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China

Improving communication between tax authorities and tax payers

Matthew Mui, PwC China
Since China’s major tax reform in 1994, the Chinese tax authorities and taxpayers have paid increasing attention to the services provided to taxpayers, for example providing information, helping taxpayers to file returns and answering taxpayers’ questions. In 2001, the Standing Committee of the National People’s Congress amended China’s Tax Collection and Administration Law (TCAL), which clarified for the first time that the tax authorities are legally obliged to provide services to taxpayers. Subsequently, the Chinese tax authorities have shown a change in approach and have invested significant amounts of time and money in providing services to taxpayers and in improving the ease of paying taxes in China.

Some notable milestones are:

- In 2001 the Chinese State Administration of Taxation (SAT), as the central government authority responsible for collecting and enforcing taxes, officially launched the tax service hotline (Hotline #12366) for the benefit of taxpayers in general;
- Between 2006 and 2008 the local level tax authorities increased the speed of implementation of online filing and payment systems which significantly reduced the compliance hours of taxpayers (reflected in the Paying Taxes time to comply sub-indicator as a drop from 832 hours to 464 hours);
- In 2008 the SAT set up the Taxpayer Services Department which provides systematic administration and oversight of taxpayer services by designated tax officials leading to significant improvements in quality.

The consequences of many of these improvements are reflected in the Paying Taxes reports.

In the following section, we consider some of these changes in detail.

**Changes in the approach of the Chinese tax authorities**

In the early stages of China’s tax reform, taxpayer services in China were neglected due to insufficient manpower, poor use of technology and inadequate funding. In 1997, however, taxpayer services were recognised by the State Council as the foundation of an efficient tax collection and administration system. In 2001, TCAL and its detailed implementation rules provided the legal basis for the optimisation of taxpayer services. As a result, the Chinese tax authorities now appreciate fully that taxpayers are not simply required to pay taxes, but that they deserve to receive assistance from the tax authorities in understanding and meeting their tax obligations. In recent years, the SAT has supervised and drawn up work plans for local level tax officials concerning the improvement of taxpayer services. At a symposium for taxpayers in 2013, Mr. Jun Wang, the Commissioner of the SAT, mentioned that tax authorities and tax officials have four major tasks, namely:

1. to carry out tax reforms to meet taxpayers’ needs
2. to provide information to help taxpayers understand the tax rules
3. to administer taxes in a fair manner; and
4. to provide taxpayer services to improve the ease of paying taxes.

**Organisational structure of the tax authorities**

Adequate staffing is vital to the provision of quality services for taxpayers. In 2008, the SAT established the Taxpayer Services Department. Tax officials in that department lead and supervise local level tax authorities in the area of taxpayer services. Local level tax authorities have also set up Taxpayer Services Divisions to implement taxpayer services in their respective jurisdictions. By the end of 2012, 67 out of 70 provincial-level tax authorities had set up designated departments or offices for taxpayer services and the number of tax officials directly involved in taxpayer services was around 98,000 which is approximately 13% of the total number of tax officials nationwide.

In addition, the SAT established the Large Business Taxation Department (LBTD) in 2008 and selected 45 Large Business Enterprises (Groups) (LBEs) to receive designated services and focused administration under the direct supervision of the LBTD. Subsequently, many local level tax authorities identified selected LBEs in their jurisdictions, some of which will overlap with the LBEs identified by the LBTD. Therefore, many LBEs now have a further channel through which they can receive designated services from the Chinese tax authorities.
Platforms for the provision of taxpayer services
The Chinese tax authorities have made a significant financial investment in the platforms through which taxpayer services are provided, including:

Tax service centres and counters
Tax service centres were first introduced in China in 1997 to help taxpayers to file tax returns and deal with other tax-related matters in person with the tax authorities. In order to simplify the procedures and to reduce the compliance costs, tax authorities continually improved these facilities by setting up one-stop service counters inside the tax service centres. By the end of 2012, there were 10,643 multi-functional tax service centres with 55,460 one-stop service counters in China.

Telephone-based platform (hotline and SMS services)
In September 2001, “Hotline #12366” was officially launched. By the end of 2012, 70 provincial tax authorities had set up Hotline #12366 in their jurisdictions resulting in a total of 3,000 operators with tax knowledge serving the hotline in different locations across the country. SMS is also used by tax officials to provide services to taxpayers, for example to send reminders and tax information. By the end of 2010, the Chinese tax authorities had answered 45.8 million taxpayer queries through professional operators, 133.56 million through automatic voice systems and 237.78 million by SMS.

