

State Administration of Taxation Annual Report

(2016)

State Administration of Taxation
People's Republic of China

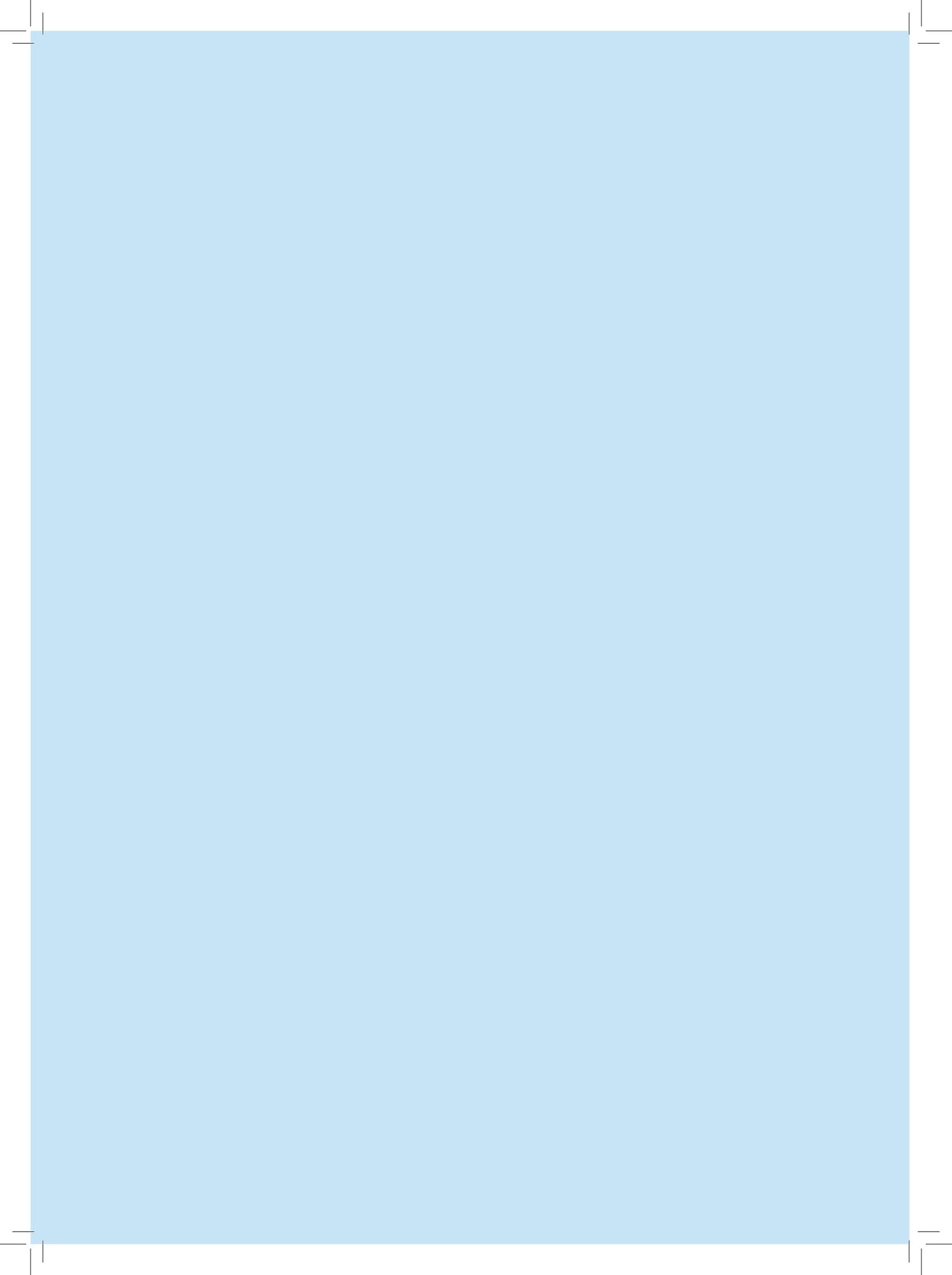


Table of Contents

3/ Commissioner' s Message

6/ Development Strategy

12/ Hot Topics

18/ Tax Administration Organizational Structure

28/ China Tax System

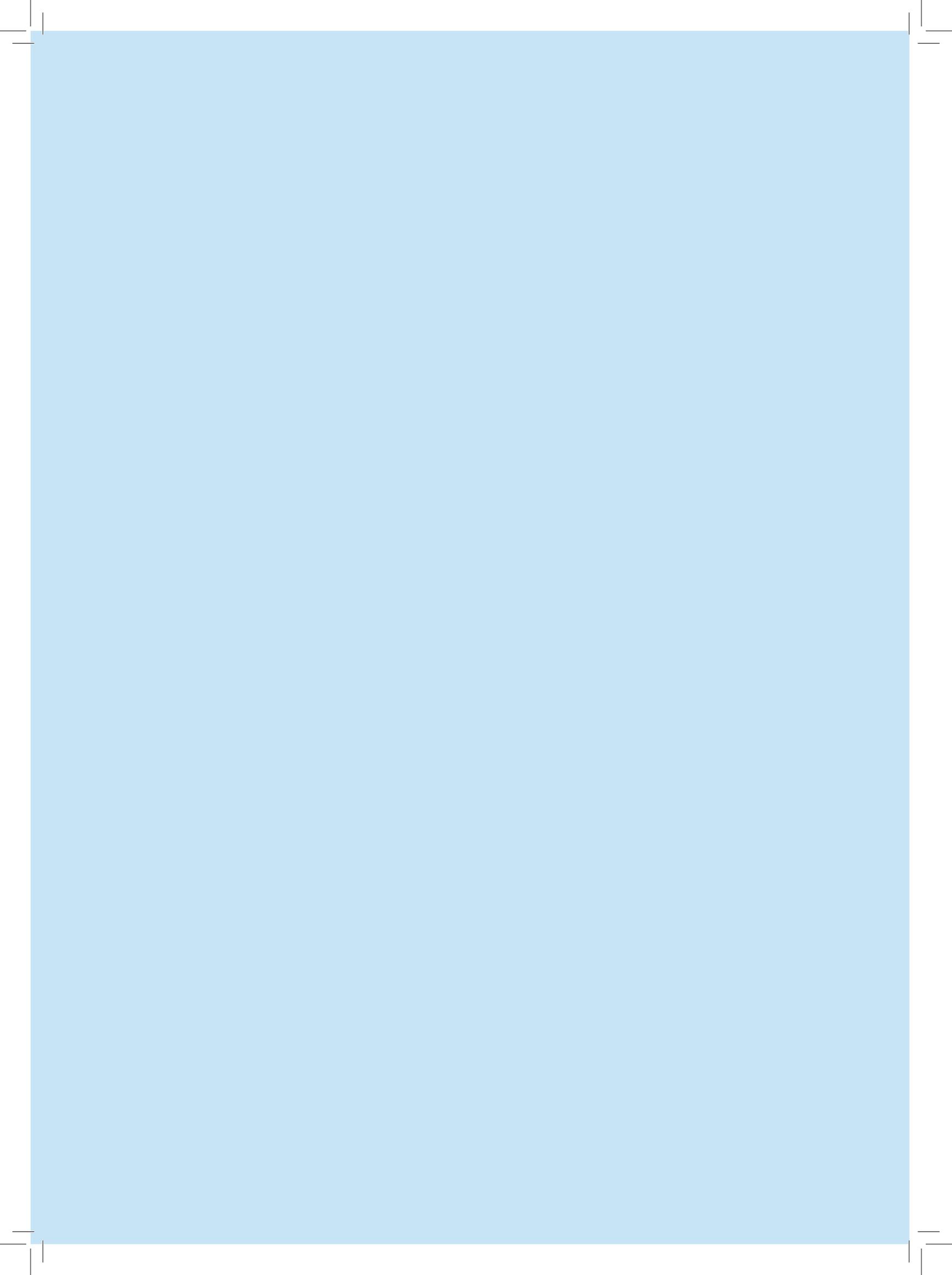
38/ Revenue Statistics

46/ Taxpayer Service

58/ Tax Administration

74/ Development of IT-Based Taxation

82/ Exchanges and Cooperation





Commissioner's Message

As Commissioner of the State Administration of Taxation (SAT) I am pleased to present you with *The SAT Annual Report 2016*. This annual report sets out the ongoing transformation of the SAT, and its notable recent achievements, detailing our vision, strategic plans, organizational structure, tax regime, revenue collection, tax administration, service delivery, digital innovations and external affairs. 2016 was a significant year for us and I would like to express my appreciation to all stakeholders, throughout the entire community, without whose consistent support we could not have achieved our goals.

In 2016, the Chinese government made significant progress with its economic and social development agenda, stepping up supply-side economic reform efforts in line with an overall goal of “upward, and stable” growth. The year's achievements represented a good beginning to China's 13th Five-Year Plan for National Economic and Social Development. Against this backdrop, the SAT exerted considerable efforts to deliver on the government's priorities and meet our service commitments to the community. The tax revenue collected in 2016 reached 11.6 trillion RMB (exclusive of export tax refund), a 4.8% increase on previous year. This is widely considered to be a healthy result, reflecting China's current economic circumstances and providing solid financial support

to programs for the economic and social well-being of the people.

The SAT's steady progress with tax system transformation in the course of 2016 included: 1) The pilot program of Business Tax to VAT Reform was finalized with better-than-expected outcomes, particularly in light of its wide scope and high level of complexity. 2) Carried out in the context of *The Blueprint for Deepening the Reform of Tax Collection and Administrative Systems of State and Local Tax Administrations*, Resource Tax was further revamped and enriched with detailed instructions on preferential policies to ensure benefits to certain targeted categories of enterprises. 3) The "Spring Breeze" Plan, a series of initiatives to increase the satisfaction of taxpayers, continued to be conducted into its third consecutive year. 4) The 10th Plenary of the Forum of Tax Administration (FTA), hosted by the SAT in May 2016, was a great success, bringing together the heads of 44 tax administrations and 150 delegates to discuss and tackle tax avoidance and evasion as well as to promote global tax cooperation and transparency. 5) Digitalization of tax services was made an even more integral part of SAT work. The "Internet + Tax" and the "Golden Tax Project Phase III" are two key programs to conduct real-time review, and reinvent our operations and service products, with effect at all levels of tax offices. 6) To enhance the engagement of the workforce as well as to reallocate human resources effectively, the Performance Management System and *e-Personnel* were introduced by establishing a personal account for each staff member to maintain a regular working log.

Looking ahead, China will continue to take policy action in line with the agenda set out in the 13th Five Year Plan in 2017, in particular maintaining efforts in relation to supply-side structural reform. There is no doubt that the SAT will continue to deliver on the central government's priorities, to safeguard China's tax revenues, and to reinvent performance across the board. In the

meantime, the SAT will further strengthen the role of taxation as one of the pillars underpinning public governance, which will in turn contribute to the economic and social well-being of the Chinese people.

China has been working intensively with other jurisdictions across the globe to drive action in the international tax arena. In the course of these ongoing efforts, the SAT will go every length to meet its commitments to the government by further rolling out new Base Erosion and Profit Shifting (BEPS) rules nationally, implementing the new measures endorsed at the FTA plenary, helping developing and low-income countries to improve their capacity in tax collection and administration, and by expanding China's tax treaty network with the jurisdictions prioritized in the Belt and Road and International Capacity Cooperation initiatives . We seek to join hands with tax authorities across the globe to establish cooperative and reciprocal relationships in international tax administration.

This Annual Report provides you with some brief but key information of the SAT. As the old Chinese saying goes, "trust starts with getting acquainted" . I would like to invite you to get to know more about us. Again, I express my sincere gratitude for your valuable support and contribution to us.

Wang Jun

Commissioner, the SAT

April, 2017

Development Strategy

— Reinvention to Tax Modernization by 2020

◇ **Vision of Tax Modernization**

◇ **Strategic Plan—Six Systems**

With regard to the goal of Central Government, namely comprehensively deepening reform and establishing a modernized governance framework and capabilities, the SAT has set its future strategic plan to reinvent the "Six Systems". This focuses on legislation, institutions, service, administration, technology and personnel.

Vision of Tax Modernization

Public confidence, trust in, and respect for the tax authorities are secured, leading to enhanced levels of taxpayer satisfaction and compliance.

Tax administration makes clear that it is one of the central pillars of the national governance regime and a key support to national governance capacity, while taxation is empowered with fundamental, supportive and constructive functions in national governance.

China becomes a strongly influential player on the international tax stage and plays a significant role in guiding global tax governance into a bright future.

Strategic Plan—Six Systems

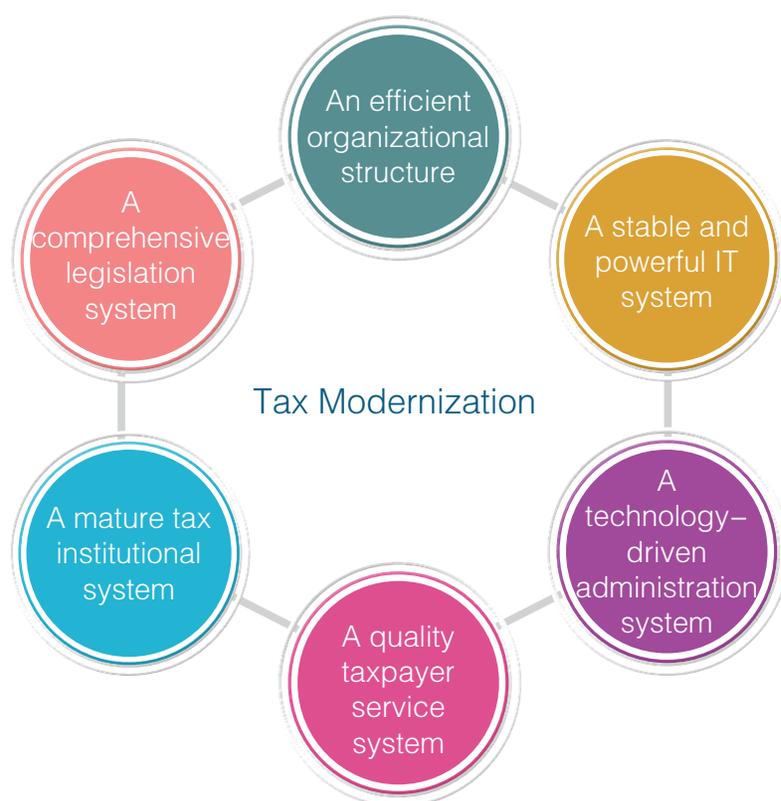


Figure 1 Strategic Plan of Tax Modernization

» A comprehensive legislation system

The SAT is committed to ensure the implementation of the principle of “Statutory Taxation” by

- ◆ improving Chinese tax law with strong effectiveness,
- ◆ promoting standardized tax process with increased openness and transparency,
- ◆ making enforcement consistent with effective administration and monitoring,
- ◆ reducing compliance costs, and
- ◆ providing reliable and timely legal remedies.

» A mature tax regime

The SAT aims at reinventing the tax regime in modernized form, with scientifically-designed tax categories, an optimized tax structure, comprehensive tax legislation, just and fair regulation and a highly efficient tax collection and administration apparatus, thus bringing the taxation function into full play in its national governance role.

» A high-quality taxpayer service system

The SAT should provide services noted for their efficiency, cost-effectiveness and standardization. The SAT should work to increase the satisfaction of taxpayers, and their perception that valuable services are received, by minimizing the compliance burden, meeting taxpayers’ expectations and supporting voluntary compliance. This is to be achieved by emphasizing a taxpayer-oriented service concept, setting formal service standards, cutting red tape, providing government-wide collaborative

services on a regular basis, and improving the tax payment system.

» **A technology-driven administration system**

- ◆ A risk-oriented and taxpayer-segmented, updated administration framework should be structured in line with tax regime reforms, the geographical allocation of revenue resources, technology innovations and local tax administration resources.
- ◆ A new tax administrative framework targeted at natural persons should be established.
- ◆ The SAT should step up the digitalization and internationalization of tax collection and administration and acquire powerful IT-based tax administration capacity and judicial protection capacity.
- ◆ The SAT should act upon accurate risk control and management systems and data to deter non-compliance and crack down on tax crimes.
- ◆ The SAT is committed to reducing the tax gap and to raising the compliance rate up to the average level of mature market economies.

