



BUILDING A GROWTH-FRIENDLY TAX ENVIRONMENT

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BUILDING A GROWTH-FRIENDLY TAX ENVIRONMENT

Promote Digital Transformation of Tax Administration and Bolster Tax Administration Modernization ——Overview of the STA's 5C Quality Evaluation and Credit + Risk 2D Monitoring Systems

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Part 01

Background



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Back ground



01

The digitalization of the economy and society has become an irreversible trend

02

Digital transformation has become an important force in reshaping the economic system and improving governance capacity

03

The use of big data and modern information technology to innovate tax administration approaches is a common feature of the current practice of tax administration reform in various countries.

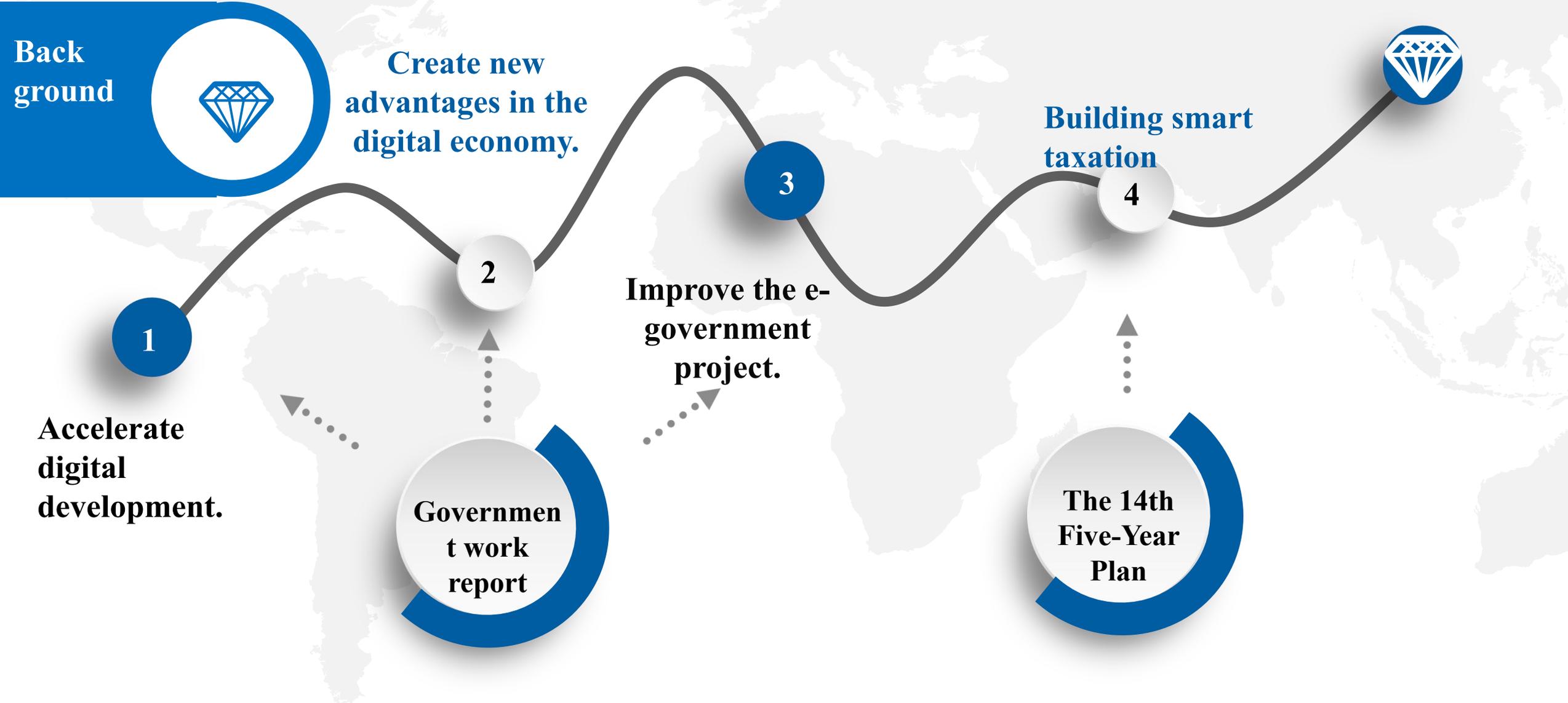
04

FTA Tax Administration 3.0 also proposed a new model of data-driven and forward-moving interaction points between tax authorities and taxpayers.

