **7** categories

Province-wide tax services for **21** tax matters in **4** categories

4.3 Smart taxation services empowered by technology

Since 2018, China's tax authorities have been actively exploring smart tax service modes, including non-contact services. Based on cutting-edge technologies such as big data and cloud computing, China's tax authorities have developed innovative tax service systems that integrate online taxation, smart consultation, VRM remote tutoring, VR experience, big data display, taxpayer education, expert consultation, and 24-hour self-service to offer taxpayers smart, one-stop, and inclusive tax services



5. Openness and inclusiveness

From 2016 to 2020, China's tax authorities supported the country's high-level opening-up to the outside world, earnestly strengthened international tax exchanges and cooperation, and improved international tax administration. A multi-level and multi-dimensional framework of international tax cooperation is built to promote high-quality development under the Belt and Road Initiative, in which multilateral cooperation and bilateral cooperation enhance each other, and international and regional organizations support each other. This framework is aiming at building a growth-friendly internationalized tax environment.

5.1 Actively participating in global tax governance

From 2016 to 2020, China's tax authorities actively participated in the formulation and adjustment of international tax rules, and maintained effective communication and coordination with the international community. In order to maintain a fair and just international tax order, China has taken necessary actions and made remarkable achievements around but not limited to the following:



Base Erosion and Profit Shifting (BEPS) Action Plan



Amendment to United Nations Model Double Taxation Convention



OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administration



United Nations Practical Manual on Transfer Pricing for Developing Countries



G20 Standard for Automatic Exchange of Information and the Implementation Handbook

5.2 Sharing China's reform experience

China's tax authorities have proactively shared its experience of tax reform, including the integration of state and local tax administrations, optimization of the tax environment for doing business, performance evaluation, digitalized personnel management, and IT applications on multilateral cooperation platforms such as the Global Conference of the Platform for Collaboration on Tax, the Belt and Road Initiative Tax Administration Cooperation Forum, and the annual meeting of the Study Group on Asian Tax Administration and Research (SGATAR).

In 2020

OECD's Tax Policy Reforms 2020 included for the first time the latest and best practices of China's VAT and IIT reforms, as well as China's fiscal and tax policies to relieve the pressure caused by COVID-19.

5.3 Building the tax administration cooperation

The BRI tax administration cooperation is progressing well. In April 2019, the first BRI Tax Administration Cooperation Forum was held in Wuzhen, Zhejiang Province, China, and the participating tax authorities of **34** countries and regions jointly signed the MOU for the Belt and Road Initiative Tax Administration Cooperation Mechanism. This signalled the formal establishment of the Mechanism (the "BRITACOM"). China, as one of the main initiators of the BRITACOM, has played an active role in the BRITACOM by building a cooperative growth-friendly tax environment with other participants.

BRICS tax cooperation has been advanced. In July 2017, China hosted a meeting of BRICS Head of Tax Authorities and proposed that BRICS countries deepen multilateral tax cooperation, strengthen capacity building for tax administration, and aid developing countries. The participants signed BRICS Memorandum of Cooperation in Respect of Tax Matters, the first institutional document on BRICS tax cooperation. For the first time, BRICS tax cooperation was advanced to the institutional level through an official document, which marked a new era in building BRICS tax cooperation mechanisms.

Tax information exchange is institutionalized. China's tax authorities have actively participated in the formation and implementation of international tax information exchange mechanisms in order to further enhance tax transparency, jointly crack down on cross-border tax evasion and avoidance, prevent and eliminate cross-border double taxation, and promote cross-border trade and investment.



5.4 Facilitating inbound and outbound international investment

The network of bilateral tax treaties has grown remarkably. From 2016 to 2020, China's tax authorities continued to expand the tax treaty network, which played a positive role in improving tax certainty, reducing tax burdens in host countries, and easing double taxation impact for cross-border taxpayers.

By the end of 2020

China's network of tax treaties covered **111** countries and regions, the **4th** largest in the world. The network basically covered the main destinations of China's foreign investment and major countries and regions for investment in China.

From 2016 to 2020

China's tax authorities conducted **500** bilateral mutual agreement procedures with the competent authorities of treaty countries (regions), and eliminated double taxation amounting to **15.2 billion** yuan for cross-border taxpayers.

Tax measures are taken to encourage inbound international investment. From 2016 to 2020, China's tax authorities upgraded relevant tax policies and services in order to encourage foreign investment and promote exports.