» **A stable and powerful IT system**

After the completion of the *Golden Tax Project Phase III*, the SAT will further ensure that its digitalization efforts cover all tax categories and administrative procedures. By implementing the VAT Invoice Processing System comprehensively and establishing e-tax bureaus, the SAT is taking advantage of big data analysis to

further support service delivery, tax collection and administration, and macro-level decision-making, thus giving strong support to national governance.

» **An efficient organizational structure**

With a flat organizational structure and optimal resource allocation, the SAT will efficiently foster an organized and sustainable workforce with a rigorous management regime. This includes the Performance Management System, E-Personnel and the Anti-corruption Plan. Moreover, the workforce earns its respect not only by its expertise and professionalism, but also by its integrity and ethics.

Hot Topics

- ◇ **Pilot Program of Business Tax to VAT Reform**
- ◇ **Golden Tax Project Phase III**
- ◇ **The 10th FTA Plenary in Beijing**

The reinvention efforts of the SAT have been ongoing and substantial, and the top three transformation programs are: the pilot program of business tax to VAT reform, which further optimizes China's indirect tax system and has been increasingly recognized by the international tax community; the application of the Golden Tax Project Phase III to enhance the digitalization of the SAT at all levels; and the success of 10th FTA Plenary in contributing to the wide consensus on international tax governance.

Pilot Program of Business Tax to VAT Reform

The pilot program, following its comprehensive implementation on May 1st 2016, was extended to cover taxpayers in four sectors, namely construction, real estate, financial, and lifestyle services. Notably, newly purchased immovable properties of enterprises have been included within the scope of VAT and allowed to credit the input VAT from May 2016 onwards. Following this final reform step, the VAT system in China fully follows the consumption principle and applies to the turnover from supply of all goods and services.

The consecutive implementation waves of the VAT reform pilot program have collectively cut tax revenue by 570 billion RMB, benefiting taxpayers in all sectors with reduced tax liabilities. More importantly, the transition from Business Tax to VAT boosts supply-side structural reform and supports the transformation and upgrading of enterprises. This in turn contributes to the SAT's delivery on the government's priorities, facilitating economic growth and encouraging mass entrepreneurship and innovation.

Golden Tax Project Phase III

Since its application to tax offices at all levels from Oct 2016, the Golden Tax Project Phase III has provided strong IT support and assurance for the digitalization of taxation. This ambitious project was introduced in line with the SAT's commitment to support national governance with contemporary services. To date, it has been providing real-time and secured support to authorized clients and has been

well-received in the community. Key features are:

» **Ensuring standardized tax law enforcement**

The basis platform, application software and operating standards have all been unified for the first time. This ensures the technical consistency of trace management of tax law enforcement and national taxation processes and contributes to the openness, fairness and righteousness of tax law enforcement.

» **Enhancing capability of tax collection and administration and level of taxation analysis**

Nationwide taxation information will be centralized at the SAT for the purpose of timely identification and analysis of tax risks. This will contribute to the effective prevention of tax revenue losses. It should also assist with conducting economic taxation analysis, by taking full advantage of big data to guide decision making.

» **Reducing costs of tax collection and payment**

Taxation efficiency will be improved and the burden for tax compliance will be reduced. Taxpayers will be provided with convenient taxpayer services.

» **Facilitating information sharing**

With new technologies, standards and norms in place, different government agencies will be in a better position to strengthen information sharing and leverage big data for management purposes.

The 10th Plenary of the FTA in Beijing

Between May 11th 2016 and May 13th 2016, the OECD Forum on Tax Administration (FTA) was successfully hosted in Beijing, China. This meeting brought together about 200 delegates from 38 FTA member economies, 6 invited non-member economies, 7 international organizations and 9 enterprises. It is the first time that China has hosted a global meeting in the field of tax administration. This meeting was also an important element in the preparations for the G20 Hangzhou Summit in September 2016. It signified a new starting point for China to be even more highly involved in international economic governance and to completely open up to outside world in the field of taxation.

» Achievement 1: reaching new consensus on international tax reform

The FTA paved the way for the implementation of G20/OECD's achievements in the international tax reform arena, and called on tax commissioners from member economies to take concerted actions. We also reached consensus in building a modernized tax administration system that can effectively respond to the challenges and opportunities of an increasingly digitalized world and integrate it into the way we work. Recognition was also secured for the importance of building up tax administration capacity to help all countries, in particular developing countries, to improve their tax collection and administration.

» Achievement 2: deepening new cooperation on international taxation

During the meeting, important understandings were reached in relation to strengthening cooperation on international taxation. Several bilateral and

multilateral tax agreements, as well as cooperation memorandums, were signed. Among these was the Multilateral Competent Authority Agreement for the automatic exchange of Country-by-Country reports (the "CbC MCAA"). This is an important measure to implement G20 Summit's commitment to the BEPS project, to address international tax avoidance and evasion and to strengthen the exchange of tax information.

» **Achievement 3: sharing in sights on tax governance**

Great progress was achieved in areas of tax information sharing, and addressing economic risks by means of taxation. All of these will make positive contributions to enhancing the global capability of tax governance and expedite the recovery of the world economy.

» **Achievement 4: marking a new stage in China's international tax collaboration efforts**

During the meeting, China signed the CbC MCAA and bilateral tax cooperation memoranda with the United States and with Canada, respectively. We also engaged in deep dialogues on future cooperation in the field of taxation with the United Kingdom, France and the BRICS countries. New progress was made concerning the capacity building work led by Canada. Cambodia, Pakistan, Kazakhstan and other countries along the Belt & Road, key countries for global cooperation on production capacity were, in particular, invited to discuss measures to further facilitate tax cooperation and improve taxation capability. This meeting represents the commencement of a new stage in China's deep involvement in international tax cooperation.

Tax Administration Organizational Structure

- ◇ **Organizational Structure and Responsibilities of the SAT
Head Office**
- ◇ **Organizational Structure and Responsibilities of Tax
Administrations at Provincial Level and Below**
- ◇ **Workforce Demographics**

Established previously as a directorate within the Ministry of Finance in 1950, the SAT is now an independent organization directly under the State Council. In response to the financial reform which segregated the collection and administration of tax into state and local tax administrations in 1994, the organization of the SAT is made up of a head office and co-existing state and local tax administrations at each provincial level and below. This organizational structure adopts a vertical management system, in terms of organization, personnel and budget, in relation to the state tax administrations at each level. There is a shared management framework with local governments over the local tax administrations at the provincial level and below.

Organizational Structure and Responsibilities of the SAT Head Office

The Management Board of the SAT consists of one Commissioner, four Deputy Commissioners, one Discipline Inspector, one Chief Economist, one Chief Accountant and one Chief Auditor.

As illustrated in Figure 2, the SAT head office contains 15 functional departments and 9 supporting institutions (e.g. E-tax Administration Center).

Also, the Discipline Inspection Office is designated by the Central Commission for Discipline Inspection of the Communist Party of China (CPC) within the SAT.

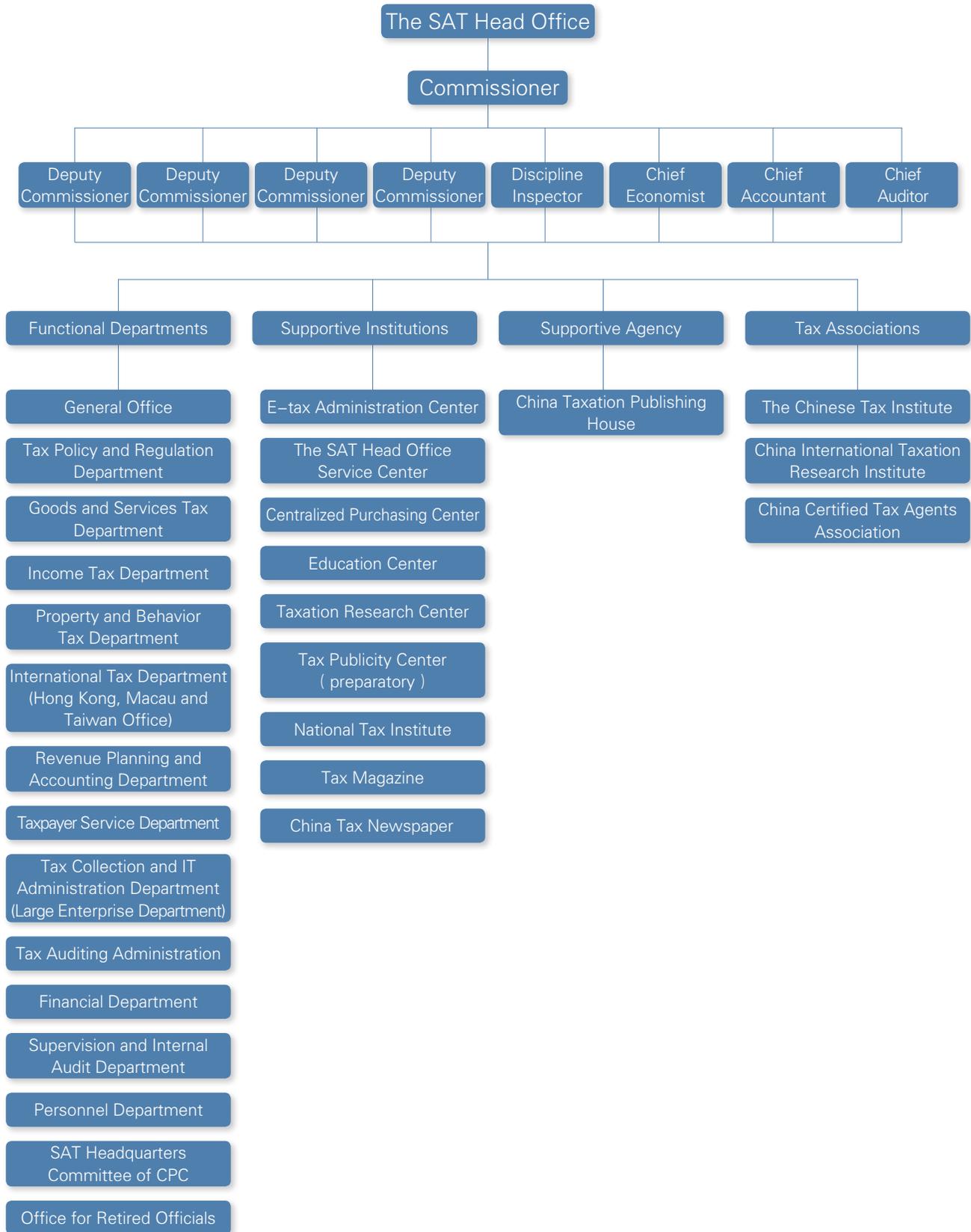


Figure 2 Organizational Structure of the SAT Head Office

» **Key responsibilities of the SAT:**

- ◆ Draft tax laws, regulations and implementation rules; provide advice on draft legislation; make joint efforts with the MOF to devise and distribute implementation measures; interpret tax laws and policies during enforcement, and report afterwards to the MOF for record-filing.
- ◆ Collect and administrate state taxes, shared taxes and legally required funds (fees) to ensure collection of the due amount of taxes.
- ◆ Participate in the design of macro-economic policies and develop state and local tax regimes, conduct research on the overall tax burden and provide tax technical decisions for positive macro-level outcomes.
- ◆ Implement reforms in relation to tax administration, including designing and drafting new laws and regulations, ensuring internal conformance and providing guidelines to local tax administrations.
- ◆ Safeguard taxpayer's rights, including establishing Service Delivery Standards and drafting laws to supervise the performance of local tax administrations.
- ◆ Exercise taxpayer-segmented management and provide tailored services to taxpayers, particularly for large taxpayers.
- ◆ Draft tax revenue medium and long term forecasts and annual plans; carry out investigations of revenue sources; analyze and forecast tax revenues; carry out tax relief measures.
- ◆ Update IT strategies; plan for sustainable IT development covering mid-term and long-term; organize and expand the Golden Tax Project.
- ◆ Expand information exchange and international cooperation; engage in international and regional tax negotiations; sign and execute tax agreements and treaties.
- ◆ Handle import/export taxation and deal with export refund claims.
- ◆ Administer vertical management of state tax administration network. Conduct shared management with local governments of local tax administration network, including appointment/dismissal of General Directors of local tax administrations at provincial level.
- ◆ Accomplish other tasks assigned by the State Council.

Organizational Structure and Responsibilities of Tax Administrations at Provincial Level and Below

The organizational structure at provincial level and below consists of tax administrations at three levels, namely provincial, municipal and county. (See Table 1 and Figure 3)

Table 1 Organizational structure of state and local tax administrations at provincial level and below (as of December 31, 2016)

Organization Hierarchy	Number	
	State Tax Administration	Local Tax Administration
Provinces, autonomous regions, municipalities directly under the central government, and municipalities with independent planning status	36	35
Sub-provincial cities	10	10
Cities with districts, autonomous prefectures and leagues	351	334
Districts in municipalities directly under the central government, and municipalities with independent planning status	142	104
Districts in cities with sub-provincial status	131	93
Counties, cities, districts, and banners	3016	2560

State tax administrations and local tax administrations are responsible for the collection of different taxes.

State tax administrations are responsible for the collection and administration of Value Added Tax (VAT), Excise Tax, Vehicle Purchase Tax; Business Tax, Corporate Income Tax (CIT) and Urban Maintenance and Construction Tax levied on the railway sector, the head offices of banks and head offices of insurance companies; CIT of enterprises invested into by the Central Government; CIT of joint ventures or joint equity enterprises set up by state/regional government-invested companies or public institutions; CIT paid by district banks and non-bank financial institutions; CIT and Resource Tax paid by offshore oil companies, etc.

Local tax administrations are responsible for the collection and administration of CIT paid by certain enterprises and public institutions, Individual Income Tax, Resource Tax, Stamp Duty, Urban Maintenance and Construction Tax, Property Tax, Urban Land Occupation Tax, Arable Land Occupation Tax, Deed Tax, Land Appreciation Tax, Vehicle and Vessel Tax, Tobacco Tax, etc.

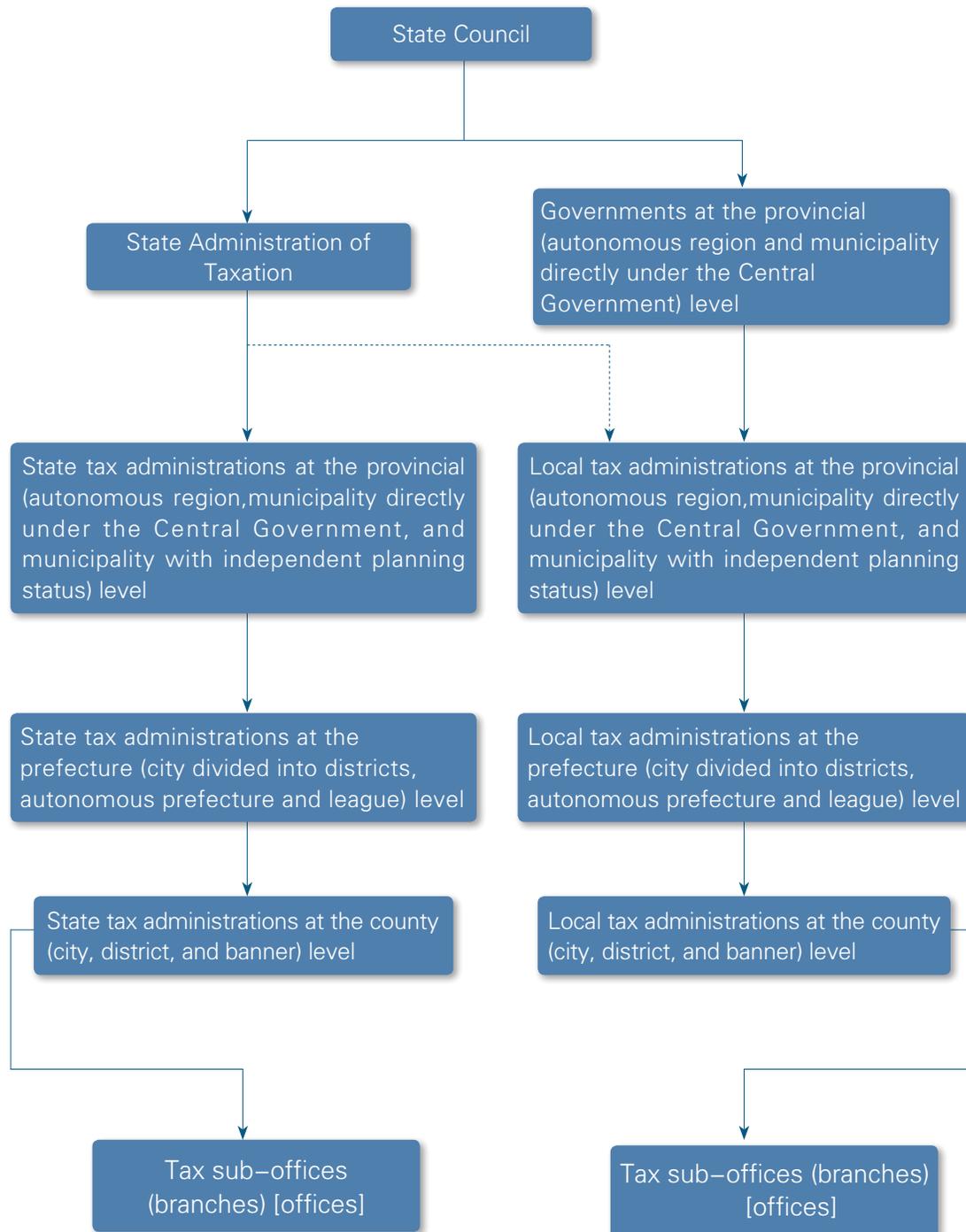


Figure 3 Organizational Chart of China's Tax Administration

Workforce Demographics

At 31st December 2016, there were 750562 tax officials in service, with 1053 in the SAT head office, 391753 in state tax administrations and 357756 in local tax administrations.

