The background of the slide features a hand holding a glowing globe. The globe is overlaid with a complex network of lines and nodes, representing a digital or data network. Binary code (0s and 1s) is scattered throughout the scene, along with various data visualization elements like bar charts and pie charts. The color palette is dominated by blues, purples, and pinks, with a bright yellow accent in the top-left corner.

Insights on tax practices in 2024: Enhancing compliance efficiency through digital tax administration

11 September 2024



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2024-9-11

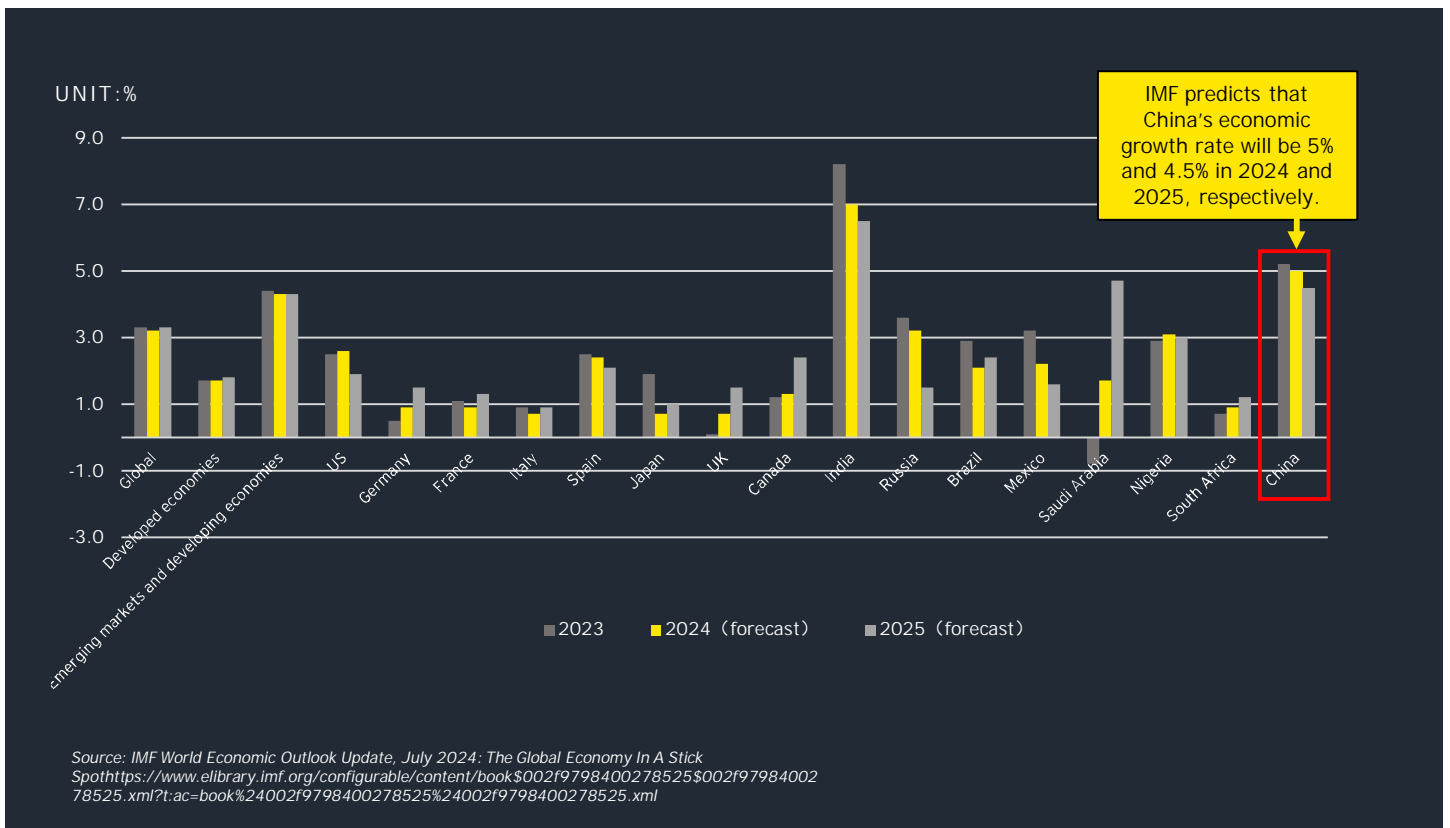


Amid the global economic uncertainty and increasingly complex policy environment, enterprises now face a variety of challenges and opportunities in tax practice. This article aims to discuss the key issues during the process and help enterprises to navigate the challenges and seize opportunities ahead.

