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Research on Tax Collection and Administration of China's Digital Economy under the Background of "Double Pillars"

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Abstract

With the rapid development of enterprise globalization, the current digitalization of economy has severely impacted the existing international tax rules, and the global tax governance system is undergoing great changes unseen in a century. In October 2021,136 countries (regions) reached consensus on the OECD (Organization for Economic Cooperation and Development) proposed "two-pillar" program framework to address the tax challenges posed by the digital economy, and it is expected to come into force in 2023. In this context, China, as a big country in the digital economy, should make forward-looking thinking and prepare for a series of problems in the tax collection and management of the domestic digital economy (such as the unclear tax scope of the digital economy tax, etc.). This paper to "double pillar" scheme as the breakthrough point, to understand its development process, further study "pillar" and "pillar 2" the core content, mechanism and internal logic, the "double pillar" scheme framework applied to our digital economy, found that "double pillar" scheme to our digital economy tax collection opportunities and challenges, and give specific optimization path, help to improve our overall tax governance ability, establish a modern tax governance system.

Keywords

"Double Pillars"; Digital Economy; Tax Collection and Administration.

1. Introduction

With the rapid development of new-generation of information technologies such as big data, artificial intelligence, mobile Internet and blockchain, mankind has entered the era of digital economy. The digital economy has shown its unique advantages in innovation and development, industrial integration, economic stability and transforming growth drivers, but it has also brought a huge impact on the traditional international tax rules. The tax collection and administration of digital economy has gradually become a hot topic in academia and industry. Therefore, in rising unilateralism, countries face the interests of the digital economy, the background of the world economy is serious harm, OECD in 2017 through the BEPS inclusive framework to deal with the economic digital tax challenges consensus solution research, in 2019 put forward "double pillar" design framework, to the public opinion, after two years of difficult negotiations, a total of 136 countries (regions) reached consensus to support "double pillar" scheme. This plan is expected to solve the existing international tax collection and administration problems in the world. As a major digital economy country, China should make forward-looking thinking and preparation before specifically implementing the tax collection and administration of the digital economy.

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2. OECD's Research Process on Addressing the Tax Challenges of the Digital Economy

Big data, the Internet, 5G and other information technology makes the global digital economy is developing rapidly, digital economy in a country GDP proportion is increasing, but due to the digital economy has a high degree of virtual and liquidity, lead to the international tax collection is serious challenges, therefore OECD on how to cope with the challenge of tax collection and administration of digital economy is explored.

Table 1. OECD Documents published on addressing the digital economy tax challenge

time	Files published by the OECD	Document release purpose
In 2015,	Meeting the Tax Challenges in the Digital Economy"	It aims to solve the problem of tax base erosion and profit transfer (BEPS).
In 2018,	Interim Report on Tax Challenges from Digitization	Provide long-term solutions based on a consensus.
In 2019,	Policy Statement on Handling Tax Challenges from Digitalization of the Economy	Recommendations on the distribution of tax rights, the distribution of revised profits, association rules, and other unresolved BEPS issues.
In 2019,	Work Plan —— Develop Consensus Solutions to Tax Challenges arising from Digitalization of the Economy	It aims to carry out a comprehensive reform of the international tax rules and deal with the various tax problems gradually highlighted in the process of economic digitization.
In 2019,	The Public Consultation Document: A Unified Programme under the First Pillar Public Advisory Document: Global Erosion under Second Pillar	Introduce two pillars and consult countries to address technical issues and remaining BEPS issues.
In 2020,	The Statement of the OECD / G20 Tax Base Erosion and Profit Transfer (BEPS) Inclusive Framework on the Two Pillar Approach to Solving the Tax Challenges arising from the Digitalization of the Economy	We hope to reach a consensus solution to the tax challenges of digitization the economy by the end of 2020.
In 2021,	Statement on Two-Pillar Solutions to Address Tax Challenges from Digitalization of the Economy	It was announced that 134 countries had reached a consensus on the two-pillar program.
In 2021,	The Statement on the Two-Pillar Programme to Address the Digital Tax Challenges of the Economy	It was announced that 136 countries had reached consensus and planned to advance legislation in 2022 and come into force in 2023.

Source: The official Chinese website of the Organization for Economic Cooperation and Development (OECD)

As can be seen from the above table above, since 2015, the OECD has made a series of explorations on how to deal with the tax challenges of the digital economy, releasing a large number of documents and proposing a two-pillar plan, which was finally agreed in 136 countries in 2021 and planned to come into effect in 2023.

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3. The Core Content and Mechanism of Action of the "Double-Pillar" Program Framework

The "double-pillar" scheme solves the problem of profit redistribution of super-large multinational groups and the use of large multinational groups to transfer profits and tax competition from low taxes to the bottom from the "pillar one" and "pillar two" aspects respectively.

