



# Research on The Coordination Mechanism of Tax Collection and Management Between China and ASEAN Countries under The Background of Digital Economy

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## ABSTRACT

*With the rapid development of economic globalization, regional economic integration has become an important trend in the process of world economic development. The formal signing of the regional comprehensive economic partnership agreement (RCEP) marks a closer trade and investment exchanges between China and ASEAN. At the same time, the epidemic has given birth to the development of new industries and new formats. China and ASEAN have accelerated their exploration of digital transformation and development. Digital economic cooperation has become a new highlight of China ASEAN cooperation. Digital economic cooperation has gradually become an important field of cooperation between China and ASEAN countries. As an important part of modern economic system, digital economy not only profoundly changes the international economic form, but also brings many challenges to cross-border tax collection and management. Therefore, in the context of digital economy, how to eliminate regional tax barriers and reasonably distribute tax interests among countries in the region has become the core content of international tax coordination and jurisdiction among ASEAN countries. Deepening the research on tax coordination and jurisdiction of digital economy in China ASEAN free trade area is not only an important content and requirement of the construction of China ASEAN Free Trade Area, but also of great significance to promote the construction of China ASEAN Free Trade Area and promote regional economic prosperity and stability.*

**Keywords:** Digital Economy, China Asean Free Trade Area, Tax Coordination Management

## I. INTRODUCTION

Southeast Asia is one of the most concerned regions of the global digital economy. Over the years, ASEAN countries have focused on policy formulation and strategic planning, and successively formulated the blueprint of ASEAN Economic Community 2025, ASEAN digital integration framework, ASEAN e-commerce agreement, etc. in order to develop ASEAN countries' digital economy and enhance their competitiveness in the global digital economy. According to the report economy sea 2020 released by Google and Temasek, the Internet economic transaction volume of ASEAN countries in 2019 was US \$100 billion, accounting for 3.7% of GDP in 2019 from 1.3% in 2015, far higher than the global average. Benefiting from the advantages of superior geographical location, large and young population, open and inclusive system and deep regional integration, it is expected that the Internet economic transaction volume of ASEAN countries will reach US \$300 billion by 2025. ASEAN countries have great potential for the development of digital economy in the future.

2019-2025 cross border e-commerce turnover and proportion of ASEAN Five Countries						
	2019年		2020年		2025年	
	Cross border e-commerce turnover (USD billion)	Proportion in digital economy	Cross border e-commerce turnover (USD billion)	Proportion in digital economy	Cross border e-commerce turnover (USD billion)	Proportion in digital economy
Thailand	\$5 billion	31.35%	\$9 billion	50%	\$24 billion	45.30%
Singapore	\$2 billion	16.70%	\$4 billion	44.40%	\$8 billion	36.40%
Malaysia	\$3 billion	28%	\$6 billion	52.60%	\$13 billion	43.40%
Indonesia	\$21 billion	52.50%	\$32 billion	72.70%	\$83 billion	66.90%
Vietnam	\$5 billion	41.70%	\$7 billion	46.90%	\$29 billion	55.80%

Figure 1:2019-2025 cross border e-commerce turnover and proportion of ASEAN Five Countries