Background

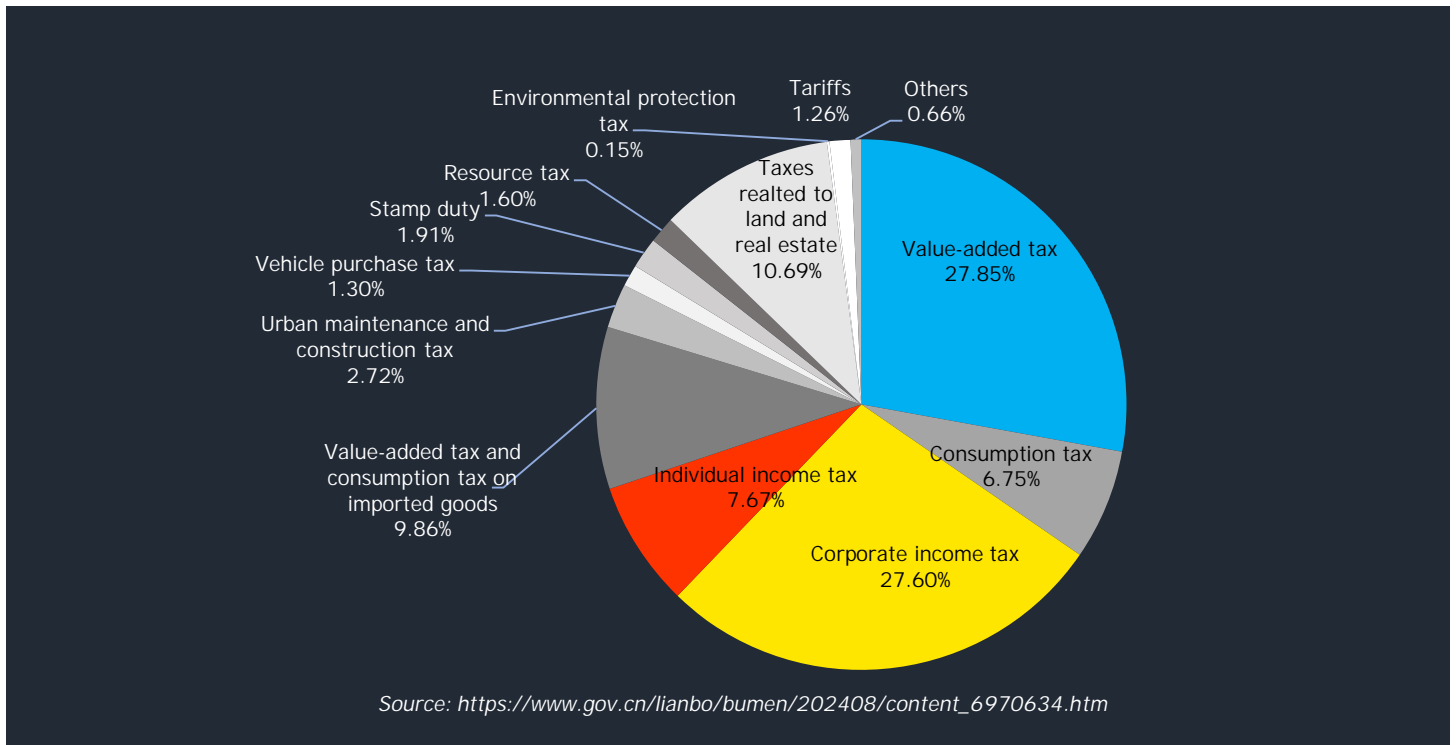
According to the July World Economic Outlook¹ released by the International Monetary Fund (IMF), the global economic recovery remains sluggish, with growth rate projected at 3.2% in 2024 and 3.3% in 2025. Thanks to the strong performance of private consumption and export in Q1, IMF raised China's economic growth forecast to 5% this year.

Chart 1: Global economic growth forecast by IMF



Data from the Ministry of Finance² shows that China's cumulative general public budget revenue experienced a 2.6% year-on-year decline from January to July 2024. Within this period, tax revenues amounted to RMB11,124 billion, contributing over 81% of the total.

Chart 2: National revenue breakdown by tax type (January to July 2024)



Digital transformation become the key word and will provide a reimagining approach on tax administration

On 5 July 2024, Hu Jinglin, director of the State Taxation Administration (STA), published an article titled Promoting Chinese-Style Modernized Tax Practices with High Quality (hereafter referred to as “Tax Practices”)³. The article emphasizes a growing focus on the digital transformation of tax, where modern IT technologies will be fully leveraged to advance tax collection and management toward a more refined, accurate and intelligent modernization phase and pave the way for the modernization of the tax administration.