3.1. The Core Content and Mechanism of Action of "Pillar One"

"Pillar a" unified method proposal mainly includes tax determination, profit redistribution and dispute prevention and settlement mechanism, for digital economy enterprises or "the" consumer-oriented "enterprise introduced" user participation "," marketing intangible assets "," significant economy "," market jurisdiction " and other elements, aims to solve the problem of tax redistribution and profit distribution.

3.1.1. Amount A

In response to the challenges posed by tax collection and administration in the digital economy, the "Pillar One" program introduced amount A and market jurisdiction to solve the redistribution of the global profit taxation rights of super-large multinational groups. Amount A regulation, large multinational groups (except extractive industry and regulated financial services) consolidated profit statements of pre-tax profit of more than 20 billion euros, and pre-tax profit margin above 10%, whether the entity within the scope of the market jurisdiction, when the income from the market jurisdiction more than 750 million euros, need to distribute profits to the market jurisdiction, market jurisdiction has the right to distribute the remaining profits --amount A.

3.1.2. Amount B

Amount B is mainly a calculation method proposed to simplify the principle of independent transaction, clarify the profit return in the basic marketing and distribution activities occurring in the market jurisdiction, and reduce its cross-border tax disputes. Amount B focuses on two aspects: how to define "regular activities" and the setting of a fixed rate of return.

3.1.3. Tax Certainty

Amount A is applicable to some large multinational groups, and problems such as double taxation of amount A are likely to be taxed when using the consolidated profit statement, so a strong dispute prevention and resolution mechanism is needed to avoid the double taxation of amount A. Therefore, before the implementation of amount A, it is necessary to sign relevant multilateral tax agreements between jurisdictions, coordinate the tax rules between jurisdictions, avoid and solve possible tax disputes, ensure the implementation of the "Pillar One" plan, and improve the certainty of international taxation.

3.2. The Core Content and Mechanism of Action of "Pillar 2"

"Pillar 2" scheme and "pillar 1" scheme in the scope of application is very different, "pillar 1" scheme is mainly for the digital economy enterprises or "consumer-oriented" some enterprises, and "pillar 2" scheme almost applies to almost all multinational enterprises, so the implementation of the "pillar 2" scheme may give countries "going out" enterprises bring greater tax burden. The Pillar Two plan mainly draws on the idea of a global minimum tax in the United States, but unlike that, the OECD sets a global minimum tax rate of 15%, a concept proposed to address legacy problems such as profit transfer and tax base erosion."Pillar 2" proposed global tax base erosion rules including income into rules, low tax payment rules and tax rules, including income into rules are mainly to solve the problem of profit transfer residents inadequate, low tax payment rules and tax rules are mainly to solve the problem of

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tax base erosion, income into rules combined with low tax payment rules, called the global tax base erosion rules.

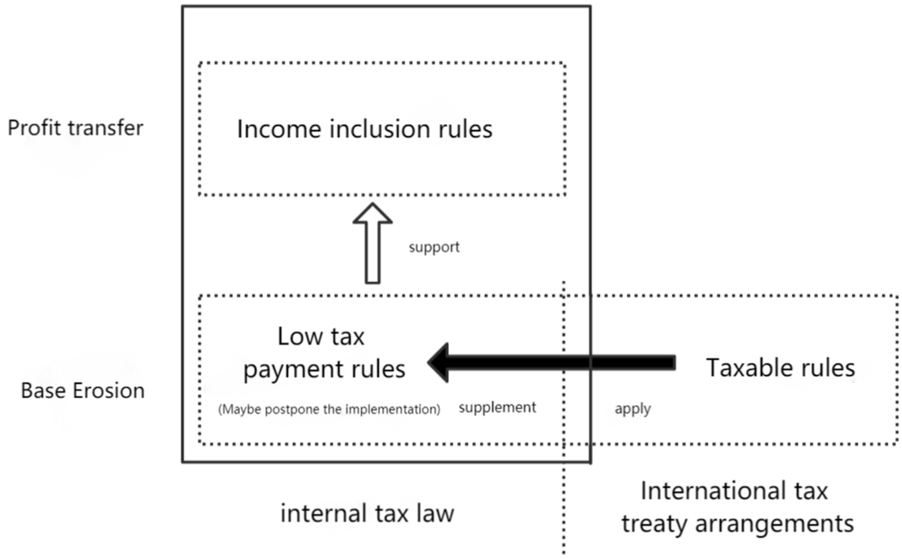

Figure 1. The mutual relationship between the three rules of "Pillar two"

3.2.1. Income Inclusion Rules

To some extent, the income inclusion rules draw on the relevant policy design of the US controlled foreign company (CFC) tax system, and introduce the concept of minimum tax, that is, when the applicable tax rate of a multinational enterprise abroad is less than the minimum tax rate, then the enterprise should pay the tax to the resident tax jurisdiction according to a fixed tax rate.

3.2.2. Low Tax Payment Rules

Low tax payment rules can be said to be the backing of income inclusion rules. When the tax rate of a cross-border enterprise in the resident jurisdiction is less than the global minimum tax, the source tax or protect the tax revenue by refusing pre-tax deduction.

