

Tax Coordination Challenges and Solutions in the China-ASEAN Free Trade Area under the Digital Economy Context

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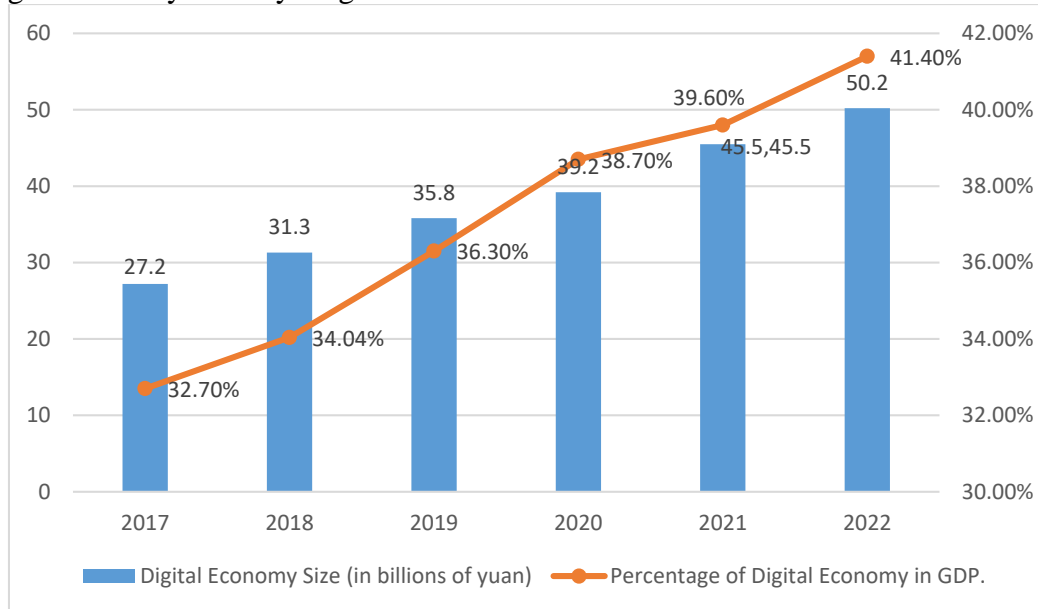
Abstract: The rise of the digital economy has posed new challenges to traditional international tax rules and systems. As a result, the international community has begun to explore whether unilateral or multilateral adjustments to tax rules are needed. This shift also raises fresh questions for China's trade and economic relations with ASEAN. In the realm of digital economy taxation cooperation between China and ASEAN, it is crucial to address the misalignment between the digital economy and traditional tax systems. Additionally, the risks stemming from adjustments to international digital tax rules must be managed. In order to better promote the cooperation and development between China and ASEAN in the field of digital economy, the following series of measures should be taken: Firstly, China needs to further improve its digital economy tax system to meet the needs of this rapidly developing field. Secondly, the China ASEAN Free Trade Area needs to establish an effective tax arbitration mechanism to resolve potential disputes and disputes. Thirdly, the China ASEAN Free Trade Area needs to create a China ASEAN tax information platform in order to manage tax information and compliance requirements more efficiently. At the same time, it should actively respond to the international action plan on base erosion and profit shifting (BEPS) to ensure that China and ASEAN are aligned with international tax rules. Finally, actively participate in the formulation of international tax rules to ensure that the voices of China and ASEAN in this area are fully heard and considered. These measures will help address the challenges posed by the digital economy and promote the smooth development of China-ASEAN cooperation in the digital economy.

1. Introduction

In recent years, global digital trade has rapidly expanded, becoming an integral part of driving international trade development. The digital economy represents a new frontier for cooperation and development between China and ASEAN countries. ASEAN is in the midst of a digital economic boom, and as the world's second-largest digital economy, China offers vast opportunities for collaboration across various digital economy sectors with ASEAN. The year 2020 was designated as the China-ASEAN Year of Digital Economy Cooperation.

China is at the forefront of global efforts in developing digital infrastructure and is a valuable

partner for ASEAN in advancing digital economy growth. According to data from the China Academy of Information and Communications Technology (CAICT) (see Figure 1), in 2020, China's digital economy reached a scale of 39.2 trillion yuan, accounting for 38.6% of GDP and registering a nominal year-on-year growth of 9.7%.