Chart 3: Work plan and key focuses of the STA



Digitalization enables accurate tax management and corporate tax compliance needs to adapt to the changing requirements

The Tax Practices article highlights that tax collection and management will be prioritized by the STA. Authorities will accelerate digitalization and leverage big data analytics, risk profiling and other technologies to improve the accuracy of identifying, monitoring and managing key industries, tax types and tax-related issues, thus enhancing the efficiency of tax administration. This shift raises the bar for corporate tax compliance management, underscoring the need for businesses to accelerate digital transformation and strengthen their tax data management and risk response capabilities to adapt to these new modes of tax collection and management in the evolving regulatory landscape.

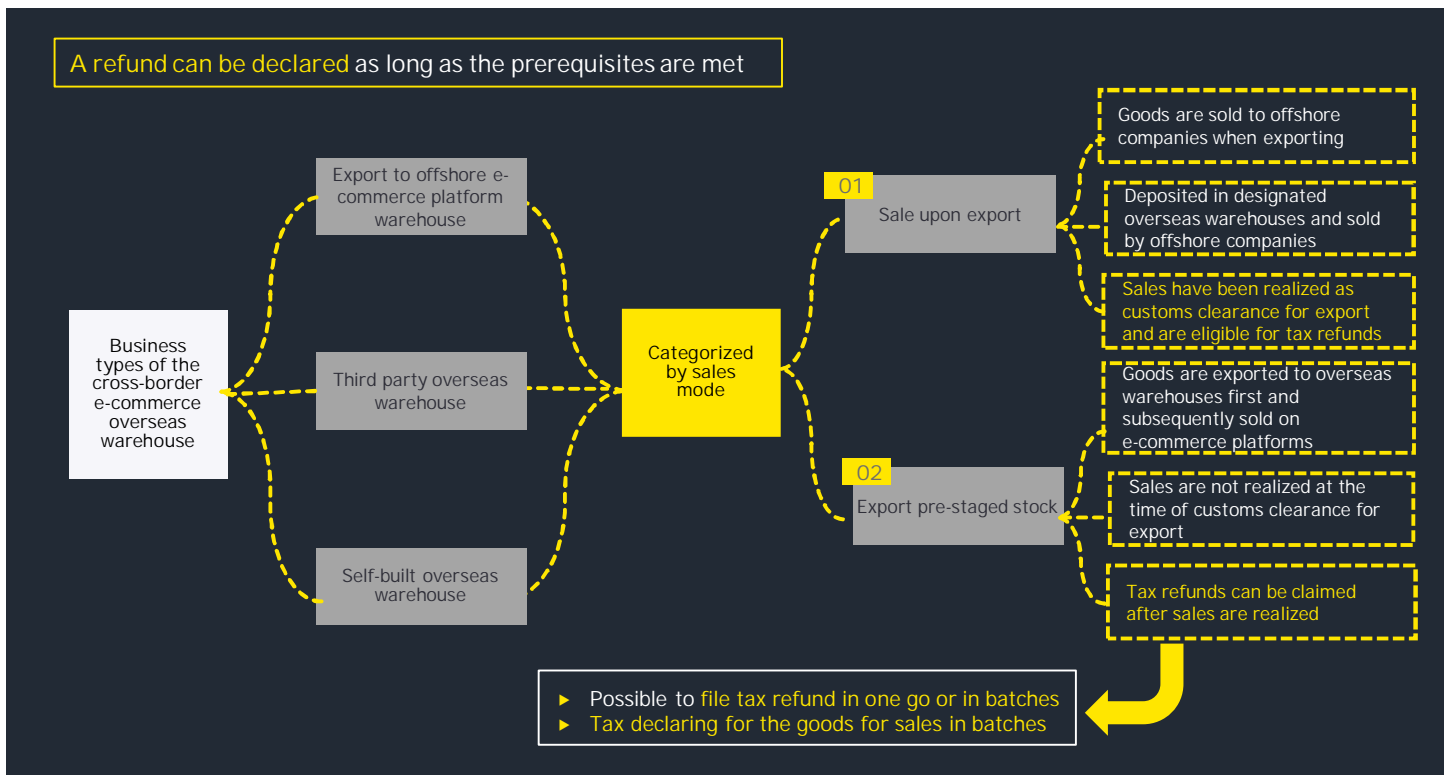
More attentive tax services with clearer guidelines

In addition to the acceleration of digitalization, the STA has continuously provided taxpayers with more detailed and practical guidance in recent years to improve tax efficiency. Refining and improving tax regulations tailored to specific industries and fields has become a key task for tax authorities. For instance, the Guidelines on Major Tax Preferential Policies for Mergers and Restructuring of Enterprises⁴, the Guidelines on Major Tax Preferential Policies for Supporting the Development of Manufacturing Industry in China⁵, the Guidelines on Tax Policies for Stabilizing Foreign Trade and Foreign Investments⁶ and other directive documents have comprehensively summarized and systematically interpreted existing preferential tax policies in the key areas such as mergers and restructuring, manufacturing development and foreign trade and investment. These guidelines specify the applicable standards and conditions and provide taxpayers more accessible and efficient guidance in relevant sectors.

