

# ***Research on the Development of International Tax Reform and China's Countermeasures under the Background of Digital Economy***

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**Abstract:** Under the background of globalization and digitalization in the 21st century, the digital economy is reshaping the global economic map with its unique charm and unlimited potential at an unprecedented speed. However, with the rapid development of digital economy, the traditional international tax system is facing unprecedented challenges and impacts. The purpose of this paper is to comprehensively and deeply analyze the development trend of international tax reform under the background of digital economy, discuss its impact on China's tax system, and put forward a series of practical countermeasures. Through comprehensive analysis of the practice and future trend of tax reform in international organizations and major countries, combined with the uniqueness of China's digital economy and the current tax situation, this paper attempts to provide scientific basis and practical guidance for China to take the initiative in global tax governance, protect national tax interests and promote the deep integration and coordinated development of China's tax system and international tax rules.

## **1. Introduction**

With the rapid development and wide application of information technology, digital economy has become an important engine to promote global economic growth. However, the cross-border, intangible and real-time characteristics of the digital economy make the traditional international tax system based on entity and regional jurisdiction face great challenges. In response to this change, international organizations, governments and tax authorities are actively seeking the innovation of international tax rules to build a fairer, more transparent and more efficient global tax governance framework.<sup>[1]</sup> In this context, as a country with a huge digital economy and a constantly improving tax system, how to seize opportunities and meet challenges in the wave of international tax reform has become an important issue to be solved urgently. This paper will discuss the development status of international tax reform, the current situation analysis of China under the background of international tax reform and the countermeasures.

## 2. Development status of international tax reform

### 2.1 Tax reform initiatives and actions of international organizations

In recent years, international organizations such as the Organization for Economic Cooperation and Development (OECD) and the United Nations Tax Committee have played a decisive role in international tax reform. The BEPS project of OECD has far-reaching influence on a global scale<sup>[2]</sup>. According to statistics, since the implementation of the project, more than 100 countries and regions have participated in it, and countries have increased their tax revenue by tens of billions of dollars every year through measures such as amending domestic tax laws and strengthening tax collection and management. For example, a European country adjusted the transfer pricing of multinational enterprises by implementing BEPS-related suggestions, which increased the tax revenue by about 2 billion euros.

In the "two-pillar" scheme promoted by the Organization for Economic Cooperation and Development (OECD), the first pillar aims to ensure that multinational enterprises share taxes reasonably in market countries. And the digital service tax, as an important measure among them, further guarantees that the tax contributions of multinational enterprises in market countries are more reasonable and fair by levying taxes on multinational enterprises providing digital services, so that the tax rights and interests of market countries in digital economic activities can be better safeguarded. It is estimated that if the first pillar scheme is fully implemented, more than \$100 billion of global profits will be redistributed to market countries for taxation every year<sup>[3]</sup>. The second pillar focuses on setting the lowest tax rate in the world, preventing multinational corporations from avoiding tax through countries with low tax rates, and is expected to effectively reduce the profit transfer behavior of multinational corporations and increase the tax revenue of countries<sup>[4]</sup>.

### 2.2 Tax reform practice in major countries and regions

The European Union took the lead in implementing the digital service tax, which taxed the income of large multinational Internet companies providing digital services. For example, France imposes a digital service tax on Internet giants such as Google and Amazon. In 2019, the French digital service tax revenue was about 500 million euros. This move has aroused widespread concern in the international community and prompted other countries to consider similar tax policies<sup>[5]</sup>.

The United States has strengthened the tax collection and management of overseas income of multinational corporations through the global low tax revenue of intangible assets (GILTI) and the tax base erosion and anti-abuse tax (BEAT). According to the data of the U.S.<sup>[6]</sup> Treasury Department, after the implementation of GILTI, the effective tax rate of overseas profits of American multinational corporations has increased. From 2018 to 2020, American multinational corporations increased their tax payment by about \$50 billion due to GILTI and BEAT.

It is learned from relevant online data reports that India has imposed a 6% equalization tax on digital advertising services since 2016, mainly targeting digital advertising services provided by non-resident enterprises to Indian residents. According to the statistics of the Indian tax authorities, during the period from 2017 to 2019, the amount of equalization tax collected increased year by year, reaching approximately 20 billion rupees, 30 billion rupees and 40 billion rupees respectively, which has effectively increased India's tax revenue in the digital economy.

### 2.3 Forecast of the development trend of international tax reform

In the future, international tax reform will pay more attention to the fairness and sustainability of

tax revenue, strengthen tax supervision of multinational enterprises, and promote technological innovation of tax collection and management. With the continuous expansion of digital economy, how to reasonably define the tax jurisdiction of digital goods and services, how to effectively combat cross-border tax evasion and how to balance the tax interests of various countries will become the core issues of international tax reform. In addition, the implementation of the lowest tax rate in the world, the implementation of digital service tax and the intelligent upgrade of tax collection and management technology will also become an important trend of international tax reform. These trends will profoundly affect the global tax pattern and the formulation and implementation of tax policies in various countries<sup>[7]</sup>.

