

Case Study on the Cross-border Electronic Tax Service for Non-resident Enterprises

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Abstract: In recent years, The State Taxation Administration (STA) of China has actively promoted electronic tax service and achieved remarkable results. However, due to issues such as identity authentication, non-resident enterprises are unable to enjoy efficient and convenient cross-border electronic tax service. In response to this, the STA has developed the scenario of "Cross-border Electronic Tax Service for Non-resident Enterprises" on the national electronic tax platform. This allows non-resident enterprises from anywhere in the world to deal with tax matters online in a fully streamlined, one-stop and intelligent manner. The scenario also allows various online tax payment methods for overseas transactions. Therefore, it truly helps create an internationalized electronic tax platform that breaks the geographical barrier.

Keywords: Non-resident enterprises, cross-border tax service, intelligent tax calculation, electronic tax filing

I .Problems

Over the past years, against the backdrop of economic digitization and globalization, the STA has explored the digital transformation of tax administration to built smart taxation. With the continuous upgrade of the electronic tax platform and the application of tax big data, "mobile-based" and "online-based" taxation have become the mainstream. Currently, the scope of electronic tax service has expanded to 233 items, achieving online processing for 96% tax and fee matters and 99% tax filing.

However, such online channels were previously designed for domestic enterprises and individuals, so non-resident enterprises outside China were unable to enjoy cross-border electronic tax service. For example, when a non-resident enterprise

transferred domestic equity to another non-resident enterprise, it was required to declare and pay tax to Chinese tax authority on its own. Without access to the electronic tax platform, it had to dispatch someone or entrust intermediaries to handle tax related matters within China. Compared to resident enterprises, non-resident taxpayers faced higher tax filing costs, longer processing time, and less satisfying user experience.

II. Case Study

Constraining factors confronted by non-resident enterprises in cross-border tax filing are as follows:

(1) Identity Verification

To protect taxpayers' information security, the STA requires enterprises to obtain trusted identities through "real-name authentication" during registration. However, users from non-resident enterprises have difficulties in passing the authentication process as they cannot provide domestic ID documents or domestic mobile phone numbers. Therefore, they have to dispatch someone or entrust intermediaries to handle tax-related matters in person at domestic tax offices, which is relatively inconvenient.

(2) Duplicate Registration

Non-resident enterprises that derive income from China but do not have establishments or places in China do not need tax registration. In previous operation, local tax authorities would assign them a temporary registration number to identify their transactions in the tax system. However, as each province built its version of the electronic tax platform, non-resident enterprises obtained multiple temporary registration numbers accordingly on different platforms, which led to a relatively unfriendly tax filing experience.

(3) Insufficient Language Options and Policy Guidance

Previously, the electronic tax platforms of different provinces in China only provided services in Chinese, without adequate English versions of policy explanation and tax filing guidance. As non-resident enterprises were not familiar with Chinese tax laws, they might encounter difficulties such as failure to start a tax filing, inefficient process and miscalculation in tax payable.

(4) Inconvenient Cross-border Tax Filing

Without bank accounts in China, most non-resident enterprises fail to pay tax

through automatic deduction agreements between competent tax authorities and banks. Therefore, after filing tax, they need to go to a bank branch to complete the payment themselves. In practice, international remittances are subject to variation due to factors such as remittance methods, intermediary bank numbers, and the efficiency of inter-bank processing. What's worse, fluctuation in exchange rates may cause difference between the amount remitted and the tax payable, resulting in additional tax charge or refund.

III. Solutions

The STA has endeavored to address the above problems in order to promote the convenient, intelligent and high-quality development of international tax service. Seizing the opportunity of the fourth phase of the Golden Tax Project construction, the STA has conducted extensive research on the successful experiences of various countries worldwide. So far, an internationalized electronic tax platform featuring a full user coverage borderless tax service has been established. The characteristics of the new platform are as follows:

(1) New Method of Identity Verification

For non-resident enterprises that cannot pass the traditional real-name authentication, a new solution has been created based on "email registration + document upload + on-line verification". Non-resident enterprises can replace domestic mobile phone number with email address for information interaction and identity verification with the tax authorities. The overall process is as follows: For the initial registration, the non-resident enterprise registers an account using an email address. The unified identity management platform then generates a verification code, which is then sent to the user's email address using the Internet email interface. The non-resident enterprise logs into the electronic tax platform using the verification code, enters information such as business certificate and completes the authentication process after manual review by the tax authority.