3.2.3. Tax Rules Should be Given

The tax payable rule is a supplement to the low-tax payment rules. When cross-border enterprises do not pay tax at the global minimum tax rate in their resident jurisdiction, the source country can impose withholding tax or do not give them any preferential tax treaties, so as to achieve the goal of full global tax collection.

4. Opportunities and Challenges of Tax Collection and Administration of China's Digital Economy under the Background of "Double Pillars"

4.1. Opportunities for Tax Collection and Administration of China's Digital Economy under the Background of "Double Pillars"

4.1.1. Effectively Alleviate the Uneven Distribution of Cross-Border Income Tax between China and Other Countries

Digital economy, produced under emerging technologies, is an economic form that promotes the development of productive forces and realizes high-quality economic development. Digital economy in the global GDP proportion, however, the digital economy related tax system is not perfect, tax avoidance phenomenon occurs frequently, lead to market countries cannot tax, in order to protect the own economy, get more tax revenue, some countries implemented unilateral protection measures such as digital service tax, lead to international tax collection

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and management rules, under this background of "double pillar" scheme introduced market jurisdiction, global minimum tax, to a certain extent can effectively alleviate the cross-border income distribution between countries.

4.1.2. It Will Help Increase China's Fiscal Revenue

China is vast, large population, broad consumer market, "double pillar" scheme "pillar" regulation "consumer" enterprises and introduce market jurisdiction, clear as long as cross-border enterprises in a country or a region have user participation, significant economic and value creation, then need to pay taxes to the market jurisdiction, our population is numerous consumers, is a large market, can obtain large multinational enterprise group surplus profit tax new tax, so once the "double pillar" scheme, then our country can extra increase a certain fiscal revenue.

4.2. Challenges of Tax Collection and Administration of China's Digital Economy under the Background of "Double Pillars"

4.2.1. The Identification Standards for the Permanent Institutions of Digital Economy Enterprises are Unclear

In the existing enterprise income tax in China, the permanent establishment is identified as a permanent institution, which is established according to the Constitution and laws, with a fixed place and existing for a relatively long period of time. Because the digital economy is highly virtual and liquidity, digital economy enterprises cannot have a fixed place namely the original sense of the permanent organization can create certain user value, under the original tax system, this part of the value is not need to tax, but the "double pillar" scheme introduced the concept of market jurisdiction, clear cross-border digital economy enterprise as long as there is significant economic user value need to pay tax, does not need to set up a fixed place, so the definition of digital economy enterprise permanent organization need to reset.

4.2.2. Insufficient Tax Collection and Management Capacity of the Digital Economy

The smooth implementation of the "double-pillar" plan requires the tax authorities of various countries to realize information exchange. "pillar 1" is calculated based on the consolidated profit statements of multinational enterprise groups. In the calculation of amount A, the credit method is often strict on tax payment information, not only by taxpayer declaration. Even with the actual effective tax rate, in order to calculate the effective value more quickly and accurately, various departments cannot fully realize information sharing, and the efficiency of tax collection and administration is greatly hindered.

5. The Optimization Path of Tax Collection and Administration in the Digital Economy

5.1. Introduce the Concept of Permanent Organization of Digital Economy and Improve the Enterprise Income Tax Law

The identification standards of permanent institutions of digital economy enterprises are unclear. In order to accelerate the implementation of the "double-pillar" plan, China needs to revise the current identification standards of permanent institutions as soon as possible. Digital economy permanent institutions that standard shall be combined with the user participation, marketing intangible assets, significant economic factors, to not set fixed places of non-resident taxpayers, but through remote transactions in our country income determine tax right, namely the tax "non-entity" enterprises in our country.

5.2. Accelerate the Legislation of Laws Related to Tax Collection and Administration in the Digital Economy

The OECD has 136 countries or regions to "double pillar" consensus, but the "double pillar" plan did not start, according to the OECD latest statement, the double pillar plan will be implemented in 2023, so our country to meet the "double pillar" plan, based on national conditions, actively participate in, adhere to the principle of tax neutrality, improve and revise the relevant tax collection and administration law, promote the development of digital economy enterprise high quality.

5.3. Strengthen Data Protection and Improve the Information Exchange Mechanism

Digital enterprises mainly exist based on big data, the Internet, 5G and other emerging information technologies, among which data resources are the core assets of digital enterprises, and also the key elements to be considered in the tax collection and administration of the digital economy. "Double pillar" scheme for digital enterprise information requirements, so our country should strengthen the digital economy tax collection and administration infrastructure construction, improve the digital economy tax collection and administration information sharing mechanism, accelerate the information exchange between departments, build multilateral tax information sharing mechanism, realize the tax information and data sharing between different jurisdictions, but also do information privacy protection, to speed up the implementation of the "double pillar" scheme.

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