Staff Composition of the State Tax Administrations (see Figure 4):

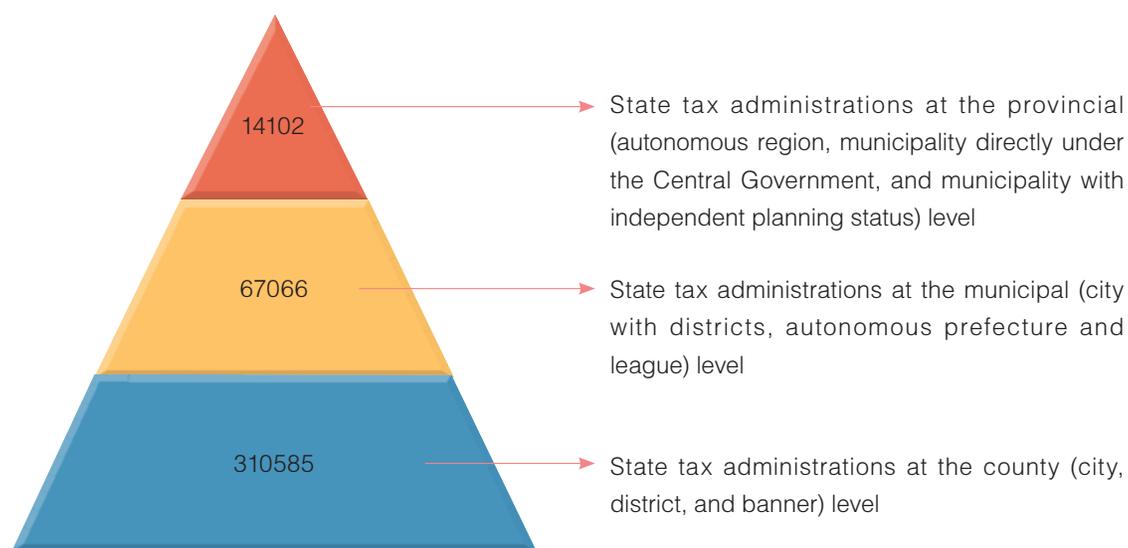


Figure 4 Workforce Demographics of the State Tax Administrations

Staff Composition of the Local Tax Administrations (see Figure 5):

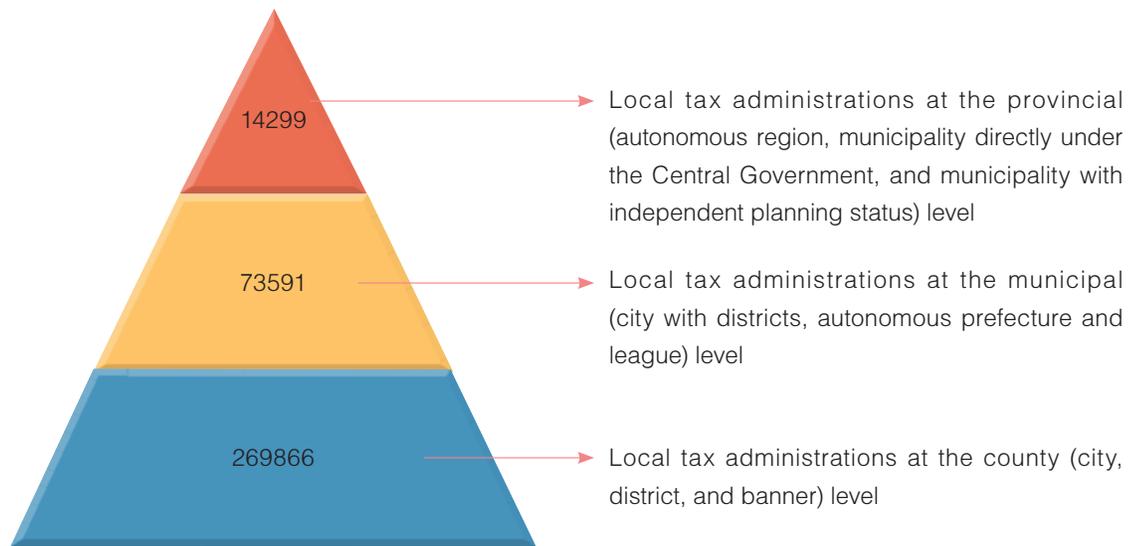


Figure 5 Workforce Demographics of the Local Tax Administrations

China Tax System

- ◇ **Current Tax System**
- ◇ **Tax System and Adjustments in 2016**

China's current tax framework was put in place after the tax reform in 1994 to meet the needs of the socialist market economy. Since the beginning of 21st century, the Chinese government has made a series of adjustments and improvements to the tax system, which have guaranteed the government's revenue stream and contributed to the country's rapid economic growth.

Milestones

2006

Agricultural Tax, which had existed for over 2000 years in China, was abolished.

2007

Urban Land Use Tax Systems for domestic enterprises (DEs), foreign enterprises (FEs) and individuals were integrated.

2008

Corporate Income Tax systems for DEs and FEs were integrated.

2009

- ◆ Real Estate Tax systems for DEs and FEs were integrated.
- ◆ Fee-to-excise tax conversion on refined oil products was adopted.
- ◆ VAT transformation from a manufacturing-oriented to consumption-oriented system was completed. Enterprises were allowed to deduct the input VAT on purchasing machinery and equipment from their output VAT.

2010

Urban Maintenance and Construction Tax systems for DEs, FEs and individuals were integrated.

2012

Business Tax to VAT Pilot Reform was carried out in the transportation sector and certain modern services sectors in several regions.

2013

Business Tax to VAT Pilot Reform was extended to other parts of China.

2014

Business Tax to VAT Pilot Reform was further extended to the sectors of railway transportation, mail and telecommunications.

2015

Progress was made with the Business Tax to VAT Reform and Excise Tax Reform. Resource Tax was reformed to be levied on an ad valorem basis.

2016

Business Tax to VAT Pilot Reform was extended comprehensively to cover all goods and services. Resource Tax Reform on an ad valorem basis was enlarged in its coverage. Environmental Protection Tax Law of the People's Republic of China, as adopted at the 25th Session of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China, will come into force on January 1st, 2018.

Current Tax System

There are 18 different kinds of taxes in China, which can be divided into three categories according to their nature. (See Table 2)

- ◆ Goods and services taxes, including VAT, Excise Tax, Business Tax, Vehicle Purchase Tax and Customs Duty.
- ◆ Income taxes, including Corporate Income Tax and Individual Income Tax.
- ◆ Property and behavior taxes, including Land Appreciation Tax, Real Estate Tax, Urban and Township Land Use Tax, Arable Land Use Tax, Deed Tax, Resources Tax, Vehicle and Vessel Tax, Stamp Duty, Urban Maintenance and Construction Tax, Tobacco Tax, and Vessel Tonnage Tax.

Table 2 Current Tax System

Serial Number	Taxes	Taxpayers	Subjects of Taxation (Basis of Taxation)	Tax Rates
Goods and Services Taxes				
1	VAT	Entities and individuals who sell goods or provide processing, repair and installation services within China or those who import goods into China	Selling and importing goods; providing processing, repair and installation services	Tax rates:17%,13%,0% Collection rate:3%
		Entities and individuals that sell services, intangible assets or immovable property within China	Selling services, intangibles and real estate	Tax rates:17%,13%,11% ,6% ,0% Collection rate:3%,5%
2	Excise Tax	Entities and individuals that engage in producing, consigned processing within China, or importing taxable consumer goods into China	15 types of consumer goods such as tobacco, alcoholic drinks, cosmetics and refined oil products	Ad valorem tax, per unit tax, or combination of both

(continued)

Serial Number	Taxes	Taxpayers	Subjects of Taxation (Basis of Taxation)	Tax Rates
3	Vehicle Purchase Tax	Entities and individuals that purchase taxable vehicles within China	Purchase of cars, motorcycles, trams, trailers and agricultural carriers	10%
4	Customs Duty	Consignee of imports, consignor of exports, and owners of articles entering China	Goods allowed to be imported into and exported from China, and articles entering China	Ad valorem tax, per unit tax, or combination of both
Income Taxes				
5	Corporate Income Tax	Enterprises within China, including resident and non-resident enterprises	Taxable income received by resident and non-resident enterprises	25% for resident enterprises, and 20% and 25% for non-resident enterprises
6	Individual Income Tax	Resident taxpayers: Individuals with domicile within China, or individuals without domicile within China, but who live within the territory of China for one year	Income obtained from within and from outside of China	Progressive rates from 3% to 45% for the income from wages and salaries; progressive rates from 5% to 35% for the income from production and operation of self-employed producers and sellers; progressive rates from 5% to 35% for the income from operation of contracted and tenanted enterprises and public institutes; and a flat rate of 20% for other types of income
		Non-resident taxpayers: Individuals without domicile within China, and who live within the territory of China for less than one year	Income obtained within China only	

(continued)

Serial Number	Taxes	Taxpayers	Subjects of Taxation (Basis of Taxation)	Tax Rates
Property and Behavior Taxes				
7	Land Appreciation Tax	Entities and individuals that transfer the right to use State-owned land, above-ground structures and their attached facilities within China, and obtain income from such transfer	The incremental value of such transfer	4-levels of progressive rates (30%, 40%, 50%, 60%)
8	Real Estate Tax	Owners of houses within cities, county towns, administrative towns and industrial and mining districts within China	Houses within cities, county towns, administrative towns and industrial and mining districts	Taxes for self-occupied houses are calculated on the basis of the residual value (70%–90% of the original cost with a tax rate of 1.2%); Taxes for rented houses are calculated on the basis of the rental income, and the applicable tax rate is 12% (Rental of personal-owned residential houses is taxed at 4% of rental income; rental of residential houses by enterprises and public institutions, social groups and other entities is taxed at a preferential rate of 4%)
9	Urban and Township Land Use Tax	Entities and individuals that use land in cities, county towns, administrative towns and industrial and mining districts	Actual area of the land occupied by the taxpayer	Land use tax per square meter per year: RMB 1.5–30 for big cities; RMB 1.2–24 for medium-sized cities, RMB 0.9–18 for small cities, and RMB 0.6–12 for county towns, administrative towns and industrial and mining districts

(continued)

Serial Number	Taxes	Taxpayers	Subjects of Taxation (Basis of Taxation)	Tax Rates
10	Arable Land Use Tax	Entities and individuals who use arable land to build houses or for other non-agricultural construction purposes within China	Actual area of the arable land occupied by the taxpayer	Differentiated tax rates for different locations
11	Deed Tax	The transferee (entities and individuals) of land and houses within China	Market price for the transferred right to use the land or the right of ownership of the house, or the price margin resulting from the exchange of the land use right and house ownership	3%–5%, purchase of houses under 90 square meters (including 90 square meters) by individuals, which is the only house of the household, is taxed at a preferential rate of 1%. purchase of houses by individuals, which is the only house of the household, is taxed at half of the applicable tax rate
12	Resources Tax	Entities and individuals engage in exploiting various taxable mineral resources or producing salt	Crude oil, natural gas, coal, other non-metal ores, ferrous ores, non-ferrous ores and salt	Ad valorem tax or per unit tax for different resources, for example, 5%–10% of the sales for crude oil and natural gas
13	Vehicle and Vessel Tax	Owners or managers of the taxable vehicles and vessels within China	Vehicles and vessels	Differentiated fixed amount tax
14	Stamp Duty	Entities and individuals who conclude or receive taxable documents in China	Taxable documents concluded or received	Flat tax rate or fixed amounts per document

(continued)

Serial Number	Taxes	Taxpayers	Subjects of Taxation (Basis of Taxation)	Tax Rates
15	Urban Maintenance and Construction Tax	Entities and individuals that pay value added tax, consumption tax and business tax	Amounts of value added tax, excise tax and business tax paid by taxpayers	There are 3 tax rates depending on the taxpayer's location, i.e. 7% (urban area), 5% (county towns, towns) and 1% (areas other than the urban area, county towns or towns)
16	Tobacco Tax	Entities that engage in the purchasing of tobacco leaves within China	Tobacco leaves purchased within China	20%
17	Vessel Tonnage Tax	Vessels entering Chinese ports from overseas ports	Vessels	Fixed Volume tax, including preferential rates and normal rates
18	Environmental Protection Tax	Enterprises, public institutions and other producers and operators that directly discharge pollutants to the environment within the territory of the People's Republic of China and other sea areas under the jurisdiction of the People's Republic of China,	Air pollutants, water pollutants, solid waste and noise pollution as prescribed in the Schedule of Tax Items and Tax Amounts of Environmental Protection Tax and the Schedule of Taxable Pollutants and Equivalent Values of the Environmental Protection Tax Law of the People's Republic of China	Governed by the Schedule of Tax Items and Tax Amounts of Environmental Protection Tax attached to The Environmental Protection Tax Law. The local people's governments determine and adjust the specific tax amounts applicable to taxable air pollutants and water pollutants within the range of the tax amounts as prescribed

* Since May 1st 2016, The VAT Pilot Program has been extended to cover all tax payers.

* The General Administration of Customs is responsible for the administration of customs duty and vessel tonnage tax. It also takes the responsibility for the collection of VAT and excise on imported goods. The Environmental Protection Tax Law of the People's Republic of China will come into force on January 1st, 2018.

Tax System and Adjustments in 2016

» Business Tax to VAT Reform was launched comprehensively.

The Business Tax to VAT Reform is not only an important strategic measure introduced at a critical time when China is upgrading its economy and further boosting its supply-side structural reform, but also a most important building block of the whole fiscal and tax reforms.

Based on the previous pilot work covering certain sectors and regions, the VAT pilot program, initially covering the transportation sector and certain modern services, was launched nationwide on August 1st, 2013. Since January 1st 2014, the pilot program was extended to cover railway transportation and postal services. Since June 1st 2014, the telecommunication services sector was also included in the pilot program. Since May 1st 2016, the VAT pilot program has been extended to cover all taxpayers in the construction, real estate, finance, lifestyle service and other sectors. As a result, VAT is applicable to all goods and services, and the input tax for VAT from newly acquired immovable properties is allowed to be deducted.