Expanded eligibility scope of deferral treatment for withholding tax on the direct re-investment by foreign investors



Temporary CIT and VAT exemptions offered to foreign institutions for interest income earned by investing in the Chinese bond market



Issuance of Tax Guidelines for Withholding Corporate Income Tax at Source for Non-Tax Resident Enterprises



Simplification and consolidation of tax returns for non-resident enterprises



Substitution of "retaining documents for inspection mechanism" for "record-filing procedure" for non-resident taxpayers claiming treaty benefits

Supporting outbound investment. In order to facilitate the overseas investment of Chinese enterprises, mainly helping them understand the local investment environment and tax policies of the host countries and thus guard against tax risks, Chinese tax authorities have established a country-specific tax information collection and study mechanism since 2015. Based on information collection and studies, China has released tax guides covering the Belt and Road Initiative countries and other overseas destinations of Chinese investors.

By the end of 2020

China has published Tax Guides on Country-specific Investments (popularly called Tax Guides for Going Global) covering **104** countries and regions.

The Tax Guides for Going Global has embraced **97** tax matters.

Part 3 Suggestions

From 2016 to 2020, China's tax authorities adhere to three commitments: responsibility, innovation, and continuous improvement, and have taken and will continue to take actions to promote the healthy development of economy and market, and address development needs and people's concerns. During this period, China's tax environment has made remarkable progress and is getting close to the best in the world. In order to push forward tax modernization at the new development stage, on March 24, 2021, the Chinese government issued *the Opinions on Further Deepening the Reform of Tax Collection and Administration*. *The Opinions* includes the master plan for advancing tax modernization in the next five years, and marks the beginning of a new round tax administration reform aiming to create synergy. With reference to other countries' experience and practice, we put forward the following suggestions on the next step of China's tax administration reform.

Optimizing law enforcement and shifting from empirical law enforcement to precisely targeted law enforcement

China is committed to promoting the modernization of tax governance based on the rule of law, improving tax legislation, and building a sound system of tax law to realize the rights and obligations of both tax administrations and taxpayers. China could further optimize the structure of taxes and fees and re-align tax administration and tax burden to create a fair playing field for enterprises, while consistent and easily accessible preferential tax policies will also be launched for key industries and emerging industries. In a nutshell, China should aim to standardize tax law enforcement, promote coordinated tax administration according to law, and create a fair, stable, and predictable tax environment for taxpayers.

Empowering tax governance by digital means and shifting from traditional administration to precise supervision

China needs to set up and improve a new supervision mechanism based on “credit + risk”, and aim to establish a multi-dimensional system capable of dynamic monitoring, evaluation, and response to tax risks. China should optimize the digital tax collection and administration system, using big data to raise the level of tax administration and services, and thus speed up the reengineering of the tax structure, organizational structure, and tax collection and administration process. China should implement electronic invoices in all fields, all steps, and all elements by 2025. China aims to continue to expand the sharing and application of tax information, and raise the interconnectivity of information systems within government departments nationwide.

Upgrading tax services with smart technologies and shifting from undifferentiated services to precisely targeted services

Based on the “tax cloud”, China could build a comprehensive interactive platform for tax administration and payment, establish a national cloud data center, and understand the needs of taxpayers. China should promote tax facilitation, expand the scope of “non-contact” and “no visit” tax services, and continue to reduce the number of tax payments and the time for processing tax matters. China needs to enhance the timeliness, reliability, and consistency of policy implementation, and ensure that preferential tax policies are easily accessible by efficient and smart means. China should also establish a sound rapid mechanism for addressing taxpayers’ needs and concerns in a close loop.

Building cooperation mechanisms to harness synergy in tax administration and services

China needs to strengthen inter-departmental cooperation, enhance the connectivity between electronic invoices, accounting and financial information systems, and strengthen information exchange and sharing to boost cooperation in law enforcement. To strengthen society-wide coordination, China could leverage the power of trade associations and intermediary organizations, and encourage third parties to provide customized services to taxpayers following market rules and principles. China should solidify the legal ground of taxation and improve the linkage between administrative law enforcement and criminal law enforcement. China needs to strengthen international tax cooperation, deeply participate in the formulation of international tax rules and standards in areas such as digital economy, and continue to build a global tax governance system.