(Data Source: China Academy of Information and Communications Technology)

Figure 1: China's Digital Economy Scale and Its Share of GDP from 2017 to 2022

China's digital economy ranks second globally and is experiencing rapid growth. In areas such as 5G networks, smart cities, digital government, and manufacturing digitization, China is gradually gaining a leading position worldwide, aligning well with the digital economy plans and industry demands of ASEAN countries.

However, the existence of unilateral fragmentation and a lack of coordinated digital service tax systems may lead to opposition from the home countries of international internet giants, who perceive such tax systems as unfair or discriminatory. This could potentially result in trade disputes with these countries and, in severe cases, hinder cross-border digital trade or market access. In order to promote the development and cooperation of digital economy in China-Asean Free Trade area, it is necessary to overcome the difficulties in tax coordination. Effective tax coordination mechanisms are crucial to supporting comprehensive regional economic cooperation. Therefore, promoting tax coordination in the digital economy era has become an urgent issue. This paper aims to study the current state of digital economy taxation in China and ASEAN countries, as well as the challenges of coordination, to explore strategies needed for tax coordination development in the China-ASEAN Free Trade Area in the digital economy era. This research holds significant practical and strategic importance.

2. The Tax Coordination Challenges in the Digital Economy between China and ASEAN Countries

2.1 ASEAN member states have been progressively implementing unilateral digital service taxes, increasing the tax burden on multinational enterprises

The ASEAN countries have followed closely the pace of the international countries that have implemented digital service tax, and have implemented their own digital service tax policies one

after another. In the short term, this policy has increased their own tax revenue, but in the long term, a thick layer of trade barriers were added to the customs, not conducive to the healthy development of economic integration of the free trade zone.^[5] (See Table 1)

Table 1 Service Taxes and Current Exploration Status

The Current Exploration of Digital Service Taxes by China and ASEAN Countries	Relevant Measures and Current Exploration Status
1 China	Enterprise income tax is levied based on a predetermined system with an applicable tax rate of 4%. These enterprises also enjoy preferential tax policies for small and micro-profit enterprises and tax-free income policies. For cross-border e-commerce retail imports, the single transaction limit has been increased from RMB 2,000 to RMB 5,000, and the annual transaction limit has been raised from RMB 20,000 to RMB 26,000. Additionally, the list of taxable items has expanded to include 63 new items, such as grape wine, malt beer, telescopes, electronic game consoles, ski boots, and razor blade heads, among others. While the 'People's Republic of China E-commerce Law' (2019 version) emphasizes that e-commerce operators should fulfill their tax obligations in accordance with the law and enjoy tax incentives, China has not yet established a digital tax policy. Furthermore, although the 'Provisional Regulations of the People's Republic of China on Value-Added Tax' stipulate various value-added tax scenarios, they do not explicitly address tax policies for domestic and cross-border e-commerce. ^[5]
2 Singapore	In 2018, Singapore passed a Digital Services Tax Act, which came into effect on January 1, 2020. Under this law, the Singapore government planned to impose a Goods and Services Tax (GST) on a range of digital services starting from 2020. These services include shared bicycles, food delivery, online ticket sales, video on demand, and others. The tax rate was set at 7%. The law stipulated that foreign digital service providers and electronic platform operators with a global annual turnover exceeding SGD 1 million or with digital service values exceeding SGD 100,000 per year were required to pay the aforementioned tax.
3 Indonesia	In November 2019, Indonesia enacted an 'Electronic Commerce Law' that came into effect, targeting cross-border digital service providers. These providers offer various services, including digital content, applications, advertising, and marketing services, typically delivered over the internet. Since these service providers do not have a physical presence in Indonesia, traditional sales tax or income tax collection became complex. In May 2020, the Indonesian Ministry of Finance introduced new regulations stipulating that as of July 1, 2020, a 10% value-added tax (VAT) would be imposed on non-resident enterprises offering digital services. The tax is calculated based on the income of cross-border digital service providers in Indonesia, with a tax rate of 10%. Digital service providers with annual incomes not exceeding 600 million Indonesian Rupiah (approximately 42,000 US dollars) are exempt from this digital tax.
4 Malaysia	In 2017, Malaysia's former Prime Minister proposed imposing a Goods and Services Tax (GST) on foreign digital service providers. However, this plan was abandoned by the new Prime Minister who took office on May 9, 2018. Nevertheless, in 2019, in response to the impact of online businesses on government tax revenue, Malaysia announced plans to impose a 6% digital tax on foreign digital service providers, which officially came into effect on January 1, 2020. Compared to the tax rates in Indonesia and Singapore, Malaysia has the lowest digital tax rate. This digital tax applies to all foreign enterprises providing digital services, including social media, online advertising, video streaming, and audio streaming. The purpose of this digital tax is to address the impact of digital services on the Malaysian economy, as the rapid growth of digital services allows many businesses to provide services in Malaysia without the need to establish a physical presence in the country.
5 Thailand	On June 9, 2020, Thailand passed a law to expand the Value Added Tax (VAT) to cover digital sales by non-resident enterprises or platforms to Thai users, with a tax rate of 7%. Subsequently, in 2021, the Thai government issued a new regulation requiring foreign digital companies meeting certain conditions to start paying taxes from September 2021. This marked the formal implementation of Thailand's long-contemplated 'digital tax.' According to this regulation, foreign digital service companies or platforms with annual income from digital services in Thailand exceeding 1.8 million Thai Baht (approximately 38,700 RMB) are subject to a 7% VAT.
6 Philippine	According to data from the Philippine Statistics Authority (PSA), the size of the Philippine digital economy reached 1.87 trillion pesos in 2021, showing growth compared to 1.73 trillion pesos in 2020. The digital economy contributed 9.6% to the country's Gross Domestic Product (GDP). As a result, the Philippine government is considering the introduction of a digital tax to address taxation gaps in the context of emerging developments. Joey Salceda, a representative in the Philippine House of Representatives, has proposed the 'Digital Taxation Bill,' aiming to generate an additional 29.1 billion pesos (approximately 468.39 million USD) in tax revenue annually. Furthermore, Benjamin Diokno, the Philippine Secretary of Finance, is also contemplating taxation on digital transactions and streaming services such as Netflix Inc. subscriptions.
7 Brunei	In 2020, Brunei's Ministry of Transport and Infocommunications unveiled the 'Digital Economy Masterplan 2025' with the goal of driving digital transformation to transform Brunei into a smart nation by 2025. This vision primarily revolves around three core areas: adapting to a digital society of the future, fostering a vibrant and

