Perfecting Taxation Policy and Service to Support the Development of “Going Out” Enterprises

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Abstract—China has always adhered to the policy of opening to the outside world, and sought to work with other countries to push the economic globalization. On one hand, it should intensify the efforts of “bringing in”. On the other hand, it should pick up the pace of “going out”. When the “going out” enterprises conduct operation activities, they should consider the taxation policies and collection measures of both the residence country and the host country as the major benefit factors. In this paper, the author, standing on the point of the residence country of “going out” enterprises, has studied how to perfect taxation policies and improve services while observing international taxation rules, so as to support the development of “going out” enterprises.

Keywords—“going out” enterprise, taxation policy, taxation service

China’s opening-up is expanded to more fields and further deepened. China initiates the strategy of “the Belt and Road”. Especially, President Xi Jinping’s keynote speech delivered on the 2018 Boao Forum for Asia, conveyed China’s national policy of opening-up and innovation to the whole world, as well as China’s determination of and confidence in opening wider to the outside world. In the two-way opening-up, we should walk on two legs. It means that we should attach importance to the influence of capital import and capital export on economic development, and persist in negotiating, sharing and developing with other countries. Such reality and opportunity provide a platform for the diversified development of enterprises, the free flow of capital, and the rational allocation of resources. Though taxation is not the major purpose driving enterprises to “go out”, it is the key benefit factor that enterprises must consider. For the “going out” enterprises, investment gains and risks mean a lot. Therefore, this paper aims to propose rational policies and convenient and high-quality services to reduce taxation cost and taxation fees for enterprises and help enterprises improve their capabilities to withstand risks.

I. STRENGTHENING INTERNATIONAL COOPERATION AND REMOVING TAX BARRIERS

China has signed tax treaties with 106 countries which vary in specific purpose, requirement, content, method and so on. However, all of them have the same common purposes. Firstly, it helps to avoid or eliminate duplicate taxation, easing the burden of taxpayers. Secondly, by entering to tax treaty, tax discrimination can be prevented, which ensures that eligible enterprises can enjoy the equal tax treatment as foreign enterprises. Thirdly, it can encourage countries to improve the investment environment, thus to promote mutual investment and economic development.

II. REFORMING THE CURRENT DUPLICATE TAXATION DEDUCTION METHOD IN OUR COUNTRY

Our country has always used the limit of tax credit to deduct the transnational duplicate tax. Theoretically, this method, based on the neutrality principle for capital export, avails enterprises’ capital export, and prevails in most of countries in the world. However, it yields quite different results in different applications. Generally, in case that all the overseas branches are profitable, tax credit on a country-by-country basis is not good for the taxpayers, for the reason that it will result in a waste of the balance of ceiling in credit on one hand, and will lead to the backward carry-over of out-of-limit credit amount on the other hand, causing the current profit of enterprise to increase and even the tax credit for the out-of-limit credit amount to be a failure. On December 28th, 2017, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice of Perfecting the Policy About the Overseas Income Tax Credit of Enterprises (CS (2017) No.84), which provided as follows.

Firstly, enterprises can choose between the “overall credit on a per-country basis - tax credit on a country-by-country basis” and “overall credit on a non-itemized basis - comprehensive credit”, calculate the creditable overseas income tax and ceiling on tax credit for their overseas income. The mode, once selected, is not allowed to be changed in five years.

Secondly, in the calculation of creditable income tax and ceiling on credit of enterprise’s overseas dividend income, the five-layer indirect credit may apply, in case it meets the shareholding conditions.

The Notice (CS (2017) No.84) has reformed the current duplicate taxation deduction method for the “going out”
enterprises. Taxpayers can freely select the duplicate taxation deduction method which is more beneficial to them according to their own actual situation. The amount of tax credit for enterprise’s overseas dividend income is increased from three-layer credit to five-layer credit. It helps to solve the duplicate taxation problem existing in the complex and underlying holding in transnational group. It goes with the internationally-used limited tax credit, eliminates the duplicate taxation, uses taxation policies to ease the tax burden of enterprises, benefits the capital export enterprises, and enhances enterprise’s capability to withstand risks.

III. SOLVING CROSS-BORDER DUPLICATE TAXATION PROBLEM WITH TAX EXEMPTION METHOD IN DUE TIME

The Notice (CS (2017) No.84) has solved the problem of duplicate taxation. However, there has always been a crucial problem about the limited tax credit. That is, when the income tax rate in foreign countries is lower than that in China, taxpayers should make a supplementary payment for the tax of their overseas investment income according to the income tax rate of China, so they cannot enjoy the low-tax treatment. In case that the taxpayers select the tax exemption method, their overseas investment income is exempt from tax. Thus, taxpayers can enjoy the low-tax benefit, if they make investment in a low-tax country. An enterprise which starts its internationalization just now will generally choose to establish branches to conduct their operation at the early stage of investment. The tax exemption method will bring more practical benefits than the limited tax credit. In case that an enterprise makes direct foreign investment or establishes branches, the tax exemption method can better solve the duplicate taxation of investment income such as stock dividend and bonus. In addition, it goes with China’s corporate income tax policy concerning the earnings from equity investment, such as stock dividend, bonus and so on, of the eligible resident enterprises, and the exemption for the earnings from equity investment, such as stock dividend, bonus and so on, which are obtained by non-resident enterprises that have established an institution or venue in China from resident enterprises and which are related to such institution or venue. Thus, taxpayers can enjoy the same taxation treatment no matter in China or in foreign countries, which better reflects the fairness of taxation policy.