Data source:Google &amp; Temasek.Report e-Conomy SEA 2020

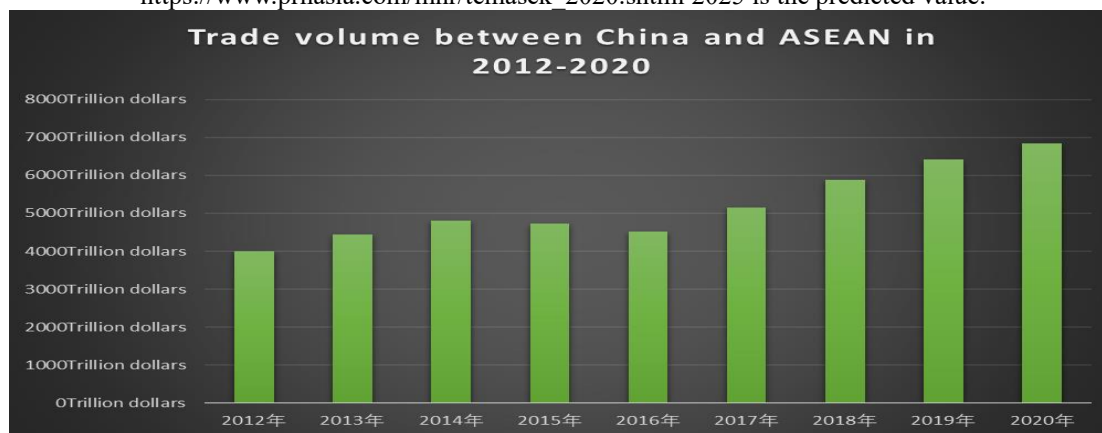
[https://www.prnasia.com/mnr/temasek\\_2020.shtml](https://www.prnasia.com/mnr/temasek_2020.shtml) 2025 is the predicted value.

Figure 2: Trade volume between China and ASEAN in 2012-2020

Data source: China Customs, China Economic and Industrial Research Institute

Among the priorities of economic cooperation between China and ASEAN, e-commerce ranks first, and the digital economic cooperation between China and ASEAN has great prospects. Although the digital economy cooperation between China and ASEAN has broad prospects, because the digital economy is a new product of economic development, the rapid development of digital economy not only adds new impetus to the economic and trade cooperation between China and ASEAN countries, but also brings many problems to the cross-border tax collection and management. The definition of tax system elements under the traditional tax system framework can no longer meet the new needs of the development of digital economy, and a new unified digital tax rule framework between China and ASEAN countries has not been established. In the digital economic cooperation, the two sides will inevitably face a series of risks such as double taxation, tax burden difference and vicious competition, as well as challenges in the identification of tax jurisdiction and the adjustment of international tax rules. Tax is a key factor affecting cross-border commodity and capital flows. If the tax policy coordination of China ASEAN countries' digital economy is realized, tax can promote the common prosperity of China and ASEAN countries' economy. On the contrary, if the coordination of tax policies cannot be achieved, tax will affect the enthusiasm of bilateral economic and trade cooperation and have many adverse effects on the investment and construction cooperation between China and ASEAN.

## II. RESEARCH METHODS

In view of the professional, transnational and real-time characteristics of the problems studied in this paper, the research method of combining theory with practice is adopted. By observing the changes of economic environment, closely contacting domestic law and international law, and learning from the successful experience of EU countries, we strive to comprehensively and prepare to find the problems existing in the tax dispute settlement mechanism under the background of digital economy. Combined with the tax system differences between China and ASEAN countries, this paper puts forward the countermeasures to improve the tax dispute settlement mechanism of China- ASEAN Free Trade Area. In the process of writing, this paper mainly adopts the methods of literature research, comparative analysis and qualitative analysis.

### 1. Literature research method

By consulting a large number of literatures, we can screen and sort out the materials related to this topic layer by layer, sort out the research results in this subject field, and prepare sufficient data and materials for the analysis and demonstration of the subject.

### 2. Comparative analysis and research

This paper compares and analyzes the research results of tax coordination in China- ASEAN Free Trade Area and the results of tax coordination in other regional economies in the world, especially the results of tax coordination in EU economies, obtains enlightenment through the comparative analysis of these results, and puts forward the path and suggestions of tax coordination in China- ASEAN free trade area.

### 3. Qualitative analysis

By summarizing the relevant policy provisions of the tax dispute settlement mechanism between China and ASEAN countries, this paper summarizes the defects existing in the operation of the tax dispute settlement mechanism between China and ASEAN countries, analyzes the main causes of the defects, and puts forward the improvement path of international tax coordination in China- ASEAN Free Trade area in combination with the changes of political and economic environment.