	sustainable economy, and constructing a digital ecosystem. Throughout the entire digital economy ecosystem, there is a close interconnection between the government, industries, and society. The core elements underpinning this ecosystem include three flagship projects: digital identity, digital payments, and the People's Service Centre.
8 Vietnam	Vietnam has identified three major pillars, namely the digital economy, digital government, and digital society, in its quest to build a digital nation. To propel this development, Vietnam established the National Digital Transformation Committee in September 2021, tasked with coordinating and overseeing developments in the digital economy and related sectors. As per Vietnam's 'National Development Strategy for the Digital Economy and Digital Society,' it is anticipated that by 2022, the digital economy will account for 11.5% of the GDP, with a projected increase in the proportion of small and medium-sized enterprises using digital platforms to 30%. Moreover, by 2025, the digital economy is expected to represent 20% of the GDP.
9 Cambodia	The Cambodian government's '2021-2035 Digital Economy and Digital Society Policy Framework' outlines ambitious goals for digital transformation. According to this policy, Cambodia aims to achieve a digital economy accounting for 5% to 10% of the GDP by 2035. However, achieving this goal presents several significant challenges, including inadequate digital infrastructure, a shortage of ICT (Information and Communication Technology) talent, limited adoption of digital technologies in both the public and private sectors, and high internet costs. As per the Cambodian government's targets, by 2025, urban areas are expected to have 100% high-speed internet coverage, while rural areas should reach 70%. By 2030, major public services are slated to be digitized, private enterprises are expected to widely adopt digital technology, and the workforce in related fields should constitute 4% of the total employment.
10 Myanmar	Myanmar's draft roadmap for digital economic development comprises six strategic frameworks, nine priority projects, and short-term and long-term action plans tailored to current strategic needs. The objective of this plan is to encourage participants to propose ideas and suggestions that can improve the lives of the people in Myanmar. The establishment of the Digital Economy Development Committee aims to drive the development of digital enterprises and apply digital technology to agriculture, livestock, manufacturing sectors, and small and medium-sized enterprises, thereby enhancing Myanmar's competitiveness, capacity, and national revenue. Additionally, residents in rural and other areas will be able to improve their living standards through the use of digital technology. However, one of Myanmar's major challenges at present is the inadequacy of its telecommunications infrastructure, which affects the smooth operation of the digital economy.
11 Laos	Laos has a low adoption rate of e-commerce primarily due to its lagging telecommunications infrastructure and limited use of credit cards. To promote the development of e-commerce, the Laotian government introduced regulations for online transactions in 2012, laying the groundwork for future e-commerce growth. Currently, Laos has 5.7 million mobile phone users and 2.1 million internet users, with these numbers growing annually at a rate of 18%. However, local businesses, banks, and customers have limited use of communication technology, and logistical constraints remain a challenge. ¹

