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China highlight

The World Bank Group and PwC Global jointly hosted the global launch of *Paying Taxes 2019* report in Beijing, China

Paying Taxes is a report jointly published by the World Bank Group and PwC. The World Bank Group takes charge of the methodology, while PwC (including China) is one of the contributors involved in data collection for around 150 of the 190 economies covered in the Report.

The Report shows that in 2017, China's tax environment improved remarkably, in particular the time for compliance has dropped to 142 hours, reduced by 31.4% as compared to that of the last year. The number of payments has also been reduced to 7, demonstrating the continuing enhancement of taxpayer services.

What is *Paying Taxes*?

Paying Taxes measures the changes in the tax environment for a medium-sized domestic company in most of the economies globally over the past 14 years. *Paying Taxes* contains additional analysis of the paying taxes indicator included in *Doing Business* Report, a World Bank Group flagship publication.

"Doing Business 2019: Training for Reform" was released on October 31, 2018. *Doing Business* measures the ease of doing business across 190 economics in 2017, covering 10 areas, i.e. starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. China ranked the 46th among 190 economies, moving forward by 32 places from 78th in 2016, with impressive progress in dealing with construction permits, getting electricity and paying taxes.

Paying Taxes uses four indicators to measure the ease of paying taxes, i.e. the number of payments, the time to comply, Total Tax and Contribution Rate, and post-filing index. *Paying Taxes 2019* is the 13th edition of this series (covering 14 years' data), which relates to the global tax environment in calendar year to December 31, 2017.

The main purpose of *Paying Taxes* is to compare tax costs and tax compliance burdens across the world from the perspective of a case study company which is based on a set of assumptions. The case study company is a medium-sized traditional manufacturing company that performs general industrial or commercial activities, with some special transactions, including a land transfer transaction. To allow for a like-for-like comparison, all economies use the same case study company, regardless of the differences in historical background, social systems, stage of economic development and tax system. The key parameters of the company are calculated using multiples of Gross National Income per capita and the so the size of the company is relevant to each economy. For more details regarding the four indicators of *Paying Taxes,* please refer to the appendix.

In terms of the importance of *Paying Taxes*, **Andrew Packman, leader for Tax Transparency and Total Tax Contribution at PwC UK** said: "By providing a robust comparison of the taxation of business in 190 economies, *Paying Taxes* helps governments and businesses to understand if their tax systems are keeping pace with global change and to learn from what others are doing. It can increase trust and understanding between taxpayers and tax authorities by improving the understanding of where systems are working well and where there is room for improvement."

China's performance in Paying Taxes 2019

China	2017	Score on sub-indicator
Number of payments	7	
Time to comply	142	
Total tax and contribution rate	64.9%	
Score on post-filing index (Average of A, B, C and D):		50
(A) Time to comply with a Value-added Tax (VAT) refund	No Refund	0
(B) Time to obtain a VAT refund	No Refund	0
(C) Time to comply with a Corporate Income Tax (CIT) correction	1.0 hour	100
(D) Time to complete CIT correction (including tax audit, where applicable)	<25% likelihood	100

As one of the data providers in China for *Paying Taxes* series report over the past 13 years, PwC China has witnessed the unremitting efforts of Chinese tax authorities in improving the tax environment over years. **Peter Ng, PwC China Mainland and Hong Kong Tax Leader** said: "China's tax compliance time has fallen from 832 hours in 2004 to 142 hours in 2017, reflecting the power of digitalisation to disrupt the traditional tax administration mode. While tax authorities provide customised services to taxpayers through online publicity and interaction, integration of tax information through big data could also reduce the compliance burden on taxpayers. We are looking forward to tax authorities providing an even easier and more transparent tax environment through the adoption of advanced technology. "

Tax digitalisation helps China to improve tax environment for taxpayers

Rita Ramalho, Acting Director for the Global Indicators Group at the World Bank Group said: "Technology is transforming the nature of jobs that are available and the skills needed to do them. This in turn is likely to require greater investment in human capital, especially in learning and development. It is therefore vital that governments are able to understand the challenges ahead and how they can build resilience for public finances in the long term. We hope that this report will be of value to all those interested in making tax systems more efficient, whether in government, business, academia or civil society."