A typical example is the Operational Guidelines for Export Tax Refund (Exemption) for Overseas Warehouses in Cross-border E-commerce⁷ (hereinafter referred to as the “Operational Guidelines”) recently issued by Goods and Services Tax Department of the STA. The Operational Guidelines clarify the relevant regulations and operational procedures for export tax refund (exemption) for cross-border e-commerce export overseas warehouses, guiding cross-border e-commerce exporters to make full use of the existing export tax refund policy for the goods that have already been sold and making timely tax refund declarations. This reflects the tax authorities’ proactiveness to support the development of the new business mode of foreign trade.

The Operational Guidelines underscore the overseas warehouse model as a standard for cross-border e-commerce exports in foreign trade. According to the current export tax rebate regulations, a rebate can be declared during the process provided that all prerequisites are met. The specific scenarios are illustrated below:

Chart 4: Overview of tax refund regulations for cross-border e-commerce overseas warehouses



Cross-border tax services continue to evolve, particular in the digital management of non-residents and enterprises going overseas

Given the rising complex cross-border economic activities and international tax landscape, China's tax authorities have launched the TaxExpress to support the cross-border tax services. On one hand, they have launched new functions in e-tax system for non-residents to simplify the process of cross-border tax declaration. On the other hand, they have fully leveraged big data analysis to strengthen the tax source management of enterprises going overseas. By verifying enterprises basic information, the tax authorities have laid the groundwork for more targeted services and precise policy implementation.

To further normalize the reporting for cross-border tax-related information by enterprises, the STA issued the Announcement on Optimizing Tax Services and Simplifying Reporting of Overseas Investments and Income-Related Information Reports for Resident Enterprises⁸. This will further enhance the tax reporting system and reduce the companies' filing burdens.

The pursuit of tax certainty: a new challenge for corporate tax management

Due to differences across industrial characteristic, operational model and development maturity, enterprises may have their own challenges in the tax practices. With rapid acceleration and development of digital economy and sharing economy, enterprises are also paying more attention on how to achieve tax certainty in the changing environment.

It's difficult for tax regulations to keep pace to the rapid changing business scenarios and new models, thus clarifications or adjustments are always required in the current tax policies and systems. On one hand, the widespread adoption of new technology has triggered many innovative business models and expanded the enterprises' business scheme and cross-sector operations. On the other hand, the current tax system is largely based on the characteristics of traditional industries and lacks specific regulations on the tax-related matters in the emerging fields, resulting in varying interpretations in practice. Tax authorities in different regions and enterprises may have different understanding of the same or similar economic activities. Such gaps would bring enterprises more tax compliances challenges and uncertainties, especially when they are operating cross regions.

As highlighted by Mr. Hu in the Tax Practices article, it is necessary to "intensify efforts to advance legislation in taxation, expedite the revision of the Administration Law of Tax Collection and continuously reinforce tax rigor and precision." A transparent tax environment and consistent implementation will enable business growth and stimulate market vitality. According to the State Council 2024 Legislative Work Plan⁹, the Draft Amendment of the Administration Law of Tax Collection is expected to be submitted to the Standing Committee of the National People's Congress within the year and the Exposure Draft of the Administration Law of Tax Collection will soon be released for public consultation as well.

Enterprises, as the key stakeholders of tax policy, should proactively engage in this process, articulate their needs and provide suggestions to further optimize the tax collection and management system.

Looking ahead, we expect the future tax reform and legislation will introduce more specific guidance and measures on the new business scenarios such as digital economy and sharing economy. A robust advance tax rulings system can be established at the national level, allowing enterprises to obtain authoritative and predictable written responses to their uncertain taxation on a broader national scale, thus, to enhance the consistency of tax enforcement, reduce taxpayers' risks and foster a more certain and predictable tax environment for the innovative development of enterprises.

Conclusion

In this complex and volatile domestic and international landscape, how enterprises can seize the certainty and strike a balance between managing tax risks and maintaining operational efficiency is a proposition of the times that needs to be dealt with.

With the further deepening of tax reform, we expect to see more specific and consistent regulations that enhance the predictability of tax compliance. Meanwhile, more intelligent and precise tax services are expected to strengthen the mutual trust between tax authorities and enterprises, eliminate uncertainty and further support high-quality development of the China economy.

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