2.2 The conflict between the digital economy and traditional tax systems poses multiple challenges for governments worldwide, leading to potential revenue losses

As the digital economy rapidly rises and new trade models such as B2B and B2C gain prominence, traditional trade methods are facing significant challenges. The development of the digital economy has led to a clear separation of the production and consumption locations of goods. Buyers and consumers can quickly engage in online transactions using information platforms without the need for specific physical locations or time constraints. Digital businesses, such as online search, social media, and online software stores, allow companies to operate across multiple countries and regions without the need for physical business departments in each location. For example, internet giants in ASEAN countries like Lazada in Singapore, GOTO, Traveloka, Bukalapak, OVO in Indonesia, and VNG in Vietnam are involved in payment, finance, entertainment, communication, e-commerce, and other fields.

Firstly, in the digital environment, the non-territorial nature of tax sources conflicts with the territorial characteristics of traditional tax jurisdiction. Online transactions are borderless, leading to issues of high compliance costs and tax avoidance when adopting a consumption-based taxation approach.

Secondly, digital enterprises are deeply involved in the domestic economy, but do not appear in an obvious tangible presence, such as social media platforms, search engines, online shopping malls and other highly digital operation mode, making the current tax linkage rules and profit distribution rules appear ineffective.

Furthermore, in the information age, the value creation of big data conflicts with the traditional

"cost + profit" pricing model. Although there are challenges in determining and allocating the value of data, big data does indeed create value, disrupting traditional pricing models.

These factors collectively indicate that the rise of the digital economy has posed challenges to the international tax system, necessitating a rethink of how to effectively tax and allocate revenues.

2.3 The digital economy has exacerbated contradictions and conflicts in tax administration cooperation within the China-ASEAN Free Trade Area

The rise of internet finance and digital payments may lead to rapid fund flow across different countries, making cross-border fund regulation and tax management more complex. ASEAN countries and China may diverge on how to reasonably levy taxes on cross-border payments. Some digital economy giants may employ cross-border tax avoidance strategies, shifting profits to regions with lower tax rates, potentially sparking tax competition and disputes among nations. Differences in tax policies between China and ASEAN countries, particularly regarding tax regulations for these enterprises, could lead to disagreements. The rapid innovation in the digital economy may surpass existing tax regulations and regulatory frameworks, potentially resulting in outdated and inadequate tax rules. China and ASEAN countries may need to work towards a balance between digital economy innovation and tax management coordination.^[3]

2.4 Bilateral tax agreements are not well-suited to the evolving landscape of economic and trade cooperation between China and ASEAN in the digital economy era

The bilateral tax treaties signed between China and ASEAN countries establish rules for the determination of "Permanent Establishment" (PE) in three aspects. While the general definition of PE is consistent in all agreements with ASEAN countries, specific rules for listing the criteria for PE and exemptions for preparatory and auxiliary activities are the same as those in the "China-Singapore Agreement" in agreements signed with the Philippines and Vietnam. Although there may be some differences and special definitions in the tax treaties signed between China and Indonesia, Malaysia, Thailand, Brunei, Laos, and Cambodia compared to the "China-Singapore Agreement," they generally require at least a "physical presence" to be met as a condition for determining PE. In other words, when one party's enterprise has no "physical presence" in the other party, the other party has no right to tax the income from cross-border digital economic activities. For example:

China-Singapore Bilateral Tax Treaty: Signed in 1991, the purpose of this agreement is to avoid double taxation and prevent tax evasion. However, with the rise of the digital economy, there have been significant changes in transaction methods such as e-commerce, online services, and digital products. This may lead to difficulties in the allocation of taxing rights and profit shifting, limiting the adaptability of the agreement.