### III. DISCUSSION

Since the Internet entered people's life in the 1990s, the digital economy has moved from "edge to center", and its impact on taxation has gradually attracted the attention of governments all over the world. In this context, many scholars have carried out extensive research on the impact of digital economy on tax system and collection and management. Zhang Bin state that the current research on digital economy tax mostly focuses on putting forward and summarizing the tax problems brought by digital economy and their causes, analyzing the unilateral practices of several key countries, and summarizing and extending the limited international experience.

Wang Baoshun (2019) state that the rapid development of digital economy not only adds new impetus to China ASEAN Economic and trade cooperation, but also brings many problems to cross-border tax collection and management, which are mainly reflected in the identification of permanent institutions, the division of tax jurisdiction and profit distribution rules.

Gong Huiwen (2016) state that the low level of cross-border tax coordination, the lack of effective collection and management mechanism and the intensification of tax competition restrict the rapid and efficient development of cross-border digital commerce.

Bai Yanfeng (2020) state that by comparing the different tax reform measures of European and American countries in the context of digital economy, he points out that the starting point of their tax reform is to compete for the leading power of international digital economy tax, and hopes that China will actively learn from international experience, improve the Internet tax system and strengthen anti tax avoidance.

Cui Xiaojing (2016) state that the permanent establishment rule is based on the principle of economic relevance and examines the rationality of a country's Taxation on non resident enterprises from the perspective of economic relevance.

He Yang (2019) state that the importance of data value makes the trading place of digital economy enterprises less clear. In every transaction, there may be data value created by customers for the enterprise. At the same time, the unique formation mode of data value also means that the source, storage, analysis and Realization of data are likely to be separated from each other, As a result, the data source country, as one of the places where data value is created, may not be able to tax the profits of data property. Even if it has the right to tax it, it is difficult to determine the taxable amount and applicable tax items. In addition, for the digital economy platform, the data processing place can be arranged at will, which also makes it easy to carry out tax avoidance means such as profit transfer. Zhang Chunyan (2020) state that French digital service tax pays more attention to "user value contribution" in the definition of tax base, which leads to vague judgment of tax base.

Although many scholars have carried out a series of research on the impact of digital economy on tax collection and management, most scholars' research on digital economy focuses on developed countries such as Europe and the United States, and less on developing countries, such as the impact of digital economy on ASEAN. In view of this, based on the China ASEAN Free Trade Area and combined with the practical needs of the development of digital economy in CAFTA, this paper deeply analyzes the key tax propositions, tries to put forward reasonable suggestions, constructs the China ASEAN digital commerce tax collection and management cooperation mechanism with the help of new technical means, and helps to build a closer China ASEAN Community of destiny.

#### 3.1 Practical Significance of The Study

On November 15, 2020, with the formal signing of the regional comprehensive economic partnership agreement (RCEP) between China and ASEAN countries, tariffs among countries in the region have been greatly reduced, and tariff barriers have been basically eliminated in the import and export trade of goods and services. The signing of RCEP means that the level of liberalization and facilitation of intra regional trade has been further improved. Although the relationship between China and ASEAN has entered a stage of closer cooperation, the tax system has an important impact on commodity prices and trade volume in the process of promoting regional economic integration. Especially during the epidemic period, digital economy has become a new bright spot in the economic growth of ASEAN countries. China ASEAN countries are accelerating the research on digital transformation and development. In the environment of digital economy, digital economy has fundamentally changed the way of value creation and the form of trade, broken the restrictions of time and space, and caused a great impact on the current international tax rule system based on traditional economy. As the digital economy has the characteristics of transcending space and time constraints, the problems of double taxation and international tax avoidance between China and ASEAN countries in the free trade area can not be well solved. Regional tax competition always exists, but the process of tax coordination is relatively slow, which not only forms a tax obstacle to the free flow of production factors in the region, International Trade and investment disputes often arise because of the distribution of international tax benefits, which directly restricts the development of regional economic integration. Therefore, in the context of digital economy, how to eliminate regional tax barriers and reasonably distribute tax