Foreword: Thanks to digital development, we can share our experience and practices of digital transformation of tax administration even if we are far away from each other



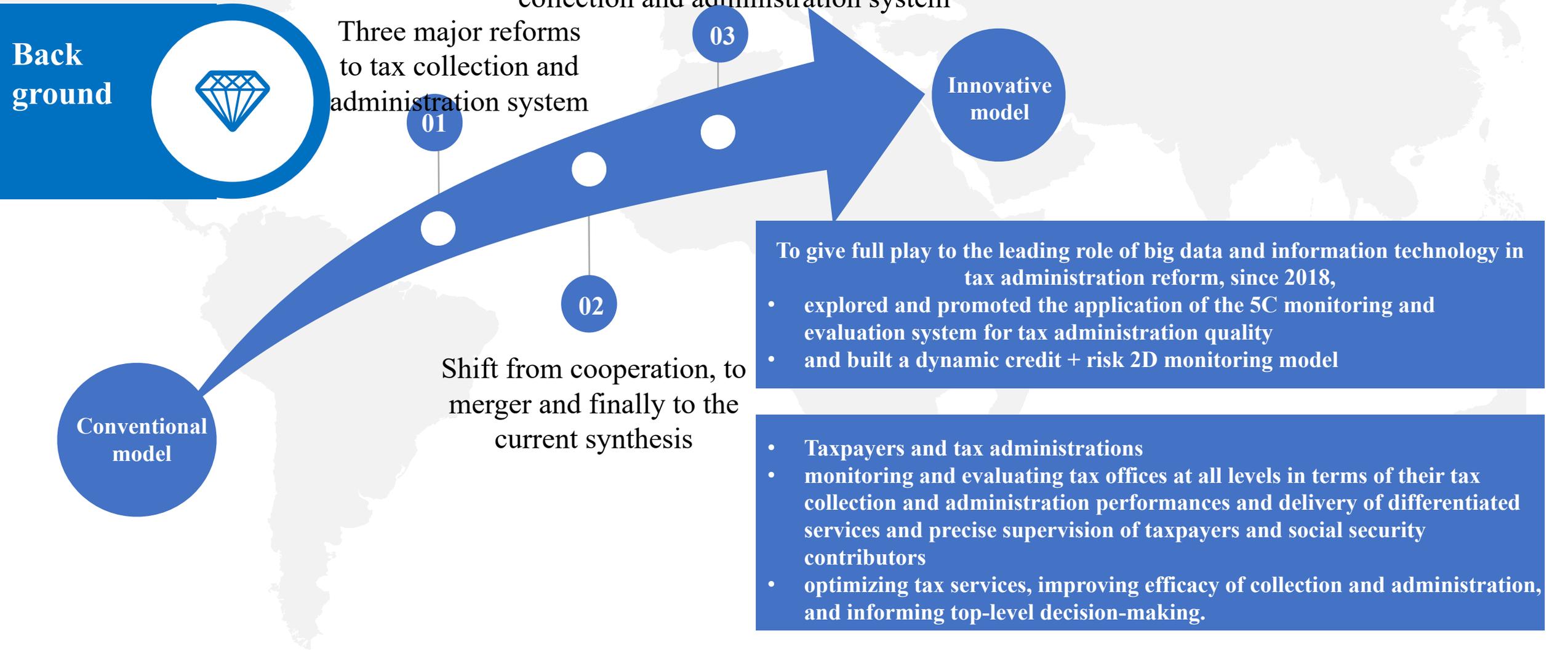
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Accelerating the digital upgrade and intelligent transformation of tax collection and administration system



Back ground



Three major reforms to tax collection and administration system

01

03

Innovative model

02

Conventional model

Shift from cooperation, to merger and finally to the current synthesis

To give full play to the leading role of big data and information technology in tax administration reform, since 2018,

- explored and promoted the application of the 5C monitoring and evaluation system for tax administration quality
- and built a dynamic credit + risk 2D monitoring model

- Taxpayers and tax administrations
- monitoring and evaluating tax offices at all levels in terms of their tax collection and administration performances and delivery of differentiated services and precise supervision of taxpayers and social security contributors
- optimizing tax services, improving efficacy of collection and administration, and informing top-level decision-making.



Part 02

Introduction-- 5C Quality Evaluation System



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5C Quality Evaluation System

Mainly used to evaluate the quality and effectiveness of tax administration

- | | |
|--------------------------------------|---|
| 1 Taxpayer service (Customer) | 4 Tax check (Check) |
| 2 Tax collection (Collection) | 5 Self-correction and legal remedy (Correct) |
| 3 Risk control (Control) | |

Operation Model

- 1** 178 indicators
- 2** Health examination reports
- 3** Data generation, indicator checks and balances, and quantitative scoring

Expected results

- 1** Delivering services
- 2** Enforcing laws
- 3** Tackling risks
- 4** Implementing treatment strategies
- 5** Positive interactive working mechanism of self-diagnosis and continuous improvement
- 6** Organization's strategic goals



Main features



- **STA's machine test**
- **Effectively avoiding distortion of evaluation based on STA's big data management capacity**