» **Preferential tax treatment for small-scale and low profit businesses was maintained.**

Since August 1st 2013, small-scale VAT and Business Tax taxpayers with monthly turnover below 20000 RMB have been temporarily exempted from their VAT and Business Tax liabilities, respectively. Between October 1st 2014 and December 31st 2015, the exemptions for VAT and Business Tax had been expanded to small-scale VAT and Business Tax taxpayers with monthly turnover ranging from 20000 to 30000 RMB. In 2015, this policy was further extended to the end of 2017. Since May 1st 2016, as the result of the Business Tax to VAT Reform, taxpayers previously paying business tax are subject to VAT. The small-scale VAT payers separately computing their revenue from the original VAT business, pilot B2V business and intangible assets business are allowed to enjoy VAT exemption, when the revenue derived from those businesses is less than 30000 RMB.

Before January 1st 2014, qualified small-scale and low profit enterprises with an annual taxable income of 60000 RMB or less were entitled to a reduction in CIT tax base of 50% and a preferential CIT rate of 20%. Since January 1st 2014, this preferential treatment has been granted to those with an annual taxable income of 100000 RMB or less. The benchmark was raised further to 200000 RMB on January 1st 2015, and to 300000 RMB on October 1st 2015.

In 2016, tax reduction and exemption policies for small-scale and low profit enterprises totaled 114.65 billion RMB, including 23.35 billion RMB in CIT reductions and exemptions and 91.3 billion RMB in VAT and Business Tax reductions and exemptions.

» **Resource Tax Reform was carried out nationwide**

On July 1st 2016, the reform of resource tax was carried out nationwide. Various fees have been gradually replaced by resource tax collected on ad valorem basis. A pilot program on water resource tax has been launched and other natural resources will gradually be included in the scope of taxation.

» **Excise Tax Reform was scaled up**

On October 1st 2016, excise tax on ordinary beauty and makeup cosmetics was abolished. The tax item “cosmetics” was redefined as “high-end cosmetics”. The tax rate applied was 15%. From December 1st 2016, excise tax is collected on the retail of super luxury cars with unit retail price of 1.3 million RMB or more (VAT not included) at the tax rate of 10%.

Revenue Statistics

- ◇ **Tax Revenue in 2016**
- ◇ **Tax Revenue Growth (1993—2016)**
- ◇ **Tax Revenue by Tax Category**
- ◇ **The Ratio of Tax Revenue to GDP**
- ◇ **The Ratio of Tax Revenue to Fiscal Revenue**

Since the fiscal reform in 1994, China's tax revenue has been rising steadily with the country's economic growth. The tax revenue increased from 507.1 billion RMB in 1994 to 14.1 trillion RMB in 2016, while the ratio of tax revenue to GDP grew from 10.5% in 1994 to 18.9% in 2016, providing a strong financial support to China's economic growth and prosperity.

Unless otherwise specified, tax revenues for the purpose of this report includes VAT and Excise Tax levied on imported goods by Customs without subtracting export refunds, but excludes Customs Duty and Vessel Tonnage Tax.

Tax Revenue in 2016

China's gross tax revenues in 2016 were 14.1 trillion RMB. 12.8 trillion RMB was collected by the SAT and 1.3 trillion RMB by the Customs authorities, accounting for 90.8% and 9.2% of the total respectively. (See Figure 6)

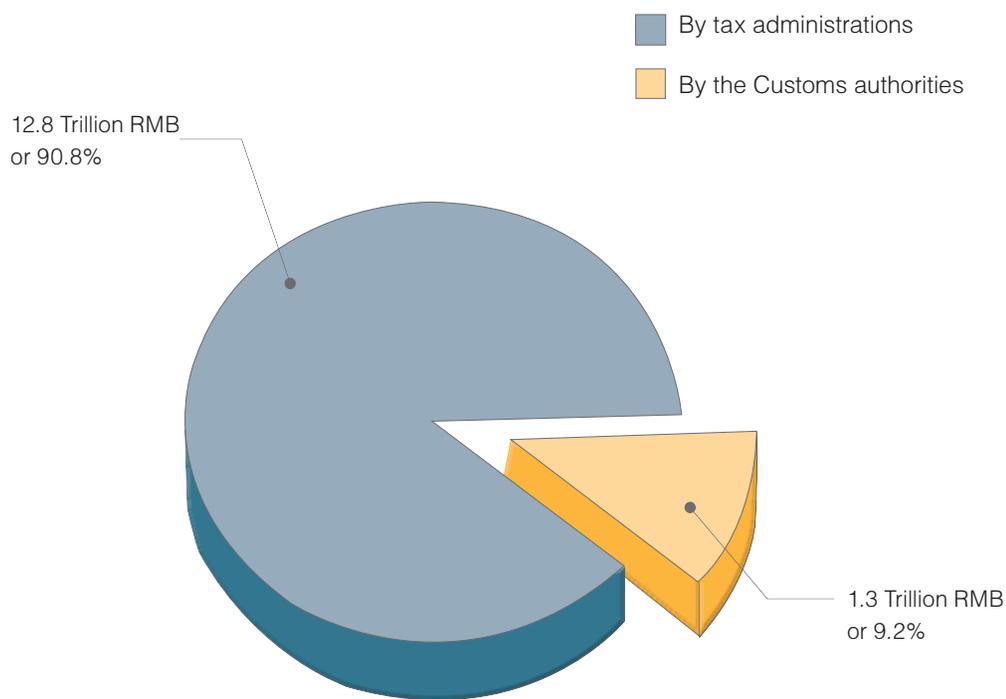


Figure 6 Tax Revenue Collected by Tax Administrations and the Customs Authorities

Tax Revenue Growth (1993-2016)

Calculated in comparable terms, tax revenue in 2016 increased on the previous year by 448.2 billion RMB, an increase of 3.3%. (See Figure 7)

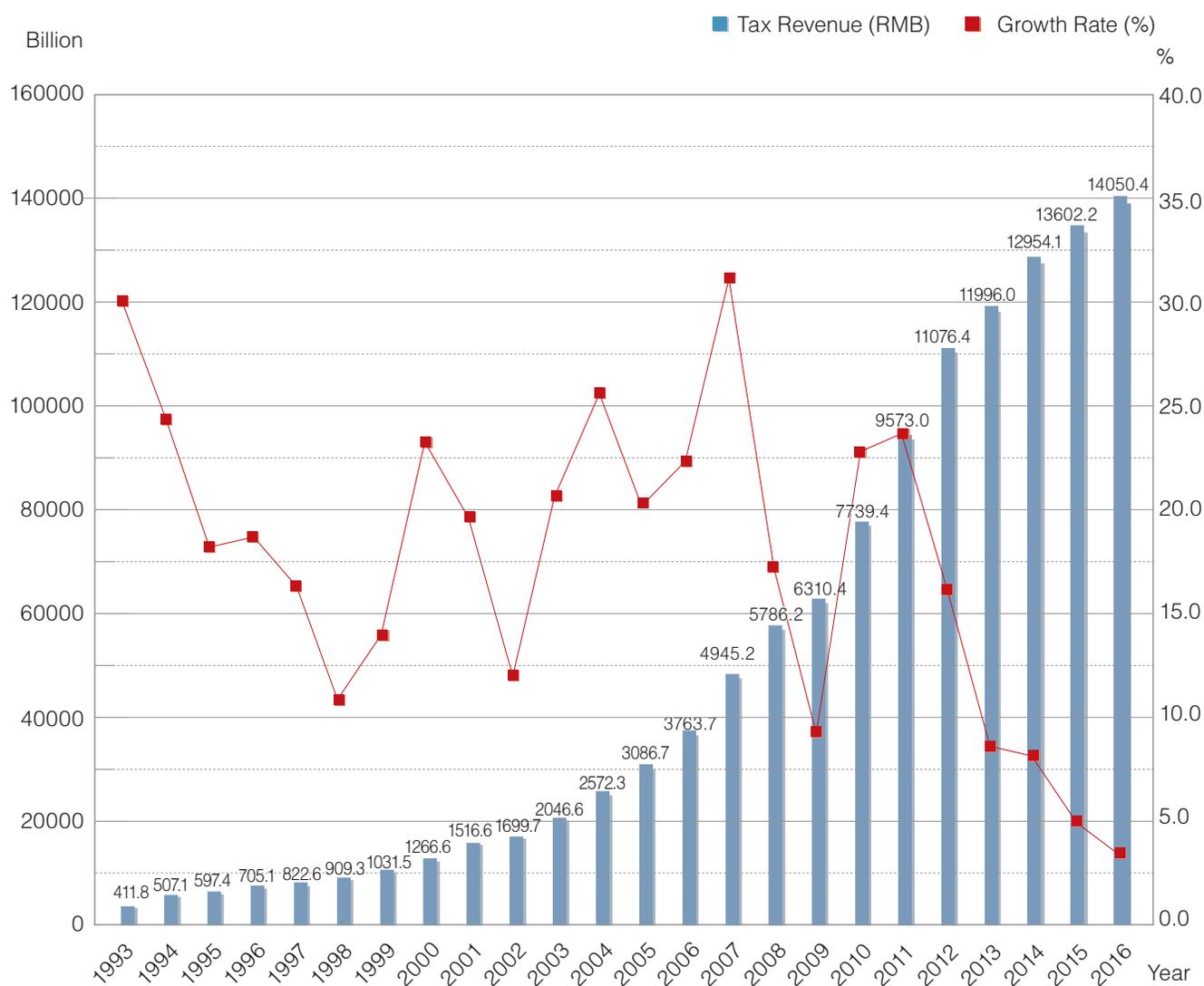


Figure 7 Tax Revenue Growth (1993—2016)

Tax Revenue by Tax Category

In 2016, the revenue from Goods and Services Taxes (GST) (including Vehicle Purchase Tax), Income Taxes, Property and Behavior Taxes made up 56%, 28% and 16% of the total tax revenues respectively. (See Figure 8)

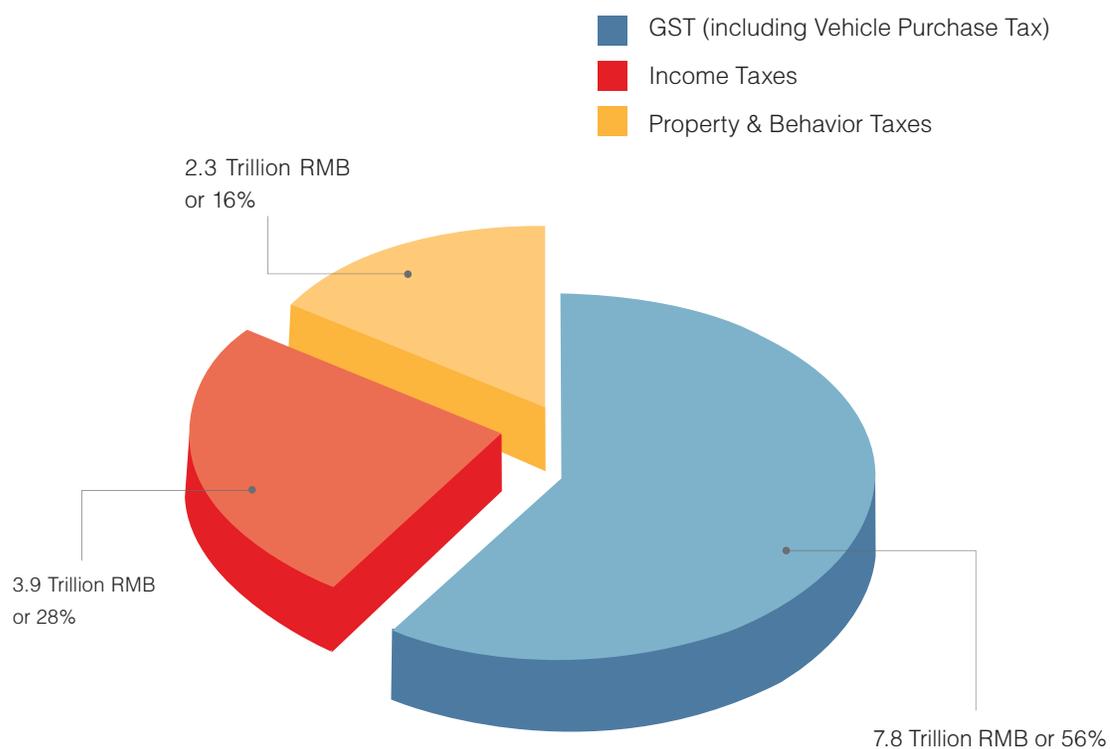


Figure 8 Tax Revenue by Tax Category in 2016

The revenue from value added tax (VAT), corporate income tax, business tax, excise tax, and individual income tax made up 38%, 21%, 8%, 8% and 7% of the total tax revenues respectively. (See Figure 9)

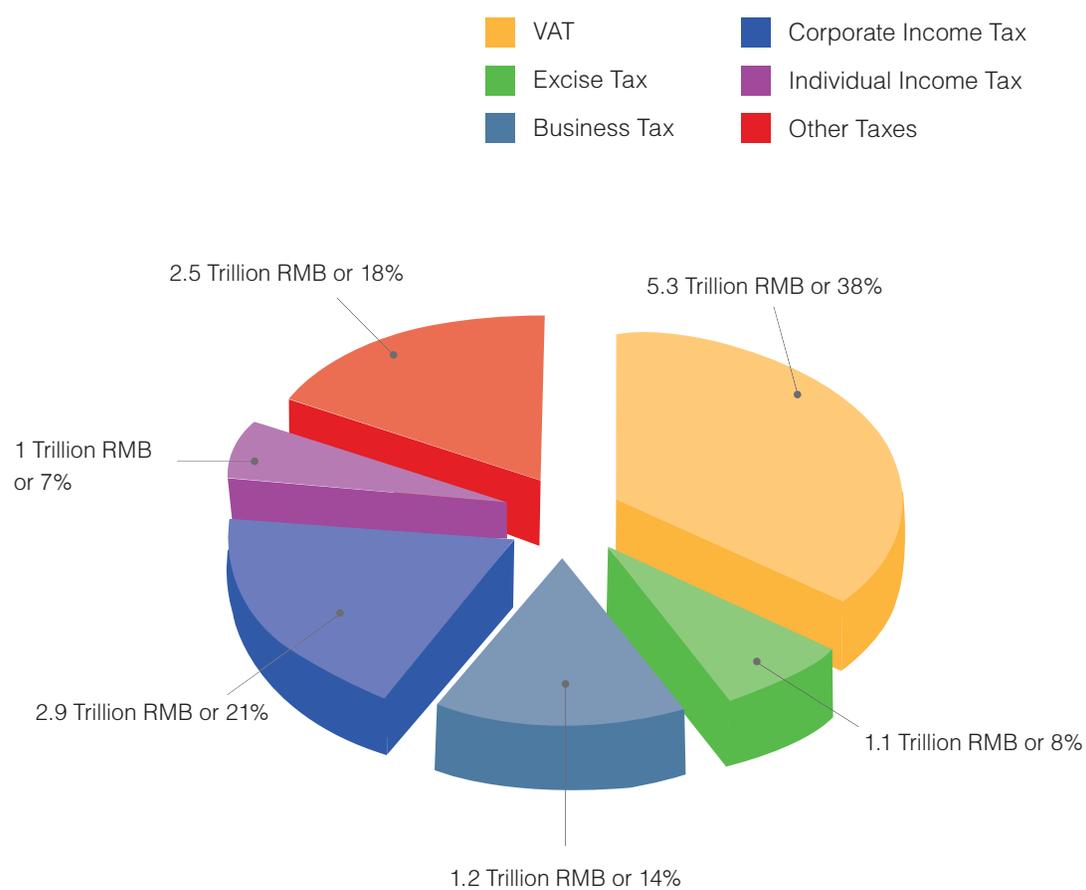


Figure 9 Tax Revenue by Tax Type in 2016

The Ratio of Tax Revenue to GDP

In 2016, the tax-to-GDP ratio was 18.9%, having previously exceeded 20% for the prior 6 consecutive years. (See Table 3)

Table 3 The Tax-to-GDP Ratio

Year	Tax revenue	GDP	The Tax-to-GDP Ratio(%)
	(Billion)	(Billion)	
1978	46.2	364.5	12.7
1993	411.8	3533.4	11.7
1994	507.1	4819.8	10.5
1995	597.4	6079.4	9.8
1996	705.1	7117.7	9.9
1997	822.6	7897.3	10.4
1998	909.3	8440.2	10.8
1999	1031.5	8967.7	11.5
2000	1266.6	9921.5	12.8
2001	1516.6	10965.5	13.8
2002	1699.7	12033.3	14.1
2003	2046.6	13582.3	15.1
2004	2572.3	15987.8	16.1
2005	3086.7	18493.7	16.7
2006	3763.7	21631.4	17.4
2007	4945.2	26581.0	18.6
2008	5786.2	31404.5	18.4
2009	6310.4	34090.3	18.5
2010	7739.4	40151.3	19.3
2011	9573.0	47310.4	20.2
2012	11076.4	51933.2	21.3
2013	11996.0	56884.5	21.1
2014	12954.1	63646.3	20.4
2015	13602.2	67670.8	20.1
2016	14050.4	74412.7	18.9

Note: Statistical standard was adjusted in 2012 to include arable land occupation tax and deed tax.