Internet-based platform
In order to reduce the time taxpayers spend waiting in the tax service centres, the SAT issued a circular in 2005 requiring local level tax authorities to expedite the construction of internet networks and the implementation of online filing and payment systems. Statistics indicated that in 2006 the number of online filings and payments performed in China was around 40%-50% of total tax filings. By 2013 this had increased to around 80% on average across the country and to 90% for some large cities, such as Beijing and Shanghai. This increase in online filing and payment was reflected in the Paying Taxes data for 2007 when the number of payments went from 35 to 7 as the number of taxpayers using online filing and payment exceeded 50%.

Both the SAT and the local level tax authorities have increased the capabilities of their websites. The most important function of the SAT website is the provision of information on tax regulations, while for local level tax authorities it is the provision of information as well as access to online tax filing.

Social media
In April 2014 the SAT developed a mobile application and opened official accounts on the two dominant social media sites (i.e. Weibo and Wechat). Taxpayers can now receive tax information from the Chinese tax authorities on a more timely basis. By August 2014, SAT’s Weibo account had attracted more than 1 million followers. Many local level tax authorities also operate their own accounts in Weibo and Wechat.

Services provided to taxpayers in China
The services provided by the Chinese tax authorities include tax consultation and information on tax regulations.

Tax consultation
Tax consultation is the most popular service provided by the Chinese tax authorities to taxpayers. Taxpayers can consult with the tax authorities on a named or anonymous basis. Tax consultation is provided in different ways; through telephone discussions, internet Q&A and in person.

Online consulting is welcomed by many taxpayers. According to the SAT’s website, the area of “tax consulting” always has the largest volume of hits compared to the other areas of the website.

Hotline #12366 is also often used by taxpayers to seek advice on tax issues. Figure 3.23 illustrates the increasing volume of consulting calls in 2007, 2009 and 2012.

Figure 3.23
Volume of consulting calls for the year 2007, 2009 and 2012
In addition to using the website and hotline, taxpayers can also raise tax questions with their in-charge tax officials in person and seek the local level tax authority’s advice.

**Information on tax regulations**
Information on tax regulations is designed to enhance taxpayers’ awareness of tax rules and to create a friendly tax environment.

A number of Asia Pacific region economies, including Japan and Singapore, concentrate resources on communicating regulations and knowledge to taxpayers for a short, designated period, and China is no different. The Chinese tax authorities have designated April as the “Month for Tax Regulation Information”. Each April, the Chinese tax authorities launch various tax communication activities on a range of tax topics. These activities may take place in communities, factories, schools and remote areas.

Daily tax communications by the Chinese tax authorities are made through many channels, including,

- Posting the official interpretation of SAT circulars on the SAT’s website to help taxpayers better understand a new policy;
- Posting typical cases on a no name basis through relevant channels and providing analysis to help taxpayers learn lessons from these cases and avoid making the same mistakes;
- Printing and distributing booklets on specific tax topics (e.g., business tax to VAT transformation pilot programme) to help taxpayers understand tax policies and tax administration practices;
- Organising seminars and training for taxpayers along or together with other government authorities

**Seeking feedback from taxpayers**
To monitor the quality and efficiency of tax administration and collection nationwide, and to understand the feedback and needs of taxpayers, the SAT engaged an independent third party to conduct National Taxpayer Satisfaction Surveys in 2008, 2010 and 2012. According to the SAT, the SAT may conduct these surveys annually in future in order to have more timely information.

**Effect on tax legislation system**
An effective tax legislation system should make life as easy as possible for taxpayers. China has continued to invest significant effort and resource in improving the tax filing process, with some considerable success. However, some taxpayers are still unhappy with some aspects of the Chinese tax legislation. Unclear tax legislation, certain tax treatments and an ineffective dispute resolution mechanism may give more cause for concern than any inefficiency in tax compliance procedures. For example, an effective Advance Tax Ruling (ATR) mechanism should provide taxpayers with more certainty about the tax positions of future transaction. However, China has yet to adopt a formal ATR mechanism although there are some instances of local level tax authorities providing consulting services to taxpayers on some uncertain tax issues. If an ATR mechanism could be introduced in China in future, taxpayers would benefit and tax compliance become easier.

**Co-operation with other government authorities and agents**
The Chinese tax authorities are exploring ways to cooperate with other government authorities to reduce the compliance costs of taxpayers. For instance, in the Shanghai Pilot Free Trade Zone, newly-established enterprises will have their own tax registration number allocated automatically thanks to a pilot system that shares information between the tax authorities, the Shanghai Administration for Industry & Commerce and other government authorities. In future, if the pilot proves successful, the system could be implemented nationwide reducing the time spent by taxpayers on tax registration and other formalities.

China is one of the economies in Asia Pacific that has made the most progress in increasing the ease of paying taxes in recent years. China is continuing to implement measures to improve taxpayer services, enabled by advances in technology, and these changes are expected to ease the compliance burden still further in the future.
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