interests among countries in the region has become the core content of international tax coordination. Deepening the research on tax coordination of digital economy in China ASEAN free trade area is not only the expansion and empirical test of regional economic integration theory and international tax theory, but also an important content and requirement of the construction of China ASEAN Free Trade Area. It is of great significance to promote the construction of China ASEAN Free Trade area and promote regional economic prosperity and stability.

### **3.2 Limitations and Deficiencies of The Study**

First, regional tax coordination policies between China and ASEAN countries. At present, the economic cooperation between China and ASEAN free trade area is still in the stage of exploration and construction. Influenced by COVID-19, the author can not understand the limitations of field research, and the understanding and analysis of many problems are mainly obtained from other researchers' documents, and the resulting problems in the implementation of tax agreements are not comprehensive and timely.

Second, this paper lacks empirical analysis. When studying the impact of tax factors on the digital economy of China ASEAN Free Trade Area, due to the lag of various economic data statistics of many ASEAN countries, the acquisition of data is missing. Although we try to use various ways to conduct empirical research on the data, due to the lack of initial data, the evidence support of some views and inferences in this paper still needs to be further supplemented and demonstrated by further improving the data.

Third, my knowledge reserve is limited, and my understanding of some problems is not comprehensive and profound enough.

### **3.3 Research Conclusion**

#### **3.3.1 Should the cross-border digital economy in China- ASEAN Free Trade Area be taxed and how?**

First of all, it should be clear whether the new business forms and models in the cross-border digital economy should be taxed. If the tax is levied, it may increase the tax burden of enterprises and hinder the development of digital commerce; If tax is not levied, it may lead to the difference of tax burden of different taxpayers, distort the market and damage tax fairness. For example, Singapore, Malaysia, Indonesia and Vietnam have begun to levy taxes on cross-border digital services, and the Philippines and Thailand have also entered the law revision process. The core content is to levy value-added tax or goods and services tax on digital services provided by non resident enterprises to their domestic users. However, these unilateral measures may lead to several problems, such as double taxation and harmful tax competition. Therefore, governments should carefully consider and weigh the advantages and disadvantages when making the decision of "levy or not". Secondly, if a tax is levied on the cross-border digital economy, it is necessary to consider "what tax is levied and how to levy it". This involves the design of tax system, the improvement of tax rules and the optimization of collection and management mode. Among them, "how to distribute tax power" is the key proposition that needs to be solved urgently, including the reasonable division of tax jurisdiction and profit ownership. For example, take the tax jurisdiction of enterprise income tax as an example. On the one hand, the source jurisdiction takes the identification of permanent institutions as the core, which takes "physical existence" as the identification standard according to the current bilateral tax agreement between China and ASEAN countries. However, in digital commerce, enterprises do not take physical existence as necessary, resulting in the failure of the original standard; On the other hand, in terms of resident jurisdiction, as digital commerce breaks through space constraints, multinational enterprises can change their organizational structure by means of "decentralization" and "de substantiation" to avoid tax resident status, so as to achieve the purpose of tax evasion. In addition, the jurisdiction of personal income tax, value-added tax and the division of profit attribution of digital commerce also face similar problems.

In addition, it should be noted that the principle of tax fairness should be adhered to in cross-border digital economy taxation. We should consider the tax fairness between countries and reasonably divide the tax benefits; We should also consider the tax fairness among taxpayers, especially the substantive fairness between online and offline, residents and non residents, and taxpayers of different sizes.