The Ratio of Tax Revenue to Fiscal Revenue

In 2016, tax revenue (without subtracting export refunds) accounted for 88.1% of fiscal revenue.

(See Table 4)

Table 4 The Ratio of Tax Revenue to Fiscal Revenue

Year	Fiscal revenue	Tax revenue		Tax revenue (net of export refunds)		Tax revenue (net of VAT and excise tax on imported goods and export refunds)	
	Total	Total (Billion)	% of Fiscal revenue	Total (Billion)	% of Fiscal revenue	Total (Billion)	% of Fiscal revenue
1978	113.2	46.2	40.8	46.2	40.8	–	–
1993	434.9	411.9	94.7	381.9	87.8	–	–
1994	521.8	507.1	97.2	462.1	88.6	428.4	82.1
1995	624.2	597.4	95.7	542.5	86.9	502.8	80.6
1996	740.8	705.1	95.2	622.3	84.0	572.2	77.2
1997	865.1	822.6	95.1	779.3	90.1	721.6	83.4
1998	987.6	909.3	92.1	865.7	87.7	807.4	81.8
1999	1144.4	1031.5	90.1	968.8	84.7	864.7	75.6
2000	1339.5	1266.6	94.6	1185.6	88.5	1036.1	77.3
2001	1638.6	1516.6	92.6	1409.4	86.0	1244.1	75.9
2002	1890.4	1699.7	89.9	1573.8	83.3	1384.6	73.2
2003	2171.5	2046.6	94.2	1842.7	84.9	1563.4	72.0
2004	2639.6	2572.3	97.5	2152.4	81.5	1781.3	67.5
2005	3164.9	3086.7	97.5	2749.2	86.9	2327.2	73.5
2006	3876.0	3763.7	97.1	3335.2	86.0	2838.5	73.2
2007	5132.2	4945.2	96.4	4417.9	86.1	3802.3	74.1
2008	6133.0	5786.2	94.3	5199.6	84.8	4459.1	72.7
2009	6851.8	6310.4	92.1	5661.7	82.6	4886.9	71.3
2010	8310.2	7739.4	93.1	7006.7	84.3	5953.4	71.6
2011	10387.4	9573.0	92.2	8652.5	83.3	7291.8	70.2
2012	11721.0	11076.4	94.5	10034.7	85.6	8547.2	72.9
2013	12914.3	11996.0	92.9	10944.1	84.7	9539.8	73.9
2014	14035.0	12954.1	92.3	11821.1	84.2	10376.8	73.9
2015	15221.7	13602.2	89.4	12322.0	81.0	11060.4	72.7
2016	15955.2	14050.4	88.1	12876.1	80.7	11588.0	72.6

Taxpayer Service

- ◇ **Launching the "Spring Breeze" Project**
- ◇ **Standardizing Service Delivery**
- ◇ **Establishing the Tax Credit Rating System**
- ◇ **Increasing Tax Transparency**
- ◇ **Improving Convenience and Efficiency in Taxation Processes**
- ◇ **Protecting Taxpayers' Rights**
- ◇ **Pushing Forward the 12366 Service Center**
- ◇ **Establishing Three-party Communication Mechanism**

The idea that tax collection and administration should serve the needs of taxpayers was put forward in the National Conference on Tax Collection and Administration in 1990. Later, in 1997, providing high-quality taxpayer services was recognized as the cornerstone of tax administration in *The Blueprint for Deepening Reform of Tax Collection and Administrative Systems of State and Local Tax Administrations*. Furthermore, taxpayers' rights and interests were codified in *The Law on Tax Collection and Administration* in 2001.

A dedicated unit, the Taxpayer Service Department, was established within the SAT Head Office in 2008. This practice was soon followed by tax administrations at provincial level and below.

In 2013, the SAT called on all tax administrations to trust, respect, serve and rely on taxpayers, thus integrating service delivery into the whole process of tax collection and administration.

The National Taxpayer Service Protocol was introduced by the SAT in 2015 to standardize tax service delivery all over China.

From 2014 to 2016, the "Spring Breeze" Project was launched to reinvent tax administrative examination and approval procedures and reduce the compliance burden.

Launching the "Spring Breeze" Project

In 2014, the "Spring Breeze" Project was launched to improve the efficiency of tax administration and reduce the tax compliance burden. In 2015, the SAT exerted further efforts to implement the "Spring Breeze" Project and took 11 new measures. In 2016, the SAT identified the "Spring Breeze" Project as an important step to implement *The Blueprint for Deepening the Reform of Collection and Administrative Systems of State and Local Tax Administrations*. The SAT has taken 31 new measures (see Table 5) this year to address common but pressing concerns of taxpayers for the purpose of facilitating tax payment.

Table 5 New Measures of Spring Breeze Project in 2016

Theme	Measure
Improving efficiency of tax compliance	1.to implement standards of cooperation between State and Local Tax
	2.to abolish attestation of VAT deduction documents
	3.to process tax matters related to state and local tax at the same location
	4.to provide complete information by QR code
	5.to provide free tax software
	6.to process tax matters at any location within a province
	7.to shorten time of processing tax matters
	8.to improve rules including the responsibility of first asking
	9.to deepen the reform of the business registration system
	10.to clarify the role of intermediaries

(continued)

Theme	Measure
Facilitating invoice receipt	11.to innovate in relation to new forms of invoice receipt
	12.to implement invoice issuance through handheld equipment
	13.to upload invoice checking information automatically
	14.to implement electronic invoice comprehensively
Forging service brand	15.to improve the service of call center
	16.to build comprehensive taxpayer service platform
Serving national strategy	17.to serve regional development strategy
	18.to serve the Belt & Road Initiative
	19.to serve chinese outbound investment
	20.to serve new developments of open economy
Clarifying responsibility of law enforcement	21.to strengthen risk management
	22.to integrate field audits between state and local tax administrations
Standardizing law enforcement on taxpayer's site	23.to integrate field audits between state and local tax administrations
	24.to standardize law enforcement activities
Improving tax credit	25.to facilitate joint stimulation of tax credit
	26.to strengthen joint punishment against dishonesty
Broadening information access	27.to make information of tax payment accessible
	28.to make tax affairs traceable
	29.to make invoice information checkable
Sharing information	30.to collect tax-related information once
Establishing electronic tax offices	31.to establish joint electronic offices of State and Local Tax Administrations

Standardizing Service Delivery

Since March 2015, the National Taxpayer Service Protocol was established on a nationwide basis. This has improved the efficiency of tax item processing, reduced compliance burdens and diversified service channels to taxpayers, thus leading to better, more convenient and more consistent service delivery.

In 2016, based on the idea of facilitating, and standardizing services for, taxpayers as much as possible and according to the change of policy and feedback from tax officials and taxpayers, the National Taxpayer Service Protocol has been persistently revised, which now includes 1349 standards on 235 specific services in 9 categories.

Establishing the Tax Credit Rating System

With the introduction of the Administrative Measures on Tax Credit Rating (Provisional) and the Tax Credit Rating Indices and Methods (Provisional), the SAT set up a preliminary system to rate taxpayers' credit based on their compliance history. In 2016, 8.92 million qualified taxpayers have been assessed on their tax compliance for the year of 2015, among which 702 thousand taxpayers, accounting for 7.99% of the total, are rated as A-level, whereas 829 thousand taxpayers, accounting for 9.3% of the total, are D-level.

Much importance has been placed on the application and use of the taxpayer ratings. Internally, A-level taxpayers are treated preferentially in tax affairs such

as invoice processing, export refunds and other daily tax affairs, while D-level taxpayers are under stricter scrutiny when interacting with the tax administration. Consequently, the costs of tax collection have been cut effectively and the compliance level has been improved. Externally, the value-added application of the rating results has been extensively explored. The first Cooperative Memorandum of Joint Stimulation was signed together with 29 other government agencies including National Development and Reform Commission and People's Bank of China. 41 preferential and incentive measures are given to A-level taxpayers, concerning various fields such as taxation, land, finance and environment protection, which increases the benefits to taxpayers of tax compliant behavior and contributes to greater tax integrity in the whole community.

The SAT actively participates in the construction of the social credit system with other government agencies including customs, environmental protection, public security, and administration of food and drug and has signed three Memoranda of Joint Action to Stimulate Honesty and ten Memoranda of Joint Action against Dishonesty.

Increasing Tax Transparency

The SAT has made a broad range of improvements to become more open and transparent, including:

- ◆ adopting legislative measures to provide for better information disclosure by the tax administration;
- ◆ delivering on government information disclosure requirements on operations and tax affairs;

- ◆ making the disclosure of its operational procedures a norm by setting standards on information collection, examination and publication;
- ◆ updating public information in tax halls and on official websites in a timely, precise and comprehensive manner, such as policy and regulation changes, tax administration responsibilities, taxation procedures, conclusion of tax procedures and supervision methods.

Furthermore, the SAT has spared no effort to provide easier access for taxpayers to the latest tax policies by implementing a unified notice system, setting document templates and elaborating regulations with interpretations.

Innovative channels have been employed to increase the accessibility of the services delivered by the SAT, including websites, TV, hot lines, newspapers, SMS, micro-blogs and WeChat.

Outreach activities and dissemination programs offer training programs both online and offline. These activities are conducted through channels such as the Taxpayer School, mobile phone Apps, videos, webcasts, etc.

Improving Convenience and Efficiency in Taxation Processes

The SAT has been working to improve the taxpayer service system, including: laying stress on the responsibility of the first-contact person in the service, setting time limits for processing, establishing an appointment system for tax matters, as well as providing extra-time service, complete notice and 24-hour self-service; extending physical taxpayer service halls through various means, establishing new service models to make the taxation process more convenient and adequate

in its coverage. By the end of 2016, around 20000 taxpayer service halls had been established, among which over 7000 were providing a comprehensive array of services ranging from tax filing, and invoice processing to consulting.

The SAT has worked hard to simplify the taxation process. The goal is to ensure that a single tax matter can be dealt with in the course of a set-piece process in order to avoid repeated visits by taxpayers to the tax office. Taxpayer burdens from form filling have been reduced by implementing paperless service and filling-free services. Taxpayers are allowed to choose the location to process their taxation affairs as tax affairs can be processed anywhere within a given city or province.

The SAT has also made innovations in relation to online tax services. Taxpayers have easier access to invoices and invoice issuance through a combination of online and offline channels. Tax related information can be collected through QR code. Self-service terminals have been widely deployed to handle various taxation matters. Presently, there are 58 thousand self-service terminals in China, 40 thousand of which run 24 hours a day.

» Protecting Taxpayers' Rights

The history of protecting taxpayers' rights in China started from 2001, when the Tax Collection and Administration Law codified 30 provisions as the legal basis for the protection of taxpayers' rights and the optimization of service delivery. In 2009, the SAT released the Announcement on Taxpayers' Rights and Obligations, which specified their rights and obligations in a stand-alone tax document. In 2013, the Guidelines on Protection of Taxpayers' Rights were circulated, which further clarified related regulations and standards and outlined the requirements on nine aspects: transparency in operational procedures, administration by law, effective communication, risk management, reduced compliance burden, information

security, dispute resolution, administration of intermediaries and establishment of rights' protection organizations. In 2014, the SAT released the Notice on Standardizing Tax Attestation Services and Prohibiting Compulsory Procurement for Tax Attestations to standardize service delivery and working style.

In 2015, the SAT promulgated the Announcement on Revision of Complaints Handling concerning Taxpayer Services. In 2016, the SAT issued the Notice on Improving the System of Complaints Handling concerning Taxpayer Services to further standardize the handling of taxpayers' complaints. Taxpayers' comments and complaints will be handled in timely manner by integrating various channels to accept the complaints. Complaints handling mechanisms will be established and improved continuously.

In 2016, the SAT issued the Notice on Further Standardizing Investigation of Taxpayer's Satisfaction and the Notice on Strengthening the Administration of Taxpayer's Requests to further improve the work on the investigation of taxpayer's degree of satisfaction, the collection of and response to taxpayer's requests, which should further enhance taxpayers' degree of satisfaction and compliance level.

Pushing Forward the 12366 Service Center

The taxpayer hot line number "12366" came into public service in September 2001. It is now a main channel for consultation services provided by the tax administration.

In 2016, 12366 service centers responded to 53.5 million telephone inquiries, of which 32.2 million inbound calls were handled in person. (See Figure 10)

The SAT enhanced the professionalism of the new service centers by: 1) developing "one" vision of world-class service delivery; 2) building up "two" levels of service centers at both national and provincial levels; 3) managing "three" administrative areas of taxpayers' expectations, knowledge library and skilled workforce; 4) implementing "four" measures of building websites, upgrading the hotline system, employing mobile apps and establishing a national center; 5) positioning themselves as a platform with "five" dimensions comprising consultancy, outreach services, taxation processes, team building and showcase; and 6) enhancing taxpayers' satisfaction with the call center where taxpayers can "consult, check, watch, listen, reserve and solve" ("six functions").

On January 12th 2016, the 12366 Shanghai (International) Service Center was officially established. Based in Shanghai, providing nationwide services and connecting to the world, this Service Center seeks to be the great platform to serve the "Belt and Road" Initiative and to contribute to international taxation cooperation. On November 18th 2016, China's international taxation service hot line officially opened in this Service Center to provide top-quality services to Chinese and foreign taxpayers. By the end of 2016, the SAT's 12366 Taxpayer Service Platform was set up to gradually provide six-function services to taxpayers.