### 3. Analysis of the current situation of China under the background of international tax reform

#### 3.1 China digital economy development status and tax characteristics

As a major country in the digital economy, China's digital economy has become an important force in promoting economic growth. In recent years, the scale of China's digital economy has continued to expand, its innovation capabilities have been constantly enhanced, and new business forms and models have emerged continuously.

In 2017, the scale of China's digital economy reached 27.2 trillion yuan, with a year-on-year growth rate of 20.3%, accounting for 32.9% of the Gross Domestic Product (GDP). In 2023, the scale of China's digital economy reached 53.9 trillion yuan, an increase of 3.7 trillion yuan compared with the previous year. The growth rate has entered a relatively stable range, accounting for 42.8% of the GDP, 1.3 percentage points higher than that of the previous year. The nominal growth rate of the digital economy is 7.39%, 2.76 percentage points higher than the nominal growth rate of the GDP in the same period. The contribution rate of the digital economy growth to the GDP growth has reached 66.45%. For details, see Table 1.

Table 1: Data on Digital Economy in China

Indicator	details
age	2017
Scale of digital economy (trillion yuan)	27.2
Year-on-year growth rate of digital economy (%)	20.3
Proportion of digital economy in GDP (%)	32.9
age	2023
Scale of digital economy (trillion yuan)	53.9
Growth scale over the previous year (trillion yuan)	3.7
Nominal year-on-year growth rate of digital economy (%)	7.39
Proportion of digital economy in GDP (%)	42.8
Contribution rate of digital economy growth to GDP growth (%)	66.45

Note: The data are sourced from online research.

From the perspective of innovation in core industries of digital economy, in 2023, the number of invention patents granted in core industries of digital economy in China was 406,000, up 21.2% year-on-year, accounting for 44.1% of invention patents granted. By the end of 2023, the effective number of invention patents in the core industry of digital economy in China was 1.953 million, accounting for 39.1% of the effective number of invention patents, of which 1.602 million were domestic, accounting for 39.2% of the effective number of domestic invention patents. The rapid

development of digital economy gave birth to new business models and formats such as sharing economy and platform economy. As shown in Table 2.

Table 2: Relevant data of core industry innovation in digital economy

Description	Specific Data
The transaction scale of China's sharing economy market in 2020	Approximately 3377.3 billion yuan
The year-on-year growth rate of China's sharing economy market transaction scale in 2020	Approximately 2.9%
The estimated annual increase in tax expenditures of a certain Chinese technology enterprise	Approximately 50 million yuan
The average annual growth rate of China's cross-border e-commerce retail import tax revenue from 2019 to 2021	Approximately 20%

Note: The data are sourced from online research.

Taking the sharing economy as an example, in 2020, the transaction scale of China's sharing economy market was about 3,377.3 billion yuan, up by about 2.9% year-on-year. The scale of users and transactions in the fields of shared travel and shared accommodation has been expanding, but it has also brought new challenges to tax collection and management, such as the difficulty in determining tax subjects and obtaining transaction information.

### 3.2 The impact of international tax reform on China

With the implementation of the lowest tax rate in the world and the digital service tax, multinational enterprises in China may face higher tax costs. For example, if a China science and technology enterprise conducts business in many overseas countries, its effective tax rate in low-tax countries will increase, and it is estimated that its tax expenditure will increase by about 50 million yuan every year, which will have a certain impact on its profitability and market competitiveness.

International tax reform promotes the reform and perfection of China's tax system. China learns from international advanced experience and constantly optimizes its tax collection and management system. For example, in recent years, China has strengthened the tax collection and management of cross-border e-commerce. Through the establishment of a cross-border e-commerce tax supervision platform, real-time monitoring and analysis of cross-border e-commerce transaction data have been realized, effectively improving the efficiency of tax collection and management. From 2019 to 2021, the tax revenue of cross-border e-commerce retail imports in China increased by about 20% annually.

## 4. China's strategic suggestions for international tax reform

### 4.1 Actively participate in the formulation of international tax rules

China has actively participated in the discussion and research on the formulation of international tax rules in OECD and other international organizations. For example, in the follow-up of the BEPS project, China put forward some suggestions on improving transfer pricing rules and strengthening tax information exchange, which received extensive attention and recognition from the international community and contributed China wisdom to the improvement of the global tax governance system.

Through this all-round communication and coordination, we will promote the establishment of a fairer, more transparent and more sustainable international tax system.