China-Malaysia Bilateral Tax Treaty: Signed in 1985, the purpose of this agreement is to avoid double taxation and prevent tax evasion. However, the growth of the digital economy has brought new challenges in taxation. For example, the allocation of taxing rights and taxation of cross-border e-commerce and internet company activities may require updates and revisions to the agreement.

China-Thailand Bilateral Tax Treaty: Signed in 1992, the purpose of this agreement is to avoid double taxation and prevent tax evasion. However, with the growth of the digital economy, new challenges in taxation have arisen in emerging industries such as the sharing economy and online advertising. These new business models may require clearer regulations and tax guidelines applicable to the digital economy for better tax risk management.

Please note that the accuracy and specifics of the translation may depend on the exact legal terms and provisions used in the original text of these tax treaties.

3. The Tax Coordination Strategy between China and ASEAN in Response to the Digital Economy Landscape

3.1 Mechanism Establishment: Establish a tax arbitration mechanism to effectively resolve tax disputes

In response to the trend of actively exploring and expanding the use of tax arbitration as an auxiliary method of mutual consultation among the tax authorities of treaty countries, none of the tax agreements and protocols signed between China and ASEAN countries have introduced tax arbitration clauses to date. To prevent serious obstacles in resolving the increasing and complex "China-ASEAN" tax disputes and further optimize the tax business environment of "China-ASEAN" cooperation, it is necessary to establish a "China-ASEAN" tax arbitration mechanism. It should be noted that the introduction of a tax arbitration mechanism is a supplementary measure that countries are actively exploring and applying to improve the efficiency and quality of cross-border tax dispute resolution. Therefore, it is essential not to overly emphasize the uniqueness of "China-ASEAN" and conduct a "stand-alone" mechanism design study but rather analyze existing construction plans and exploratory practices within the "China-ASEAN" framework.^[1]

Furthermore, since none of the bilateral tax agreements signed between ASEAN countries and China have introduced a tax arbitration mechanism to date, there is no existing tax arbitration system and practice available for study in the context of ASEAN-China. The establishment of a China-ASEAN tax arbitration mechanism should be based on the following principles:

Respect for both parties' sovereignty and laws. The tax arbitration mechanism should follow international law and conventions, respecting the sovereignty and laws of both parties, and should not interfere with their internal affairs and judicial independence.

Safeguarding the interests and fairness of both parties. The tax arbitration mechanism should balance the interests and obligations of both parties, protect their legitimate rights and interests in the field of taxation, and avoid any unfair or discriminatory treatment.

Promoting cooperation and development of both parties. The tax arbitration mechanism should serve the capacity cooperation and economic and trade exchanges of both parties, promote communication and coordination in the field of taxation, enhance mutual trust and friendship.

Optimizing the environment and rules for both parties. The tax arbitration mechanism should promote both parties to improve and unify tax policies and regulations, reduce and eliminate tax barriers and frictions, and optimize the tax environment and rules.

Based on these principles, this paper tentatively proposes the following scheme:

The China ASEAN Free Trade Area should establish a China ASEAN Tax Arbitration Center composed of professionals as a permanent institution for handling tax disputes. The center should be located in a neutral, convenient, and recognized location, such as Singapore or Hong Kong. The centre should be located in a neutral, convenient and recognized location, such as Singapore or Hong Kong. The center should be located in a neutral, convenient, and recognized location, such as Singapore or Hong Kong.

The China ASEAN Free Trade Area should establish a unified, clear, and transparent set of China ASEAN tax arbitration rules as the basic guidelines for guiding the resolution of tax disputes. The rules should include arbitration procedures, arbitrator selection, evidence submission, hearing arrangements, and arbitration methods. These rules should cover arbitration procedures, arbitrator selection, evidence submission, hearing arrangements, and the form of awards. However, the rules should distinguish between developed countries and developing countries. For example, "baseball arbitration" may be applied between China and developed countries, while it may generally not be suitable for use between China and ASEAN countries, which should adopt an independent opinion procedure. Different ASEAN countries have varying levels of acceptance compatibility with the international arbitration system in terms of their political and legal systems, economic development levels, and cultural traditions.