IV. ADOPTING MORE FLEXIBLE REGULATIONS ON THE DEDUCTION OF CORPORATE LOAN INTEREST

It is explicitly stipulated in Article 38 of Implementing Regulations of the Law of the P.R.C. on Enterprise Income Tax that the following paid interest arising during the production and operation activities of an enterprise are allowed to be deducted. (1) The loan interest paid by the non-financial enterprise to the financial enterprise, various deposit interests and inter-bank loan interest paid by the financial enterprise, and the interests paid by the enterprise for its corporate bond which is officially approved to issue; and (2) part of the interest paid by the non-financial enterprise to the non-financial enterprise, which does not exceed the amount of interest calculated as per the same-period and same-type loan rate of the financial enterprise. It is suggested by the tax law that an enterprise’s payment of loan interest to the financial institution can be deducted. The problem is that some enterprises, especially the middle and small-sized enterprises, can only get quite a limited amount of loan from the financial institution. Most of the loans come from the non-financial enterprises. In case that the middle and small-sized enterprise raises a loan from the non-financial institution, the interest rate will generally be higher than the same-period and same-type loan interest rate of financial enterprise. The extra part of interest payment, stipulated by the tax law, is not allowed to be deducted before the income tax. To encourage more enterprises to make foreign investment and promote the development of middle and small-sized enterprises, it is quite important to adopt a more flexible standard to deduct the foreign investment loan interest. Certainly, there should be a limit on the deduction of loan interest. More detailed and standard measures should be worked out to appraise and manage the deduction of loan interest.

V. ALLOWING THE REGULATION OF TAX DEFERRAL

Compared with the international practices, there is an absence of the regulation on tax deferral in China’s tax system. It is stipulated by China’s law of corporation income law that the overseas institutions of domestic enterprise should declare and pay income tax for their income, no matter the income is remitted back to China or not, and should not delay the tax payment. Such practice helps to prevent international tax evasion and avoidance. However, compared with the foreign enterprises whose mother country allows the tax deferral, Chinese enterprises suffer from a heavier tax burden, thus becoming weakly competitive in international competition. The author suggests that our country, if sticking to the limited tax credit method, should adopt the tax deferral so as to better reduce the investment cost. Enterprises should be allowed to deposit their income abroad temporarily and pay the tax when the income is remitted back to China. Certainly, the regulations on the tax deferral for overseas investment income should comply with the international tax avoidance system. In case that our country adopts the tax exemption method, the overseas income of China’s “going out” enterprises will be exempt from tax. The regulation on tax referral no longer applies to the profit gained by the branches and the stock dividend or bonus from the invested enterprise.

VI. ESTABLISHING AN ALL-ROUND TAX SERVICE SYSTEM

Currently, China is merging its state and local tax affair organizations into a cooperative service organization, so
as to provide an all-round administration and service system in which information is shared, law enforcement is unified and services are integrated.

A. Establishing a new and modern platform integrating “collection and administration, service and technology” into one

With the networked operation of big data and the creative application of technological means, the tax service is made more electronized, standardized and socialized. New tax service webpages will be developed to make the tax services of the State Administration of Taxation cover a wide range as required by taxpayers. As more and more enterprises “go out”, they will consult the tax authority on more extensive, more specific and more diversified contents and requirements. Therefore, only by establishing a new and modern platform which integrated “collection and administration, service and technology” into one can we provide convenient and high-quality services for taxpayers.

B. Launching webpages specially for tax service

Besides perfecting the tax administration and service platform, it is also very important to launch special tax service webpages. For instance, the State Administration of Taxation is developing the webpage themed on “the Belt and Road” which covers a wide range of contents including the tax treaty, policy and regulation, media information, national investment tax guidance and so on of the countries and regions along “the Belt and Road”. It acquaints enterprises with the tax policies of countries along “the Belt and Road”, and provides useful taxation information timely. It is suggested to expand the current “the Belt and Road” webpage to a wider ranger, and develop other tax service webpages, such as the webpages for Southeast Asian countries, Northeast Asia, European Union, North America and so on, so as to satisfy the demands of different taxpayers and provide fundamental tax services for China’s opening wider to the outside world.

C. Keeping improving the guidance for national investment taxation

Up to August 2017, the State Administration of Taxation has released a total of 59 national guides which cover the basic condition of 59 countries and regions, including the trade contact between China and other countries, current taxation system, tax collection and administration system, tax-involved risks of investment, tax treaty, tax dispute settlement and so on. These guides, rich and professional in content, have provided the information about the host country for “going out” country, acquainted enterprises with relevant policies of the invested countries, and helped enterprises to mitigate risks. Guides from more countries should be added to such taxation guides and the contents should be updated and supplemented in time.

D. Helping taxpayers to pay attention to the security of overseas investment tax

The investment made by the “going out” enterprises has a direct bearing on their return on investment. For the reason that the tax system and tax preference of other countries are quite different from tax treaties that China enter into, the tax risk and investment risk are the major issues that “going out” enterprises should consider. Hence, enterprises should pay attention to the following aspects, if they want to safely use tax policies to conduct various production and operation activities and ensure a safe taxation. Firstly, whether the taxpayer can fully enjoy the preferential tax policy of the host country. Secondly, whether the taxpayer can effectively control the overseas tax risks. To ensure the security of overseas investment and taxation, taxpayers should have a thorough understanding of the laws of the host country, familiarize the overseas tax policies, standardize their operation, and make rational and compliant tax planning. Our government and tax authority should provide more support for taxpayers in tax treaty, tax service, possible tax dispute and so on, and help taxpayers to enhance the taxation security for overseas investment. Certainly, the return of overseas profit is the major concern of taxpayer. In case the tax exemption method mentioned above can take the place of the tax credit method, overseas taxpayer’s profit will return at a lower cost and a smaller risk and in a timelier manner.

REFERENCES