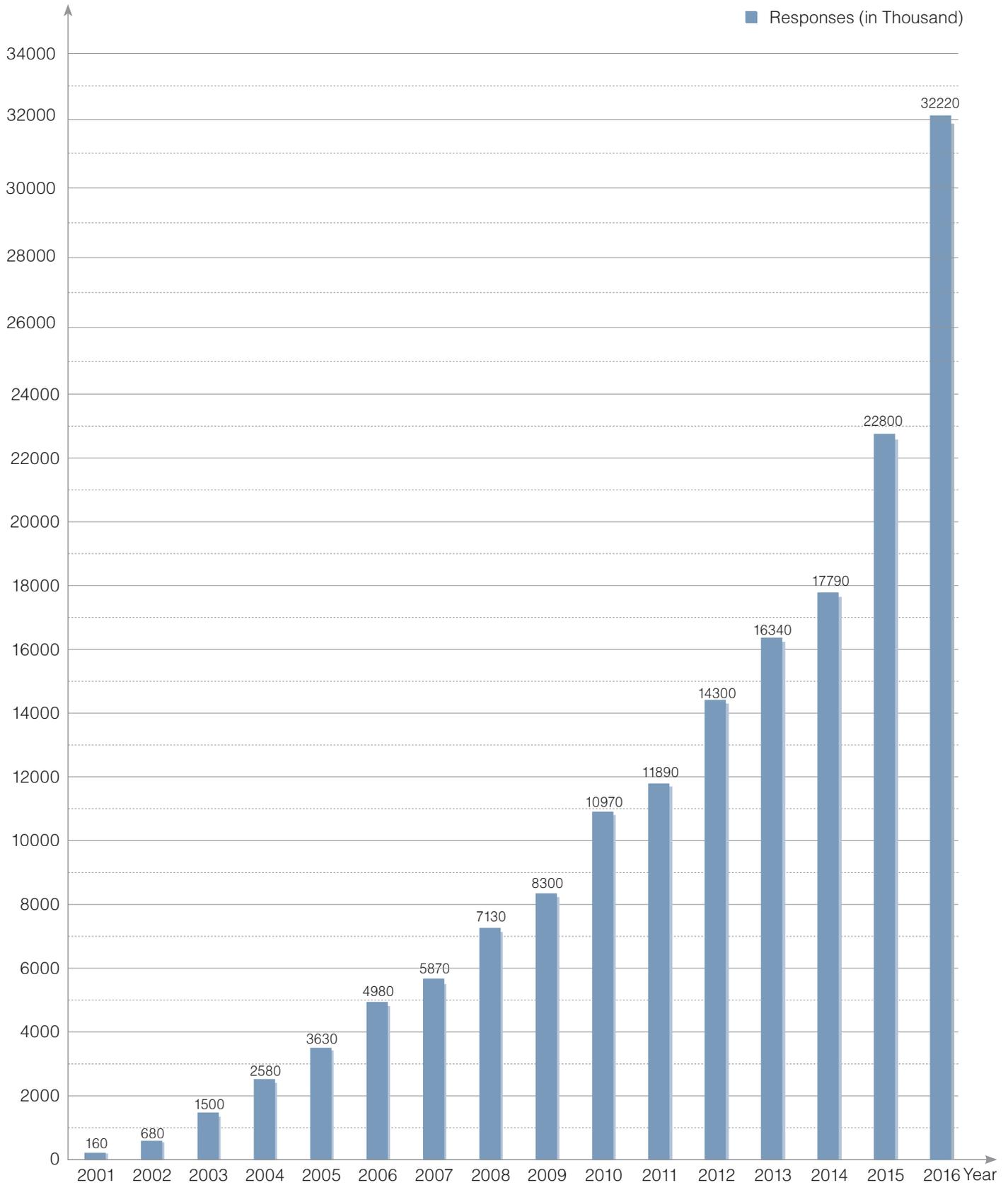


Figure 10 Answered Telephone Inquiries by 12366 Service Center (2001–2016)

» **Establishing Three-party Communication Mechanism**

The SAT has issued the Notice on Establishing Three-party Communication Mechanism among Tax Administrations, Professional Tax Service Organizations and taxpayers. Tax administrations are required to make efforts to establish this three-party communication mechanism for the purpose of smoothing the channels to exchange information, feedback and solve problems among these three parties. The related work will be an element in the cooperation initiatives between the state and local taxation administrations. Each party will play its special professional role in optimizing taxpayer service, improving the efficiency and effectiveness of tax collection and administration to form a new pattern of tax governance.

Tax Administration

- ◇ **Compliance Risk Management**
- ◇ **Large Business Taxation Administration**
- ◇ **International Taxation Administration**
- ◇ **Tax Inspection**
- ◇ **Export Refund Management**

Between 1949 and the mid-1980s, the "tax administrator" system was developed. A key feature of this system was that it appointed one local tax administrator with over-arching responsibilities of tax collection, administration, and investigation to several corporate taxpayers in his region. After the mid-1980s, the Chinese tax administration was restructured, adopting a functional model comprising collection, administration and investigation. The fiscal reform, setting up the dual tax administration at sub-central levels in 1994, ignited a series of tremendous changes to tax administration. In particular, the taxpayer-oriented tax administration model proposed in 1997 was intended to leverage computer networks, administrative centralization and targeted investigations. Gradually, a new balance was struck between collection, administration and investigation.

Since the start of the 21st century, the SAT has further deepened the reform of tax administration. Compliance risk management and taxpayer-segmented administration have been implemented, which greatly enhanced the quality and efficiency of tax administration.

The National Tax Administration Standards (Version 1.0) was put to trial use across the country in 2015 established standards of internal operations, processes, time limits and documentations relating to tax settlement, thus generally standardizing the tax administration system.

In 2016, the SAT upgraded and improved the National Tax Administration Standards (Version 1.0) and specified 610 standards for 11 categories of tax affairs. The upgraded version of the National Tax Administration Standards (Trial Version 2.0) were piloted in several provinces. The Taxpayer-Segmented Administration Measures were developed and implemented, under which risk management approaches are adopted to segment the taxpayers, allocate tax affairs responsibilities to different levels of tax offices taking into account their comparative advantages. Differentiated and escalated approaches are adopted to manage the tax affairs according to the tax rating and the category of taxpayers, thus improving the overall efficacy of tax administration.

Compliance Risk Management

The variety of information types obtained from many sources and through different channels helps the Chinese tax administration to keep taxpayers on their radar. The risk management approaches adopted by the Chinese tax administration include risk identification, risk prioritization, risk treatment, process monitoring, evaluation and feedback, constituting a closed loop. (see Figure 11)

Tax returns filed by taxpayers are fed through the risk identification and analysis program. This was installed with analysis tools including built-in indicators and industry models so that tax administrations can regularly identify and analyze the potential risks of taxpayers. High-risk taxpayers from whom tax revenues are potentially drained away are classified based on their risk ratings. For low-risk taxpayers, tax administrations would take measures such as sending risk alerts to urge them to prevent risks or revise their returns. For high and medium-risk taxpayers, tax administrations will adopt an array of measures to control risk, including tax assessment, tax audit, anti-avoidance audit, and tax inspection. Meanwhile, tax administrations will correspondingly improve risk identification and treatment strategies on an on-going basis after evaluating risk management processes.



Figure 11 Risk Management Process

Large Business Taxation Administration

In December 2015, the General Office of the CPC Central Committee and the General Office of the State Council promulgated the *The Blueprint for Deepening the Reform of Tax Collection and Administrative Systems of State and Local Tax Administrations*, setting out the reform requirements for large business service and administration.

The SAT responded swiftly to the new requirements by designing a series of regulations and rules. As for the large businesses that operate across the provincial and national borders, basic tax affairs remain the responsibility of the tax office in the jurisdiction where the large business is located. However, matters such as risk analysis are centralized at the provincial office or the SAT headquarters level, on the precondition that no changes are made to the hierarchy of revenue payment into the National Treasury. The centrally analyzed results are then fed to the corresponding tax office for risk-based follow up.

» Improving the Large Business Taxation Administration Mechanism

As part of its effort to improve the large business administration mechanism, the Large Business Department of the SAT put in place an analysis platform, targeting at China's 1000 largest corporations, in the 5th Sub-Office of Beijing Municipal Office. Special units for large business administration were established in some regions in order to improve the mechanism, reform the administration model, and improve the efficacy of administration. The SAT and its provincial offices have centralized complex tax affairs and established a horizontal coordination regime for large

taxpayer service and administration. Job responsibilities were defined depending on basic and specialized affairs to enable centralized assignment of tasks and coordination at all levels.

» Innovative Risk Management Model for Large Businesses

The SAT has selected 1000 corporations, established an indicator system and a risk analysis platform, set up the Qianhu database and put in place a consistent and standardized risk analysis and treatment mechanism for these 1000 corporations. The Qianhu Initiative is characterized with closed-loop administration covering information gathering, risk analysis, task assignment and risk treatment as well as feedback and evaluation.

» Forecasting Large Business Revenues

The SAT has set up an economic developments monitoring platform, which keeps track of the operations of large businesses and economic trends. To cope with important economic and taxation issues, a large business tax analysis mechanism is also established to select hot topic questions, sort out data, conduct in-depth analysis, and prepare economic reports. This will help analyze economic climate developments in a tax relevant manner.

» Developing and Improving the Service System for Large Businesses

Tax authorities keep in good touch with large businesses through high-level dialogue and regular visits. They try to improve the compliance level of large businesses through introducing tax risk alerts, providing guidance in building internal control

systems, negotiating and concluding cooperative compliance agreements with taxpayers, providing tax policy interpretations and preparing industry or corporation-specific tax risk guidance. The services delivered to large businesses are improving continuously through carrying out the “Spring Breeze” Project.

International Taxation Administration

In the international tax arena, the Chinese tax administration has continuously enhanced international tax management, as required for further development of an open economy.

» Preventing and Cracking Down on International Tax Evasion and Avoidance

2016 is an important year when the SAT started the implementation of the BEPS Action Plan outputs in China. The SAT was heavily involved in the drafting of rules and regulations in the post-BEPS era and implemented the BEPS action plans, thus improving the anti-avoidance system constituted by “administration, service and audit”, thus improving the triad.

In light of the BEPS deliverables, the SAT revised and improved the domestic anti-avoidance regulations in 2016. It released in succession *The SAT Announcement on Related Party Reporting and Contemporaneous Documentation Management (The SAT Announcement [2016] No. 42)* and *The SAT Announcement on Improving Advanced Pricing Arrangement Management (The SAT Announcement [2016] No. 64)*, which set out new guidelines relevant to

anti-avoidance activities in China. Together with the existing laws and regulations in this area, the anti-avoidance laws and regulations are becoming increasingly complete, practical and forward-looking.

» Advance Pricing Arrangements (APA) and Mutual Agreement Procedures (MAP)

In order to give more certainty to taxpayers and eliminate international double taxation, the SAT has been actively engaged in APAs and MAP. By the end of 2016, it had signed 55 bilateral APAs and had made 50 transfer pricing corresponding adjustments. In 2016, the SAT eliminated international double tax exposures of 4.835 billion RMB for multinational enterprises (MNEs).

» Strengthening Tax Administration of Non-Residents

In recent years, the SAT has formulated a series of tax measures in relation to foreign contractors conducting engineering projects or offering labor services in China, permanent establishments, as well as administration measures for the assessment and collection of income tax from non-resident enterprises in respect of income derived from or accruing in China. The SAT has established a relatively robust non-resident tax management system. In 2016, the SAT continued to improve the non-resident tax policies, strengthen the management of tax risks of non-residents with certain key incomes, facilitate the application of IT systems to international taxation, establish the regime of “information gathering, analysis, task assignment and feedback” for key non-resident taxpayers and further standardize filing of outbound payments for taxation purposes.

In 2016 the SAT collected RMB 174.332 billion in taxes from non-resident enterprises, with a year-on-year increase of 14.2%.

» **Upgrading Tax Administration and Services for Outbound Investment**

In 2016, as part of its effort to upgrade tax administration and services for outbound investment, the SAT refined the measures for the implementation of the “Belt and Road Initiative”. It accelerated the conclusion and revision of DTAs, and improved the international tax law guarantees for outbound investment. It helped businesses with overseas operations settle tax disputes and deal with double taxation exposures through mutual agreement procedures between competent authorities. It optimized the procedures for issuing “Chinese Tax Resident Certificates”, which allows Chinese residents, enterprises and private individuals to enjoy treaty benefits more conveniently. It also explored a variety of channels, namely the official website, 12366 hotline, newspapers, brochures, walk-in offices to brief the taxpayers on tax treaties, taxation policies on outbound investment, resolution of tax disputes, and countermeasures. It also published 19 country-specific investment guides for tax investment, provided tax consultancy to outbound investors, deepened cooperation with other tax authorities, helped developing countries with capacity building and created a sound administrative environment for corporations with overseas operations. The SAT also established the tax administration system for outbound investment on the basis of risk management theory, providing tax-related risk alerts to outbound investors so as to improve their compliance.

Tax Inspection

In 2016, Tax Inspection Bureaus at all levels selected taxpayers at random to combat VAT refund fraud, false invoices, tax evasions and other invoice-related crimes. Adopting risk management approaches, they cracked down on all tax-related crimes through random selection and other methods, effectively restored the industrial and regional taxation order, carried out reform measures, pushed ahead with IT application to tax inspection and built up a contingent of honest and efficient tax inspectors. In 2016, in an unprecedented result, 189.2 billion RMB out of 191.4 billion RMB worth of tax adjustments were collected by tax inspection bureaus at all levels.

» VAT Refund Fraud and False Invoices

Tax Inspection Bureaus at all levels have, based on interdepartmental coordination and big data-assisted selection, made innovations in relation to inspection methods and have increased efforts in relation to investigating and punishing fraud cases. The crackdown on the VAT fraud and false invoices carried out in 2016 is unprecedented in terms of scale, level, departments involved, areas covered, and effects. In 2016, 45.7 thousand companies were investigated, and 6,104 companies were referred to the police authorities. The crackdown on VAT fraud recovered 17.7 billion RMB in taxes or 1.8 times of the previous year, and false invoices worth 102.4 billion RMB were identified or 3.16 times of the previous year.

» Targeted Sectors

In 2016, high risk enterprises under the B2V reform were inspected by tax inspection bureaus at all levels. 10165 enterprises were inspected, and 5.07 billion RMB in additional taxes were raised. As for local oil refinery enterprises, 2,661 enterprises were inspected from which 3.9 billion RMB additional taxes were raised. In the pharmaceutical sector, 1629 enterprises were inspected with 104.5 billion RMB involved in violation of tax laws found, invoices worth 983.7 thousand RMB were involved, and recovered taxes and penalties totaled 19.71 billion RMB.

» Random Inspection

In addition to those tax crimes investigated and prosecuted as a result of obvious leads, tax authorities at all levels carried out a “double random” approach to tax inspection. The inspection of 26 group corporations came to a close as scheduled, with 17.2 billion RMB in taxes recovered. The inspection of 40 group corporations as selected by the SAT for 2016 are underway.

» Invoice-Related Crimes

In 2008, a National Joint Task Force comprising of officials from tax, public security and finance administrations was set up to organize and coordinate campaigns against invoice-related crimes. Different units in different regions coordinated to combat such crimes nationwide.

By the end of December 2016, a total of 123.9 thousand cases of invoice-related crimes had been investigated and prosecuted. The tax authorities confiscated RMB 15.22 million worth of illegal invoices and raised RMB 24.882 billion in

additional taxes. Table 6 below demonstrates the achievements of the campaign against invoice-related crimes from 2009 to 2016.

Table 6 Results of Campaigns against Invoice-related Related Crimes (2009—2016)

	2009	2010	2011	2012	2013	2014	2015	2016	Total
Cases (in Thousand)	2.18	4.44	9	11	9.1	10.2	9.52	12.39	67.83
Number of invoices (in Million)	0.92	6.6	3.5	1.35	1.3	0.64	0.31	0.15	14.77
Criminal Dens involved	1498	3291	4771	1388	1414	3000	2678	439	18479
Criminal groups involved	844	1593	400	660	549	432	382	580	5440
Number of Illegal Co. Examined (in Thousand)	2.83	7.48	8	10	8.9	9.9	9.27	12.2	68.58
Losses Recovered (in Billion RMB)	16.96	45.9	71	101.51	138	129	180.21	248.82	931.4

» In-depth launch of “Blacklist” System

Tax inspection bureaus at all levels have revised the Serious Tax Crimes Information Publication Methods (trial) in accordance with the State Council Guidance on Developing Joint Incentives and Punishment Regime for Honest and Dishonest Behaviors and on Pushing Forward Social Credibility Development. The information publication standard has been unified to reflect fairness; the publication methods are adjusted for the convenience of public inquiries and enhanced social impact; and the credibility rectification regime is put in place to

combine stick and carrot approaches. With the great support of other government agencies such as the National Development and Reform Commission, the SAT signed a new MoU on Joint Punishment of Blacklisted Dishonest Businesses (2016), expanding the government agencies involved from 21 to 34 and the punishment measures from 18 to 28. These expansions have played an active role in building up the social credibility system. By the end of 2016, 2974 blacklisted cases were published and referred to relevant authorities for joint punishment. In 2016, 735 blacklisted businesses voluntarily paid outstanding taxes, interest and penalties, and were then removed from the published blacklist. With the help of the credibility rectification system, a total of 4.83 billion RMB, including 2.76 billion RMB in taxes, 794 million RMB in interest, and 1.28 billion RMB in penalties, were collected and paid to the National Treasury.

» Steady Launch of Various Reform Measures

The Methods for the Management of Tax Inspection Cases (trial), the Methods for the Management of Tax Inspectors Pool (trial) and the Methods for the Management of Randomly Selected Targets Pool were drafted and implemented to further improve random selection regime. Instructions on Coordinated Inspections between the State and Local Tax Administrations was released to standardize the inspection cooperation between the state tax offices and local tax offices. The police-tax cooperation mechanism was established; the SAT and the Ministry of Public Security released the Temporary Methods for Liaison Mechanism, and the Ministry of Public Security's Office at the SAT was set up.