The China ASEAN Free Trade Area should establish a China ASEAN Tax Arbitration Commission composed of representatives from governments of China ASEAN countries, as a high-level institution to supervise and coordinate tax arbitration work. The committee should hold regular meetings to review and approve the work report, budget, personnel and other matters of the arbitration center. The committee should regularly convene meetings to review and approve the work reports, budgets, personnel matters, etc., of the arbitration center.

The China ASEAN Free Trade Area should establish a China ASEAN Tax Arbitration Advisory Committee composed of experts from China ASEAN countries, as a professional institution to provide technical support and advisory opinions. The committee should provide professional knowledge and advice on tax policies, laws, practices, and other aspects as needed.

3.2 Platform Establishment: Creating a China-ASEAN Taxation Information Technology Platform to Enhance Mutual Tax Administration Assistance

Digital technology has reshaped the world economy and industrial landscape, presenting new challenges and opportunities for tax administration in the digital age. On one hand, digital technology accelerates the transformation of business models, posing various challenges to tax administration. On the other hand, digital development itself can promote the optimization of tax services and enhance tax administration efficiency, offering new opportunities for modernizing tax administration in various countries.

The uncertainty in value creation brought by the digital economy, coupled with the mismatch between the place of creation and the place of taxation, poses significant difficulties for multilateral tax administration cooperation. The digital economy relies heavily on various data and information, which have strong characteristics of intangibility, fluidity, and ease of replication. This is reflected in the virtualization of transaction parties and the digitization of transaction information. In particular, for cross-border digital transactions, a country's tax authorities find it increasingly challenging to obtain relevant tax-related information. Companies have a greater potential to exploit gaps in various countries' tax laws and regulations, making it even more crucial for tax authorities and other regulatory agencies in different countries to strengthen their tax administration cooperation. China should enhance mutual assistance in tax administration with ASEAN countries and leverage new digital information technologies such as blockchain for monitoring. Blockchain technology, as an emerging technology, offers advantages such as decentralization and immutability. Tax authorities in various countries can use blockchain technology to construct tax control systems, creating a comprehensive platform for the exchange of tax information. This will enhance their ability to effectively identify various transaction and fund transfer information related to taxpayers, reducing the potential for multinational companies to erode the tax base and shift profits through related transactions and transfer pricing.^[2]

The establishment of a tax information sharing platform should first strengthen the exchange of tax information technology. Through initiatives like tax information technology forums, there should be broader communication and exchange to gain a more comprehensive understanding of the current status of tax information technology development among member states. This will facilitate the sharing of experiences and information, fostering continuous improvement in the tax information technology capabilities of member countries.

Secondly, it is essential to intensify tax information technology training and assistance. China can leverage resources like the OECD Multilateral Tax Center in Yangzhou, the Belt and Road Initiative Tax Administration Capability Advancement Alliance, and the Belt and Road Initiative Taxation Institute to provide training and technical assistance for tax information technology development in countries and regions along the Belt and Road.

Finally, actively participate in the formulation of international tax rules to ensure that the voices of China and ASEAN in this field are fully heard and considered.^[4]

3.3 Multilateral Convention: In response to the BEPS Action Plan, jointly develop a multilateral convention with Chinese-ASEAN characteristics

For developing countries and regions, there may be issues of inadaptability and imbalance. Therefore, it is necessary for China and ASEAN countries to jointly formulate a BEPS multilateral convention with their own characteristics in order to better protect the tax rights and interests of the region and promote regional economic integration. The BEPS multilateral convention with Chinese-ASEAN characteristics should, while respecting the OECD framework, fully consider the actual situation and development needs of the region to establish more flexible and appropriate rules.

Firstly, a core principle of the Convention should be to fully respect the sovereignty and autonomy of each country. Countries should have the flexibility to choose which provisions of the Convention to apply to their tax treaties based on factors such as their tax systems, economic development levels, and regional integration. The Convention is not a new tax treaty but a tool for modifying existing tax treaties. Therefore, countries can select which provisions of the Convention to apply, as well as whether to accept optional or reservation provisions, according to their own circumstances and needs. This allows countries to maintain their tax sovereignty and policy space while avoiding unnecessary conflicts or disagreements with other countries.