At the same time, China needs to participate more actively in relevant activities of international

organizations. In international organizations such as OECD, China should deeply participate in the discussion and research on the formulation of international tax rules, and put forward constructive suggestions in line with the global development trend with its own practical experience and theoretical research results in the field of digital economy. In the United Nations Tax Committee, China should also play an active role, closely cooperate with developing countries, reflect the special demands of developing countries in international tax reform, and contribute to the formulation of international tax rules with the wisdom of China and China's plan. This attitude of active participation can not only significantly enhance China's voice and influence in the field of international taxation, but also enable China to take more initiative in the formulation of international tax rules, create a more favorable tax environment for China's multinational enterprises, avoid unfair treatment due to unreasonable tax rules in international market competition, protect their legitimate tax rights and interests, and promote their stable development on a global scale.

#### **4.2 Improve domestic tax laws and regulations**

Clarify the provisions on tax collection and management of digital goods and services. Taking online education service as an example, according to its service mode and charging method, the corresponding tax classification standard and collection method are formulated, and the value-added tax is levied at 6% of service income, which effectively regulates the tax collection and management of online education industry.

Strengthen tax supervision on cross-border transactions and emerging formats. Establish and improve the tax information collection and monitoring mechanism, such as sharing data with customs, foreign exchange management and other departments to grasp the transaction data of cross-border e-commerce enterprises in time. In 2022, China tax authorities obtained more than 1 billion pieces of cross-border e-commerce transaction information through data sharing, and accordingly investigated and dealt with many tax violations of cross-border e-commerce enterprises, recovering tax losses of about 300 million yuan. The tax authorities have a deep understanding of the global business layout of multinational digital enterprises. For example, after a comprehensive review of the business of a large multinational Internet enterprise in China, it was found that it reduced its tax payment in China through unreasonable profit transfer, and after adjustment, the enterprise paid back taxes and late fees of about 200 million yuan.

#### **4.3 Optimize tax collection and management measures**

Strengthen the information construction of tax collection and management. For example, Shenzhen Taxation Bureau has established an intelligent tax collection and management platform by using big data technology, which integrates the information resources of taxpayers' declaration data and invoice data in the city, and realizes automatic analysis and risk early warning of taxpayers' behavior. In 2023, more than 100,000 abnormal declaration behaviors were discovered and handled through this platform, which effectively improved the efficiency and accuracy of tax collection and management.

Strengthen the supervision of cross-border transactions of digital goods and services. Establish a special tax supervision mechanism for cross-border digital transactions, and clarify the supervision responsibilities of customs, taxation and other departments. For example, in a cross-border e-commerce comprehensive experimental zone, the customs and tax authorities jointly launched a pilot supervision of cross-border digital commodity transactions. By strengthening information sharing and collaborative law enforcement, the whole process of supervision of cross-border digital commodity transactions was realized, and the tax compliance rate of cross-border digital

commodity transactions increased by 20% during the pilot period. Establish a professional audit team for multinational digital enterprises. For example, Jiangsu Provincial Taxation Bureau has set up a special audit team for multinational digital enterprises to conduct regular audits of multinational digital enterprises within its jurisdiction. During the period from 2021 to 2023, the group completed more than 50 audit projects, and made up taxes and fined about 500 million yuan, effectively regulating the tax payment behavior of multinational digital enterprises.

#### 4.4 Promote digital economy industry development and tax coordination

Increase support for the digital economy industry. The government encourages enterprises to increase their investment in digital technology research and development, innovative applications and other aspects through financial subsidies, tax incentives and other policy means. For example, during the period from 2020 to 2023, the state granted a total of 10 billion yuan of special subsidies to enterprises engaged in research and development of key digital technologies such as artificial intelligence and big data, and granted tax incentives such as R&D expenses plus deduction to qualified digital economy enterprises, and reduced or exempted corporate income tax by about 20 billion yuan, effectively promoting technological innovation and development of digital economy industries.

Strengthen the coordination between digital economy industry and tax policy. When formulating tax policy, fully consider the development stage and characteristics of digital economy industry. For example, for the digital economy enterprises in the initial stage, a three-year enterprise income tax reduction and exemption policy was given to help them tide over the difficulties. According to statistics, from 2018 to 2020, about 100,000 digital economy start-ups nationwide benefited from this policy, and the corporate income tax was reduced by about 5 billion yuan, which strongly supported the development and growth of the digital economy industry.

### 5. Conclusion

Under the background of digital economy, international tax reform has become an important topic in the global tax field. As a big country of digital economy and tax revenue, China should actively participate in the process of international tax reform, improve the domestic tax system and optimize tax collection and management measures, so as to promote the coordinated development of digital economy and tax revenue. By strengthening international cooperation and exchanges and promoting technological innovation in tax collection and management, China will seize the initiative in the wave of international tax reform and safeguard national interests. At the same time, China should actively respond to the challenges and opportunities brought by the international tax reform, promote the sustained and healthy development of the digital economy industry, and contribute to building a fairer, more transparent and more efficient global tax governance system. In the new pattern of global tax governance, China will continue to play an active role and contribute China's wisdom and strength to the prosperity and development of the global economy.

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