» Development and Improvement of Tax Inspection Laws and Regulations

The National Tax Inspection Standards (Version 1.0) was developed and released. The revision of Tax Inspection Procedures was initiated, and the revision of Tax Crimes Whistle blowing Methods continued. The SAT joined with the Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security in discussing the revision of the judicial interpretation on tax-related crimes and procedures. It also participated in the revision of the Law the People's Republic of China on the Administration of Tax Collection and its Implementation Rules, which initiated the establishment of the legal framework for tax inspections. The Notice on the Inspection of Vanished Businesses That Are Suspected of Issuing False Special VAT Invoices was released. Efforts were made to improve the internal control system for tax inspections to set up a coordination regime between financial institutions and their regulator.

» IT Application to Tax Inspection

The SAT pushed ahead with the application of new IT systems to tax inspections; it optimized the inspection features in the Golden Tax Project Phase III to explore approaches to monitoring tax inspection results nationwide and also employed big data and information leads analysis for random selection. The SAT also upgraded the Serious Tax Crimes Publication System and Assisted Inspection System.

Export Refund Management

In 2016, the SAT adopted the Administrative Standards on Export Refund (Version 1.1) to administer categorized taxpayers, to support the healthy development of enterprises engaged in international services trade, and to enhance information sharing & joint supervision with other government agencies. These measures effectively allowed qualified taxpayers to receive their refund in full amount and in a timely manner, alleviated their cash flow pressure and bolstered China's foreign trade. Across the country, a total of 1.17 trillion RMB was refunded or exempted, a decrease of 8.3% compared to the same period last year.

» Adopting Administrative Standards on Export Tax Refund (Exemption) (Version 1.1)

The Administrative Standards on Export Tax Refund and Exemption (Version 1.1) was implemented to optimize the review process, promote paperless administration, adjust the items for review, focus on risk management and link up the procedures of refund administration and tax inspection, thus further improving the quality and efficiency of export tax refunds.

» *Revising the Administration Manual of Processing Export Refund.*

The *Administration Manual of Processing Export Refund* was revised to divide enterprises into production (Category 1), foreign trade (Category 2) and foreign trade in services (Category 3). The time limits for refund review for enterprises in Category 2 and Category 3 were shortened from 20 working days to 10 and 15 working days, respectively. The overall refund process was accelerated.

» *Support the Healthy Development of the Foreign Trade Service Enterprises*

The SAT further clarified refund (exemption) arrangements for the foreign trade in services enterprises and for the conduct of paperless administration for issuance of “Certificate for Export of Goods by Proxy”. A pilot program was launched among the foreign trade in services enterprises; the refund time limit was shortened with the precondition that risks were manageable.

» *Among the Foreign Trade Service Enterprises Supervision with Other Government Agencies*

The SAT signed an MoU on Information Sharing and Joint Supervision with the State Administration of Foreign Exchange to link up tax refunds with foreign currency receipts. The effort on information sharing and joint supervision has increased administrative efficiency, prevented the violations of laws and rules such as refund fraud and abnormal foreign currency receipts. These measures have effectively safeguarded the normal order of China’s foreign trade.

Development of IT-Based Taxation

- ◇ **VAT Administration Information System**
- ◇ **China Taxation Administration Information System (CTAIS)**
- ◇ **Golden Tax Project Phase III**

The IT development in taxation started from scratch in the 1980s. Rapid development ever since has helped the SAT build an existing integrated and web-based information system.

The current SAT information system consists of the VAT Administration Information System, the China Taxation Administration Information System and the Golden Tax Project Phase III.

VAT Administration Information System

In 1994 China unveiled its VAT reform as part of its tax reform agenda. To strengthen the administration of VAT special invoices, the SAT launched a pilot program to employ an anti-counterfeiting tax control system and the computerized cross-checking system in some regions. This inaugurated the Golden Tax Project Phase I, which has played an active part in improving VAT administration.

On the basis of experience and lessons learned from the Golden Tax Project Phase I, the SAT started the Golden Tax Project Phase II in 1998. Four sub-systems under the anti-counterfeiting tax control system came into operation for the processes of invoicing, e-certificates, cross-checking and investigation in 2001. By July 2003 all of the general VAT taxpayers (above a specified turnover threshold) across China were covered by the anti-counterfeiting tax control system, which marked the successful conclusion of the Golden Tax Project Phase II. With the systematization and standardization of VAT administration, the crimes with respect to counterfeited VAT invoices have decreased and VAT administration has become more effective and efficient.

Based on the Golden Tax Project Phase II, the SAT has exerted further efforts to develop an IT-based VAT administration. At present, the VAT Administration Information System is a circular system composed of six sub-systems, which control invoicing, e-certificates, filing, cross-checking, verification and referral investigation respectively (see Figure 12). The system has helped in enhancing the efficiency of VAT administration, improved the quality of the taxpayer service, reduced the cost of collection, and prevented tax loss. It has also contributed significantly to the goals of maintaining a steady stream of VAT revenues, building a level playing field and maintaining steady growth of tax revenues in China.

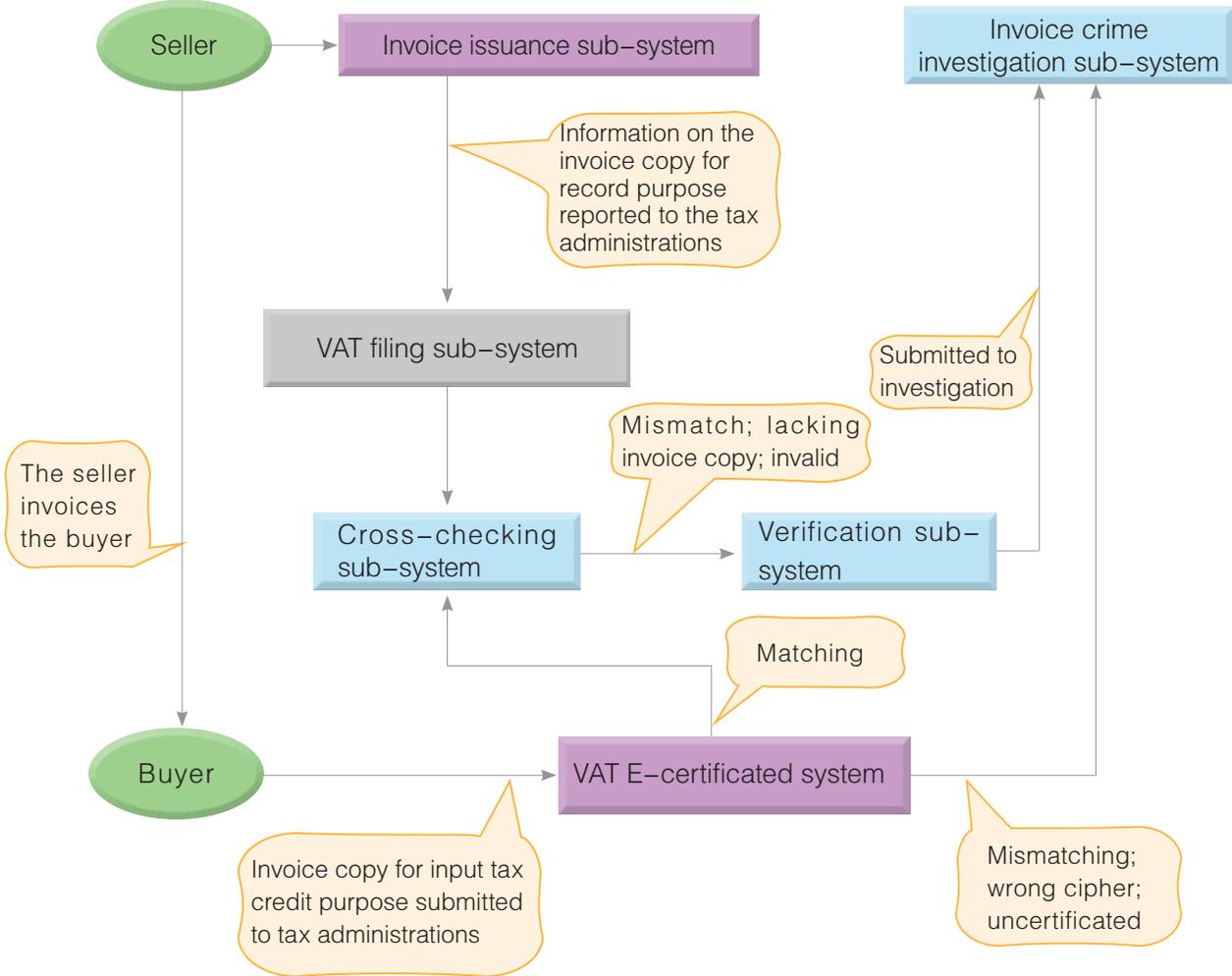


Figure 12 VAT Administration Information System

The VAT Administration Information System consists of six sub-systems:

- ◆ The anti-counterfeiting invoicing sub-system. It employs the numerical code and electronic information storage techniques to increase the system's capability to detect false VAT invoices. It helps the tax administration to obtain a correct understanding of the seller's invoicing information, so that tax revenues are monitored and controlled at source.
- ◆ The anti-counterfeiting e-certificate sub-system. It scans, deciphers and compares the ciphered and plain texts on VAT invoices to authenticate the invoice. The data are then fed into the cross-checking sub-system or the invoice crime investigation sub-system.
- ◆ The anti-counterfeiting filing sub-system. It reviews the invoice information submitted by taxpayers and feeds it into the cross-checking sub-system.
- ◆ The cross-checking sub-system. It compares the VAT invoice information from the buyer with that from the seller online.
- ◆ The verification sub-system. It verifies and handles the mismatched VAT invoices selected and fed by the cross-checking sub-system, and refers the invoices suspected of tax evasion and fraud to the invoice crime investigation sub-system.
- ◆ The invoice referral investigation sub-system. It refers the invoices that are suspected of being involved with breach of tax laws and regulations from the verification and e-certificate sub-systems to the appropriate tax administrations in another region. The SAT oversees the crime investigation via the sub-system to make sure that the investigation proceeds effectively and efficiently.

In 2015, an updated VAT Invoice Processing System was promoted and put into use nationwide, which integrated three VAT anti-counterfeiting systems, namely the Tax Control System, the cargo transportation VAT invoice system and the e-certificate and cross-checking system. The new system has the following features:

- collecting a complete set of data. The new system collects all the numerical and textual information on the invoice, including name of taxpayer, name of the goods, unit price, quantity, tax liability, tax rate, etc.
- transferring information in real time. The new system shifts from the offline invoicing and regular reporting to online, real-time uploading of information to tax administrations.
- keeping electronic copies of original records. Taxpayers' invoices are all digitally certificated and signed, which will be sent to the tax administrations' electronic database as original records via the monitored loop.

In 2016, the SAT introduced the new system among VAT taxpayers within the scope of the B2V pilot program, ensuring that all new VAT taxpayers can have their VAT invoices issued in time without difficulty. The SAT also improved the new system so that VAT general taxpayers of Credibility Levels A, B and C do not need to have their VAT invoices authenticated. The SAT also strengthened the application of data in the new system and expanded the database with all the information on VAT invoices collected. The SAT also enhanced the use of original VAT vouchers, which has effectively prevented and cracked down on violations of laws such as false VAT invoices and inflated input tax credits.

China Taxation Administration Information System (CTAIS)

In 1999, the SAT developed and piloted the core taxation system, China Taxation Administration Information System (CTAIS), in order to standardize operational procedures, introduce administrative practices featuring filing-based, computer network-based, centralized collection, focused inspection and strengthened administration, and improve IT-based taxation in China.

Having been piloted in “one province and one city”, the CTAIS system was put into use in state tax offices in 34 provinces, municipalities and autonomous regions, which centralized data at the provincial level in 2003. The system covers all types of taxes that fall under the jurisdiction of state tax offices, and involves such operations as registration, filing, reporting, payment, invoice administration, investigation, and accounting. The system has improved tax offices’ ability to monitor taxpayers, supervise the enforcement actions and make sound decisions, thus putting in place in China a nationwide collection, administration and service system. It also links the tax administrations with, among others, banks and the National Treasury to achieve cross-agency collaboration.

In October 2016, Golden Tax Project Phase III was launched nationwide, covering all tax types, processes and both state and local tax offices. With its mission accomplished, the 18-year old CTAIS system was officially shutdown.

Golden Tax Project Phase III

As part of China's e-government project, Golden Tax Project Phase III is designed to create an information system that links with other relevant agencies and covers all the taxes and processes for which both the SAT offices and local taxation administrations are responsible. The information system consists of four sub-systems, namely collection, administration, third-party information and support for decision-making. There are two national tax data processing centers located in Beijing and Guangdong.

In 2015, the SAT started to promote the system in China. In October 2016, most of the application systems were put into use across the country, marking a new step made in the IT application to taxation in China.

Along with the promotion of the system in the country, the SAT has continued to improve the system in terms of functionality, performance and user experience. It strives to build up a standardized data and administration system for taxation purposes by centralizing data at the national level, standardizing data management and focusing on data application.

Exchanges and Cooperation

- ◇ **Multilateral Exchanges and Cooperation**
- ◇ **Bilateral Exchanges and Cooperation**
- ◇ **Expanding EOI Network**
- ◇ **Expanding Tax Treaty Network**

Being an active player in international tax arena, the SAT works closely with international partners in exchange of information, cross-border collaboration and multilateral actions. The SAT is committed to cooperating with other tax jurisdictions to ensure an open, vibrant and fair playing field, contributing to the balanced and sustainable development of the global economy.

Multilateral Exchanges and Cooperation

In recent years, the SAT has actively enhanced its cooperation with OECD, IMF and BRICS. It has been deeply involved in all tax agendas under the framework of the G20, including the Base Erosion and Profit Shifting (BEPS) project, the Common Reporting Standard (CRS) project, and in providing assistance to developing countries in capacity building. It hosted the 10th Plenary of Forum on Tax Administration (FTA), took part in research for key projects initiated by FTA, and co-led with Canada on the capacity building project. As a member of the Study Group on Asian Tax Administration and Research (SGATAR), the SAT has pushed through the reform of SGATAR and increased the quality and efficiency of cooperation. The SAT has also expanded its exchanges and cooperation with regional taxation organizations in Africa, the Americas and Europe.

» Exchanges and Cooperation under the G20 Framework

In 2016, the SAT continued to be deeply involved in the BEPS project entrusted to OECD by the G20. It served as the first vice-president in the BEPS Steering Committee and Multilateral Agreement Task Force, playing an active role in the creation of the BEPS Inclusive Framework, the drafting of multilateral agreement and the implementation of BEPS deliverables across the globe. The SAT participated in 24 BEPS-related meetings this year, putting forward China's position statements and suggestions on all the action plans. Meanwhile, with reference to the BEPS deliverables, the SAT published many important international taxation policies and rules, such as those on CbC reporting for transfer pricing purposes, special tax adjustment and advanced pricing arrangement. It also brought the BEPS results into China's double taxation agreements (DTAs).

» Participation in FTA Activities

The 10th Plenary of the Forum on Tax Administration was held in Beijing on 11-13 May 2016 and attended by nearly 200 delegates from 38 FTA member economies, 6 invited non-member economies, 7 international organizations and 9 enterprises. At the meeting, Zhang Gaoli, the Vice Premier of China, delivered an opening speech. As a milestone in exchanges and cooperation in international taxation, the meeting witnessed many consensus matters reached as well as 11 bilateral tax treaties, multilateral tax treaties and MoUs signed.

» Participation in OECD Activities

The SAT started to take part in some CFA work from 1996. Such involvement has deepened since China became a formal CFA observer in 2004. In 2015, the SAT and the OECD signed its MoU for Cooperation 2016-2018, which covers the various forms of cooperation in 19 areas including tax policy, tax administration and international taxation. Key results:

- The SAT attended the professional meetings held by CFA and its subsidiaries as well as the Global Forum on Transparency and Exchange of Information for Tax Purposes and served as the vice-chair of No. 10 Working Party on Exchange of Information and Tax Compliance.
- The SAT actively participated in revising the Model Tax Convention on Income and on Capital and OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.
- The SAT sent tax experts to instruct at OECD Global Relation Programme events.
- The SAT sent over 100 tax officials to attend Global Relation Programme events held in OECD Multilateral Tax Centers in Seoul, Ankara, Budapest, Vienna and

Mexico. In 2016, 24 officials attended the events in the above MTCs.