Secondly, the Convention should balance the interests and demands of all countries. Through friendly negotiations and equal cooperation, consensus and balance should be achieved to avoid conflicts of interest or unfair treatment. The Convention aims to implement the recommendations of the BEPS Action Plan related to tax treaties, preventing multinational enterprises from using tax treaties to evade or avoid tax obligations and protecting the tax base and interests of all countries. At the same time, the Convention also considers the benefits and protections that countries enjoy in tax treaties, such as double tax relief, non-discrimination, and dispute resolution mechanisms. Therefore, when modifying existing tax treaties, the Convention should not only prevent BEPS issues but also preserve the positive aspects of tax treaties.

Thirdly, emphasis should be placed on effectiveness and operability. According to the provisions and procedures of the Convention, the signing, ratification, entry into force, and application of the Convention should be completed in a timely manner to ensure that the Convention can effectively modify existing tax treaties and provide taxpayers with a clear and stable tax environment. The Convention uses an innovative approach to implement the recommendations of the BEPS Action Plan by making one-time modifications to existing bilateral tax treaties. This allows countries to save time and resources and avoid complex and lengthy bilateral negotiations with each other. Additionally, the Convention provides a set of rules and procedures that specify the steps for signing, ratifying, entering into force, and applying the Convention and establishes a depositary institution (OECD) responsible for managing the operation of the Convention. This ensures that countries know what they should do, how to do it, and when to do it, and can receive guidance and assistance from the depositary institution as needed.

Finally, communication and exchange should be strengthened. Effective mechanisms for information sharing, dispute resolution, technical assistance, etc., should be established to enhance understanding and trust among countries and promote tax cooperation and coordination. The Convention involves tax cooperation and coordination among multiple countries or regions. Therefore, during the process of signing, ratifying, entering into force, and applying the Convention, close communication and exchange between countries are needed to understand each other's situations and intentions and to reach consensus and agreement as much as possible. After the Convention is implemented, effective mechanisms for information sharing, dispute resolution, technical assistance, etc., should be established among countries to promptly address any issues or difficulties that may arise and to promote tax cooperation and coordination among countries.

3.4 International Cooperation: Keeping Pace with New Developments in International Digital Taxation Rules and Collaborating in Shaping International Taxation Rules

According to the statement of the Organization for Economic Cooperation and Development (OECD)¹, on July 1, 2021, 130 countries and jurisdictions joined a new two-pillar plan to reform international tax rules and ensure that multinational enterprises pay their fair share of taxes wherever they operate. The plan includes two aspects: The first pillar will redistribute some of the taxing rights over multinational corporations from their home countries to the markets where they conduct business activities and earn profits, regardless of whether the company has a physical presence there. The second pillar aims to introduce a global minimum corporate tax rate, which countries can use to protect their taxing rights, thereby setting a floor for corporate income tax competition. The global minimum corporate income tax - the minimum tax rate is at least 15%. The plan was reached on the basis of an agreement² issued by the Group of Seven (G7) on June 5, which was also endorsed by the meeting of finance ministers and central bank governors of the Group of Twenty (G20)³. The plan is expected to be effectively implemented in 2023. For China, keeping up with the new changes in international digital tax rules, participating in the formulation of international tax rules in coordination, is conducive to safeguarding its own interests and fairness and justice, as well as promoting the reform of the global economic governance system and global economic growth. China should do well in the following aspects: First, China should actively participate in international tax cooperation mechanisms, such as the "the Belt and Road" tax collection and management cooperation mechanism, the G20 /OECD BEPS inclusive framework, and work with all parties to promote a broader, more balanced, and more sustainable global agreement. Secondly, China should strengthen its own digital transformation and smart tax construction to meet the needs of tax collection and management in the new situation, and improve its capabilities in precise law enforcement, fine services, precise supervision, and sincere governance. Thirdly, China needs to improve and optimize its own tax policies and systems, make necessary adjustments and reforms in accordance with the new international tax rules, and maintain the stability, transparency, and predictability of tax policies. Fourthly, China should strengthen the negotiation and signing of bilateral or multilateral tax agreements with other countries and regions to promote cross-border trade and investment facilitation, prevent double taxation or avoid taxation.

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