Undoubtedly, internet technology is the trump card for Chinese tax authorities in introducing numerous innovative service measures. Nowadays, Chinese taxpayers no longer need to travel to tax service halls repeatedly, since most of the tax-related matters can be solved online. A series of measures, such as VAT general e-invoices, cancellation of VAT invoice verification, optimisation of the Golden Tax III online system as well as the introduction of the tax filing correction system helped reduce the time to comply and improve the efficiency in dealing with post-filing CIT corrections and tax repayments and refunds.

Taxpayers always expect simplified tax filing procedures. Based on the VAT invoice information and tax administration database, China has been able to simplify the VAT filing return package from 10 schedules to one integrated form, an initiative which has been progressively rolled out in China. With the automatic generation of VAT forms by synchronizing with invoicing systems, taxpayers may enjoy "no-filing" under this new program.

In addition, the number of tax payments also fell from 9 payments to 7 payments in 2017, due to the electronic filing system for Stamp Duty and as the rolling-out of VAT replaced Business Tax (BT).

Tax and fee reduction and the institutional reform of state and local tax administration will bring more benefits to taxpayers

China has been improving her tax regime and implementing tax reduction measures in recent years, e.g. the VAT Reform in 2013, a series of tax incentives put forward in 2018 supporting R&D activities, High and New Technology Enterprises, and Small and Thin-profit Enterprises, the simplification of VAT rate brackets, and the refund of excess VAT credit for selected industry sectors. All these measures have demonstrated the continuous efforts of the Chinese fiscal and tax authorities to reduce tax burden, with the goal to vitalise business and improve the quality of economic growth.

Furthermore, taking the institutional reform of state and local tax administration as an opportunity, tax authorities will continue to promote cross-department and cross-regional information sharing and collaboration in tax risk management. Starting from 2019, tax authorities will take over the collection of social security contributions and gradually incorporate the collection of non-tax fees. Through further cooperation, the scope of information that can be exchanged between the tax authorities and other government authorities will be gradually expanded, thereby further improving the efficiency of the tax administration and reducing the burden of data provision for taxpayers.

Tax legislation is also on a fast track. With the initial completion of Individual Income Tax (IIT) reform in 2018, we expect that the next step will be the upgrading from regulations to law of the legislation for Stamp Duty, Urban Maintenance and Construction Tax, etc.. As for the tax collection and administration system, taxpayers also look forward to the introduction of the advance tax ruling mechanism to further enhance the certainty of the application of tax laws and consistency in the execution of tax policies.

There is still room for improvement in China’s tax environment. It is encouraging to see that the Chinese government is planning to introduce a number of measures to further reduce tax and cut fees. From the perspective of tax collection and administration, the Chinese government will keep up the momentum to reduce the tax filing burden on taxpayers and improve tax collection and administrative efficiency, aiming to establish a service-oriented culture and comprehensively improve the tax environment for taxpayers. We believe that in the near future, China's tax environment will rank higher in *Paying Taxes*

State-level ministries, including the Ministry of Finance, the State Administration of Taxation, and local-level government bodies, such as tax bureaus of Beijing, Shanghai, etc., human resources and social security bureaus, housing provident fund management centers, embassies, chamber of commerce, professional associations, academia and representatives from enterprises attended the Launch Event.

Appendix – Paying Taxes methodology

1. The number of payments reflects the total number of taxes and contributions paid (including VAT) and employee-borne labour taxes) by the case study company. Where full electronic filing and payment is allowed and used by the majority of medium-sized businesses, the tax is counted as paid once a year even if filings and payments are more frequent.

2. The time to comply measures the time taken to prepare, file and pay three major types of taxes and contributions, i.e. CIT, VAT, and labour taxes (including IIT, social security contributions and housing provident fund).

3. Total Tax and Contribution Rate measures the amount of taxes and mandatory contributions borne by the case study company in its second year of operation, expressed as a share of commercial profit. The taxes and contributions include CIT, social security contributions and housing provident fund borne by the employers, Land Value Appreciation Tax, Real Estate Tax, etc. The taxes and contributions withheld but not borne by the company, such as IIT, social security contributions borne by the employee, and VAT, are excluded. Commercial profit is the profit before all taxes and contributions borne.

4. Post-Filing Index measures the time required for the following two specific items:
Item 1: Obtaining a refund of excess input VAT incurred due to a large capital purchase. It measures the time to comply with VAT refund and the time to obtain the VAT refund.
Item 2: An error in the calculation of tax liability leads to an incorrect CIT return and consequently an underpayment of CIT. It measures time to comply with a CIT correction and the time to complete a CIT correction, including dealing with any potential reviews including tax audits.