(2) Unique Identification Code Nationwide

The STA has developed a new function called "Unique Identification Code" for tax registration, which assigns a sole nationwide non-resident enterprise identity code. The overall process is as follows: Based on the information submitted by the non-resident enterprise during registration, the tax authority will provide the enterprise a unique identity code (format: FJ+3-digit country/region code+8-digit registration date+4-digit nationwide sequential code+1-digit check code) and create a nationwide identity profile. Once registering on any electronic tax platform of China,

non-resident enterprises can log into all of 36 provincial electronic tax platforms to deal with their tax related matters, achieving "registration in one place, recognition nationwide with one code".

(3) Smart and Bilingual Taxation Scenario

To enhance the user experience, we have made significant optimization and design to the tax system. Firstly, we have built a cross-border bilingual taxation environment for non-resident enterprises, providing users with a simple yet clear interface. Secondly, we have integrated several fragmented but interconnected tax procedures to form a streamlined tax scenario. With guiding services on it, the scenario can provide non-resident enterprises with pre-filled form and element-based tax filing service. Thirdly, we have created an "Intelligent Tax Calculator" to automatically calculate taxes for taxpayers. This calculator incorporates over 80 auxiliary judgment questions, forming more than 400 policy judgment logic points. Through the application of 16 predefined formulas, it can intelligently determine tax obligations and make automatic calculation.

(4) Multiple Online Tax Payment Methods

The STA has strengthened cooperation with China's foreign exchange management department, UnionPay, third-party payment institutions, and other settlement organizations. Through multi-party coordination efforts, the electronic tax platform currently supports real-time tax payment through UnionPay cards, direct remittance from overseas accounts, automatic deduction from domestic accounts, and other methods. This not only improves the convenience of tax filing but also minimizes the possibility of tax refund or additional charge due to fluctuation in exchange rates.

IV. Assessment and Results

"Cross-border Electronic Tax Service for Non-resident Enterprises" scenario is the first innovative scenario ever launched by the STA nationwide in 2023. It has effectively addressed the challenges faced by non-resident taxpayers and enhanced the confidence of non-resident enterprises in investing in China. Since the launch of the scenario, over a hundred non-resident enterprises have registered and logged into the electronic tax platforms of different provinces. They have remotely handled tax related matters such as non-resident enterprise identity information collection and tax declaration, with considerable online tax payment. Overall, the "Cross-border Electronic Tax Service for Non-resident Enterprises" scenario has achieved the following goals:

First, cross-border taxation cost has been reduced. With the help of this scenario, non-resident enterprises can easily log into electronic tax platform at any time, regardless of the border barriers, to complete tax declaration. Enterprises no longer need to dispatch personnel to China for taxation, saving a significant amount of time and financial costs. The efficiency of tax processing has been improved from taking nearly 10 days for a single declaration and payment to less than 1 hour, achieving a 99% increase in efficiency.

Second, the cross-border taxpayers' experience has been improved. We have built a bilingual (Chinese-English) taxation scenario and translated various documents involved in the cross-border taxation process for enterprises. This helps non-resident enterprises to use the electronic tax platforms more conveniently and clearly. We also provide user-oriented guidance services so that non-resident enterprises can easily complete the entire taxation process with the assistance of the system, without having to remember multiple operational steps.

Third, the certainty of cross-border taxation has been enhanced. With the help of our well-conceived "Intelligent Tax Calculator," non-resident enterprises only need to provide necessary contract information to intuitively understand their tax obligations within China. This minimizes the compliance risks associated with insufficient knowledge of tax policies. The STA will continue to upgrade and provide tax calculation functions for enterprises before signing contracts, further enhancing tax certainty for cross-border taxpayers and reducing the compliance risks for enterprises.

The first beneficiary of this scenario after its launch was a company from the Netherlands. In an equity transfer transaction involving three domestic enterprises in China, the company completed all tax-related matters online, including user registration, multi-location tax declarations and tax payment within one hour.

V. Limitations and Suggestions

Firstly, we will strengthen the publicity efforts. After the launch of the scenario, we have conducted publicity among foreign investors through various means such as newspapers, television news, and other social media. However, the frequency of non-resident enterprises using this scenario is still not high. In the next phase, we will continue to enhance publicity and guidance, encouraging and leading more non-resident enterprises to use this convenient tax service channel.

Secondly, we will enhance knowledge sharing. The scenario is a valuable exploration and successful practice of the STA in building a convenient global tax service channel. We would be privileged to share our experience and provide reference for the construction of electronic tax platforms in other countries.

Thirdly, we will continue to optimize and upgrade. The advanced concepts used in the development of this scenario, such as user orientation, data-driven approach and intelligent guidance, will be further explored and applied to more tax service systems. In the future, we will forge ahead with efforts to provide higher-standard and more convenient services for global taxpayers.