

Transformation path set for tax administration

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In brief

- » China's central government has issued a national directive, setting the direction and the path for transforming the country's tax control and administration systems, and urging a serious implementation nationwide.

Feedback

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In detail

On 24 March 2021, China's two top executive bodies, the General Office of the Communist Party of China (CPC) Central Committee and the General Office of the State Council, have jointly issued the "*Opinion on Further Intensifying the Transformation of China's Tax Control and Administration*" (hereinafter as the "Opinion"). The document has set clear the next-generation objectives for China's tax administration and controlling systems.

The Opinion has set the national targets on tax administration upgrading. Local tax authorities are tasked with the missions to retool their tax administration to achieve a fast-paced digitalization, governance improvement, efficiency enhancement and supervision.

In particular, it has emphasized a few key objectives, which may also shed light on the near-term priorities.

1. VAT e-invoicing

The Opinion has urged for a complete turnaround from paper VAT invoices to e-invoicing nationwide. As a matter of fact, before the Opinion was issued, it has been announced already that all newly registered taxpayers should be able to practice e-invoicing by January 2021. Therefore, it is aspired that the new tool will soon be available to all taxpayers - not only the newly registered, but also the existing taxpayers.

2. New "credibility + risk" supervision model

The Opinion proposes a new tax supervision system with the following features:

- Incentivizing taxpayers of a good credibility and punishing those of a poor credibility;
- Maintaining a dynamic system to evaluate tax credibility and risks, and adopting a differentiated approach to taxpayers of a different level of credibility;
- Enhancing the penalty against tax avoidance without interrupting the operation of taxpayers.

The Opinion also highlights the need to monitor the tax risk of individuals of a high net wealth. The focus of the work is to consolidate data, streamline services, check errors, detect malpractices and punish incompliance.

3. Cross-discipline and cross-country collaboration

The Opinion advocates further more collaboration in all dimensions to achieve a better synergy in the combat against tax avoidance, including:

- Collaboration among government bodies;
- Collaboration with commercial organizations;
- Collaboration with judicial bodies; and
- Collaboration with international bodies.

WTS China observation

The Opinion has set clear the strategic targets and the path for upgrading China's tax administration. The good news is that VAT e-invoicing is around the corner for all to use, which can effectively cut administration workload and curb tax frauds. The bad news is that tax audits could abound and be more aggressive than ever with the help of the new technology and innovation in the tax administration systems.

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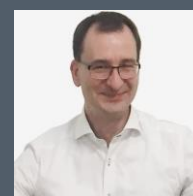
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