- The SAT and the OECD have set up the "OECD-SAT Multilateral Tax Center" to provide training courses for tax officials from developing countries in Asia, Africa, Latin America, etc.

» Cooperation with IMF

In 2016, the SAT signed its 3-year technical cooperation agreement (2016-2018) with the IMF. According to the agreement, the SAT received five expert delegations (Missions) from the IMF in 2016 which focus on the topic of VAT, outbound taxation, tax administration law (5 visiting experts), micro-simulation model (2 visiting experts) and quality control in enforcement and administration (3 visiting experts) respectively.

» Participation in the BRICS Activities

The meeting mechanism was first established in 2013 for the BRICS Tax Commissioners to meet regularly. In December 2016, Wang Jun, the SAT Commissioner, attended the Meeting of BRICS Heads of Tax Authorities held in India. Various parties have agreed on BEPS implementation, risk resilience-building base on big data and involvement of developing countries and emerging economies in international rules making and issued a communique, pledging to build a fair and transparent international taxation system and support all G20 actions to this end. They also advocate BRICS countries coordinating to implement the BEPS in a timely manner and expand cooperation and enhance capacity building, encouraging developing countries to be actively involved in international taxation cooperation.

» Pushing Forward SGATAR Reform

The Study Group on Asian Tax Administration and Research (SGATAR) is the only official organization for collaboration on tax administration in the Asia-Pacific region. At the 46th SGATAR Annual Meeting in 2016, the SAT participated in the discussion of the revision of SGATAR governance document, the integration of training resources and all the other reform agenda items as well as the preparation of the program schedule for 2017. At the annual meeting, the SAT announced that it will host the 48th SGATAR Annual Meeting in 2018, and has become for the first time a member of the Permanent SGATAR Task Force.

» Helping Developing Countries with Capacity Building

The SAT helps developing countries in Asia, Africa and Latin America with their capacity building in a variety of ways, including legislative consultation, topic discussions, expert support, experience sharing and technical assistance. Three seminars on Tax Administration and Taxpayer Service were held in China in 2016, with 129 tax officials from 34 Asian, African and Latin American countries participated.

The SAT makes most of the Multilateral Tax Center (MTC) established by the SAT and OECD jointly to improve the capability of developing countries in Asia-Pacific and Africa in tax administration. In 2016, seven OECD seminars were held in the MTC with 77 tax officials from 13 countries participating.

Bilateral Exchanges and Cooperation

In accordance with the bilateral cooperation agreements and MoUs with the tax administrations of the USA, Canada, Australia, Korea, Japan, the Netherlands,

France, Mongolia, Argentina, Kenya, Kyrgyzstan and Ethiopia, the SAT has engaged in bilateral meetings and exchanges with their leaders or at an operational level. The SAT regularly invited foreign tax experts to give lectures in China. In 2016, tax experts from Australia, the UK, and the Netherlands were invited to give lectures on VAT, revenue policy evaluation and analysis, PIT, EOI and anti-avoidance.

As part of its talent development program, the SAT selected and seconded on a regular basis tax officials to participate in internships or topical trainings outside of mainland China. In 2016, eight tax officials from the Elite Tax Experts Program and four young talented tax officials were assigned to work as interns in the Hong Kong offices of the four most famous accounting firms in the world. Two young tax officials were sent to work in International Bureau of Fiscal Documentation in the Netherlands. The SAT also selected and sent tax officials to Austria, the Netherlands, USA, Australia, Korea and Canada to receive training on the topics of compliance risk management, international taxation, large business audit, performance management and digital HR, BEPS, dispute resolution, PIT reform and economic analysis for tax purposes.

Table 7 illustrates the foreign tax administrations visited China and held bilateral communications and activities with the SAT in 2016.

Table 7 Visits to the SAT in 2016

Jurisdictions	No. of Visitors
Korea, Japan, Kazakhstan, India, Columbia, France, Australia, Switzerland, the Netherlands, Germany, Denmark, the UK, Canada, Italy, Spain, Azerbaijan, Ecuador, Ghana, Jamaica, Jordan, Pakistan, Panama, Sri Lanka, Zambia, Bahamas, Dominica, Cameron, Egypt, Nigeria, the Philippines, Sudan, Togo, Uganda, Cambodia, Indonesia, Lesotho, Malta, Mauritius, Tanzania, Chinese Taipei, Chinese Hong Kong, etc.	489

Expanding EOI Network

In the 1990s, the exchange of information on request was the main form of EOI. The SAT responded to specific requests from about ten countries including the US and the UK and sent out its specific requests only to six countries including Japan and the US. As China blends into the world economy in the 21st century, its rate of exchange of information for tax purposes has accelerated. China has maintained stable working relationships with over 50 tax jurisdictions in relation to EOI in 2016. The SAT reviews over 400 cases of EOI on request annually and has started to pilot EOI with other countries through the JITSIC platform.

China signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters in August 2013 (see Table 8). The Convention became binding for China on February 1st 2016 and will be implemented by China on January 1st 2017. China also signed TIEAs with 10 tax jurisdictions including Bahamas, British Virgin Islands, Isle of Man, Guernsey, Jersey, Bermuda, Argentina, Cayman Islands, San Marino and Liechtenstein, all of which have come into force and been implemented (see Table 9). China's mutual administrative assistance network has expanded to cover major trade partners and low tax jurisdictions which have frequent economic ties with China.

In 2014, China promised that the Standard for Automatic Exchange of Financial Account Information would be implemented by China. In December 2015, with the approval of the State Council, the SAT signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Information. From 2018, China will start AEOI with major economies and financial centers in the world, obtaining the offshore account information of Chinese taxpayers as the basis for crackdown on offshore evasion and avoidance.

Table 8 Multilateral Tax Conventions Signed by the Chinese Government

DD.MM.YYYY

SN	Name	Signed on	Effective from	Applicable since	Signed by
1	Multilateral Convention on Mutual Administrative Assistance in Tax Matters	27.08.2013	01.02.2016	01.01.2017	WANG Jun

Table 9 TIEAs Signed by the Chinese Government

DD.MM.YYYY

SN	Jurisdiction	Signed on	Effective from	Applicable since	Signed by
1	Bahamas	01.12.2009	28.08.2010	01.01.2011	HU Dingxian (Ambassador)
2	British Virgin Islands	07.12.2009	30.12.2010	01.01.2011	QIAN Guanlin
3	Isle of Man	26.10.2010	14.08.2011	01.01.2012	XIAO Jie
4	Guernsey	27.10.2010	17.08.2011	01.01.2012	XIAO Jie
5	Jersey	29.10.2010	10.11.2011	01.01.2012	XIAO Jie
6	Bermuda	02.12.2010	31.12.2011	01.01.2012	WANG Li
7	Argentina	13.12.2010	16.09.2011	01.01.2012	XIAO Jie
8	Cayman Islands	26.09.2011	15.11.2012	01.01.2013	SONG Lan
9	San Marino	09.07.2012	30.04.2013	01.01.2014	XIAO Jie
10	Liechtenstein	27.01.2014	02.08.2014	01.01.2015	LIANG Jianquan (Counsel-General in Zurich)

Expanding Tax Treaty Network

China has signed 102 tax treaties with other countries and 2 arrangements with Hong Kong SAR and Macao SAR by the end of 2016. A tax treaty was also signed between the mainland of China and Taiwan (see Tables 10, 11 and 12).

Table 10 Tax Treaties between China and Other Countries

DD.MM.YYYY

Country	Signed on	Effective from	Country	Signed on	Effective from
Japan	06.09.1983	26.6.1984	USA	30.04.1984	21.11.1986
France	30.05.1984	21.02.1985	UK	26.07.1984	23.12.1984
	26.11.2013	28.12.2014		27.06.2011	13.12.2013
Belgium	18.04.1985	11.09.1987	Germany ^①	10.06.1985	14.05.1986
	07.10.2009	29.12.2013		28.03.2014	(Not effective yet)
Malaysia	23.11.1985	14.09.1986	Norway	25.02.1986	21.12.1986
Denmark	26.03.1986	22.10.1986	Singapore	18.04.1986	11.12.1986
	16.06.2012	27.12.2012		11.07.2007	18.09.2007

① The Chinese government signed AGREEMENT FOR THE AVOIDANCE OF DOUBLE TAXATION WITH RESPECT TO TAXES ON INCOME AND CAPITAL and AGREEMENT FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME with the government of Federal Republic of Germany and the government of German Democratic Republic respectively on June 10, 1985 and June 8, 1987. Federal Republic of Germany and German Democratic Republic united as Federal Republic of Germany on October 3, 1990. The AGREEMENT BETWEEN THE PEOPLE'S REPUBLIC OF CHINA AND THE FEDERAL REPUBLIC OF GERMANY FOR THE AVOIDANCE OF DOUBLE TAXATION WITH RESPECT TO TAXES ON INCOME AND CAPITAL signed on June 10, 1985 continues to be applicable to the united Federal Republic of Germany.

(continued)

Country	Signed on	Effective from	Country	Signed on	Effective from
Canada	12.05.1986	29.12.1986	Finland	12.05.1986	18.12.1987
				25.05.2010	25.11.2010
Sweden	16.05.1986	03.01.1987	New Zealand	16.09.1986	17.12.1986
Thailand	27.10.1986	29.12.1986	Italy	31.10.1986	14.11.1989
Netherlands	13.05.1987	05.03.1988	Czechoslovakia (applicable to Slovakia) ^①	11.06.1987	23.12.1987
	31.05.2013	31.08.2014			
Poland	07.06.1988	07.01.1989	Australia	17.11.1988	28.12.1990
Yugoslavia (applicable to Bosnia and Herzegovina) ^②	02.12.1988	16.12.1989	Bulgaria	06.11.1989	25.05.1990
Pakistan	15.11.1989	27.12.1989	Kuwait	25.12.1989	20.07.1990

① The Chinese government signed the AGREEMENT FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME with the government of the Czechoslovak Socialist Republic on June 11, 1987. The Agreement continued to be applicable when the Czechoslovak Socialist Republic changed its name as Czech-Slovak Federal Republic, Czech and Slovak Federal Republic in 1990. Czech and Slovak Federal Republic was dissolved into the Czech Republic and the Slovak Republic on January 1, 1993, and the above mentioned Agreement was still applicable to China and the two countries. The Chinese government signed the AGREEMENT FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME with the government of Czech Republic on August 28, 2009, which has come into force.

② The Chinese government signed AGREEMENT FOR THE AVOIDANCE OF DOUBLE TAXATION WITH RESPECT TO TAXES ON INCOME AND CAPITAL with the federal parliament executive committee of the Socialist Federal Republic of Yugoslavia (Yugoslavian government) on December 12, 1988. Yugoslavia was dissolved later and the Ministry of Foreign Affairs reported that the Agreement would be a legacy for the countries after dissolution. The Chinese government signed AGREEMENTS FOR THE AVOIDANCE OF DOUBLE TAXATION WITH RESPECT TO TAXES ON INCOME AND CAPITAL with countries after dissolution. Bosnia and Herzegovina is the only one country left without signing new treaty with China, so the above mentioned agreement is still applicable to China and Bosnia and Herzegovina.

(continued)

Country	Signed on	Effective from	Country	Signed on	Effective from
Switzerland	06.07.1990	27.09.1991	Cyprus	25.10.1990	05.10.1991
	25.09.2013	15.11.2014			
Spain	22.11.1990	20.05.1992	Romania	16.01.1991	05.03.1992
Austria	10.04.1991	01.11.1992	Brazil	05.08.1991	06.01.1993
Mongolia	26.08.1991	23.06.1992	Hungary	17.06.1992	31.12.1994
Malta	02.02.1993	20.03.1994	UAE	01.07.1993	14.07.1994
	18.10.2010	25.08.2011			
Luxembourg	12.03.1994	28.07.1995	Korea	28.03.1994	27.09.1994
Russia	27.05.1994	10.04.1997	Papua New Guinea	14.07.1994	16.08.1995
	13.10.2014	(Not effective yet)			
India	18.07.1994	19.11.1994	Mauritius	01.08.1994	04.05.1995
Croatia	09.01.1995	18.05.2001	Belarus	07.01.1995	03.10.1996
Slovenia	13.02.1995	27.12.1995	Israel	08.04.1995	22.12.1995
Vietnam	17.05.1995	18.10.1996	Turkey	23.05.1995	20.01.1997
Ukraine	04.12.1995	18.10.1996	Armenia	05.05.1996	28.11.1996
Jamaica	03.06.1996	15.03.1997	Iceland	03.06.1996	05.02.1997
Lithuania	03.06.1996	18.10.1996	Latvia	07.06.1996	27.01.1997
Uzbekistan	03.07.1996	03.07.1996	Bangladesh	12.09.1996	10.04.1997

(continued)

Country	Signed on	Effective from	Country	Signed on	Effective from
Yugoslavia (applicable to Serbia and Montenegro) ^①	21.03.1997	01.01.1998	Sudan	30.05.1997	09.02.1999
Macedonia	09.06.1997	29.11.1997	Egypt	13.08.1997	24.03.1999
Portugal	21.04.1998	07.06.2000	Estonia	12.05.1998	08.01.1999
Laos	25.01.1999	22.06.1999	Seychelles	26.08.1999	17.12.1999
Philippines	18.11.1999	23.03.2001	Ireland	19.04.2000	29.12.2000
South Africa	24.04.2000	07.01.2001	Barbados	15.05.2000	27.10.2000
Moldova	07.06.2000	26.05.2001	Qatar	02.04.2001	21.10.2008
Cuba	13.04.2001	17.10.2003	Venezuela	17.04.2001	23.12.2004
Nepal	14.05.2001	31.12.2010	Kyrgyzstan	12.09.2001	27.07.2003
Indonesia	07.11.2001	25.08.2003	Oman	25.03.2002	20.07.2002
Nigeria	14.04.2002	21.03.2009	Tunisia	16.04.2002	23.09.2003
Iran	20.04.2002	14.08.2003	Bahrain	16.05.2002	08.08.2002
Greece	03.06.2002	11.11.2005	Kyrgyzstan	24.06.2002	29.03.2003
Morocco	27.08.2002	16.08.2006	Sri Lanka	11.08.2003	22.05.2005
Trinidad and Tobago	18.09.2003	22.05.2005	Albania	13.09.2004	28.07.2005
Brunei	21.09.2004	29.12.2006	Azerbaijan	17.03.2005	17.08.2005

① The Chinese government signed AGREEMENT FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME with Federal Republic of Yugoslavia (Yugoslavian government) on March 21, 1997. The Agreement continued to be applicable when the Federal Republic of Yugoslavia changed name as Serbia and Montenegro on February 4, 2003. On June 3, 2006, Serbia and Montenegro separated into the Republic of Serbia and the Republic of Montenegro, and this Agreement is still applicable to China and these two countries.

(continued)

Country	Signed on	Effective from	Country	Signed on	Effective from
Georgia	22.06.2005	10.11.2005	Mexico	12.09.2005	01.03.2006
Saudi Arabia	23.01.2006	01.09.2006	Algeria	06.11.2006	27.07.2007
Tajikistan	27.08.2008	28.03.2009	Ethiopia	14.05.2009	25.12.2012
Czech	28.08.2009	04.05.2011	Turkmenistan	13.12.2009	30.05.2010
Zambia	26.07.2010	30.06.2011	Syria	31.10.2010	01.09.2011
Uganda	11.01.2012	(Not effective yet)	Botswana	11.04.2012	(Not effective yet)
Ecuador	21.01.2013	06.03.2014	Chile	25.05.2015	(Not effective yet)
Zimbabwe	01.12.2015	(Not effective yet)			

Table 11 Tax Arrangements between the Mainland and Hong Kong SAR and Macao SAR

DD.MM.YYYY

Region	Signed on	Effective from
Macao	27.12.2003	30.12.2003
Hong Kong	21.08.2006	08.12.2006

Table 12 Tax Treaty between the Mainland of China and Taiwan

DD.MM.YYYY

Region	Signed on	Effective from
Taiwan	25.08.2015	(Not effective yet)