- **The design of the indicator model takes into account the checks and balances, and strengthens the correlation between evaluation indicators, so as to make the evaluation results fair and just.**

Main features

- **Shift from "finding out what is wrong afterwards" to "doing it right from the beginning"**
- **Enforcing laws more precisely, and delivering services more targeted**

- **A single yardstick in different regions**
- **Comprehensive score, various weighted parameters**
- **Dynamically reflecting the subjective efforts of tax authorities**





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Effectiveness

Effectiveness

1

- **Contributing to the China's major reforms**

- Developed important indicators and models
- In 2020, the average duration for new taxpayers' tax-related matters after business registration has been shortened by 12 working days over 2019, and taxpayers eligible for "immediate acceptance" and "exemption" closure procedures accounted for 91.19%, and STA's efficiency for business closure continued to improve.

2

- **Improving law enforcement work of tax authorities has improved**

- 5C system is based on the perspective of tax administration and designed to assist tax authorities in avoiding law enforcement risks by detecting potential problems of tax enforcement behaviors through various indicators

3

- **Optimizing the collection and administration system and approaches**

- In the past two years, around which some 110 recommendations were made such as invoice management, tax assessment and administration of non-regular taxpayers, which provided practical experience and references to improve relevant institutions and mechanisms.

4

- **Improving the collection and administration quality**

- In the past two years, the evaluation results have become more objective and realistic. This has effectively stimulated the internal motivation of the tax authorities and formed a positive atmosphere.
- By the end of 2020, the national 5C evaluation index was 87.09 points, up by 4.56% from 83.29 points in 2019, accounting for 59% of the total indicators.



Part 03

Introduction--Credit + Risk 2D Monitoring System



Overview

Primarily used to evaluate the dynamic creditworthiness and risk levels of taxpayers so as to implement differentiated services and administration

Operation Model

- 1 Big data algorithms and analytical models
- 2 Dynamic credit and risk monitoring system
- 3 Dynamic, real-time portrait of taxpayers and contributors
- 4 Real-time grade determination of tax-related matters
- 5 Assessment of the creditworthiness and risk level of taxpayers
- 6 Differentiated services and dynamic administration

Expected Results

Dynamic credit+risk 2D monitoring system

- 1 Moving risk control forward and accurate classification and grading administration
- 2 Avoiding the "one-size-fits-all" approach
- 3 Preventing the conventional way of dealing with non-compliance, i.e., ex-post verification and investigation.



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Dynamic credit monitoring

- Behavioral information
- Real-time updating of credit information
- Overall evaluation of taxpayers
- Strictest administrative requirements for taxpayers with low credit ratings
- Green fast-track channels for taxpayers with high credit ratings

- Using the big data risk analysis model
- Generating real-time information on taxpayers' doubtful tax-related business and determine their risk levels
- Reminders of eligible services for taxpayers with low and medium risk
- Risk minimization measures for high-risk taxpayers

Dynamic risk monitoring

Effects of Dynamic credit+risk monitoring

- 100 service reminder indicators
- 232 correction reminder indicators
- 18 risk minimization indicators

Machine learning technology

- 70% of the case data for algorithm training
- 70% of the case data for evaluation and verification
- Automatic thresholds and models, with an accuracy rate of 98.88%.



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Application effect

Significant reduction of the time and cost

Ex-ante, during-the-event, and ex-post processes

More standardized and intelligent tax law enforcement

1

2

3

- Differentiated services for taxpayers
- Simplified and facilitated process

Regulations were refined into more than 150 automated business rules and intelligent models.

2D system can halt the key business processes, such as obtaining invoices or tax refund, of taxpayers suspected of tax evasion and fraud, and promptly initiate investigation and verification, which enhances the timeliness, accuracy and effectiveness of tax supervision.

Processing duration of nine traditional tax-related matters shortened from "days" to "minutes"; Whole process of for new enterprises can be completed within one hour.

For example, 15 risk interruption indicators for false invoicing were developed to monitor high-risk taxpayers and addresses in real time, and as for high-risk taxpayers triggering interruption of key businesses, we will swiftly send teams to their business premises for verification and investigation, thus effectively preventing the risk of false invoicing.

We have shifted from the traditional business handling model featuring file referral for review, empirical judgement and semi-manual operation to new model.



Part 04

Next Steps



BUILDING A GROWTH-FRIENDLY TAX ENVIRONMENT

China's tax authorities are committed to building smart taxation with high levels of integration, security and application driven by big data in taxation.



Digital technology is profoundly reshaping every aspect of today's society, and the digital transformation of tax administration has become a common choice for tax authorities in all countries.

Let's join hands to further strengthen international tax cooperation, share experience in tax digitalization reform, continuously improve the modernization of tax administration, and make greater contribution to economic development of all countries and global economic governance!



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THANKS