#### **3.3.2 Is it convenient for China- ASEAN Free Trade Area to pay taxes on cross-border digital economy?**

Tax convenience is different from tax efficiency. It emphasizes that the tax system and collection and management should be guided by the goal of convenience and benefit to taxpayers. Multinational taxpayers want simple tax procedures, low compliance costs and fair tax treatment. Judging from the reality of China and ASEAN, it backfires. The reasons are as follows: first, there are obvious differences within ASEAN, such as language, currency, culture and legal environment. In addition, tax policies and regulations exist in a fragmented form, so it is difficult to obtain and understand relevant information, resulting in a lot of inconvenience to transnational tax payment; Second, due to multiple factors such as tax system, collection and management capacity and business environment, the degree of tax facilitation in ASEAN countries is low, even lagging behind the level of trade facilitation, especially in Myanmar, Laos, Cambodia and other countries. Therefore, the tax authorities of China and ASEAN countries should optimize tax services and simplify tax collection and management procedures, especially pay attention to the application of new technologies and improve the digital level of tax collection and management, so as to realize the high-speed, efficient, automatic and digital processing of transnational tax matters, so as to reduce the tax compliance cost of cross-border digital economy.



### **3.3.3 How to distinguish the tax identity of cross-border digital economy in China- ASEAN Free Trade Area? Is tax identity effective?**

Preconditions for tax collection and management. With the development of business digitization, tax identification is more complex and difficult. The reasons are: first, virtualization, the way and state of taxpayers in the digital economy; Second, concealment, taxpayers can hide or even forge personal identity information; Third, multiplicity. Taxpayers can build multiple tax identities with the help of cyberspace. As a result, it is difficult for tax authorities in various countries to master and screen the true identity of taxpayers, the difficulty of tax supervision continues to increase, and the situation of tax evasion is becoming more and more serious. In particular, the reality of cross-border economic activities in China ASEAN region is complex, and the identity of taxpayers cannot be effectively identified. It is not only related to tax evasion, but also may be related to criminal activities such as smuggling, money laundering, illegal gambling, drug trading, telecommunications fraud and so on. Therefore, China and ASEAN can seek cooperation in the field of tax identity governance, explore the establishment of an inclusive and reliable cross-border tax identity authentication mechanism, and solve the problem of real identity identification of cross-border taxpayers, so as to realize the effective supervision of tax identity in the region.

### **3.3.4 Is the tax related information exchange of cross-border digital economy in China- ASEAN Free Trade Area smooth?**

Tax related information exchange is an important way to combat cross-border tax evasion and reduce tax loss and tax base erosion in tax collection and management cooperation. At present, there are two main channels for tax related information exchange between China and ASEAN countries: one is based on the information exchange clause in the bilateral tax agreement; Second, with the help of multilateral tax conventions. However, both have limitations. As far as tax treaties are concerned, the relevant provisions in the existing agreements belong to the special exchange mode upon request, with limited content, cumbersome procedures and low efficiency; The multilateral mechanisms based on the Multilateral Convention on mutual assistance in tax collection and management, the agreement between multilateral competent authorities for the automatic exchange of tax related information in financial accounts, etc. Although the automatic exchange of tax related information has been realized, the practical role is limited due to the low participation of ASEAN countries. In addition, in the era of big data, the degree of third-party tax related information sharing between China and ASEAN countries is far from meeting the requirements of modern tax collection and management, such as "information tax management" and "data tax management". Therefore, it is urgent to establish and improve the transnational tax related information sharing mechanism, break the "isolated island" of tax related information, tap the "dividend" of tax related information, and improve the efficiency of tax collection and management.

### **3.3.5 Is the tax dispute settlement of cross-border digital economy in China- ASEAN Free Trade Area effective?**

Tax dispute resolution is an important part of international tax theory and practice. At present, mutual agreement procedure (MAP) is still the main mechanism for solving tax disputes between China and ASEAN countries, but it has some defects, such as small number of cases, long time-consuming, uncertain effectiveness of negotiation results, low participation of taxpayers, opaque decision-making and so on. Moreover, the digital economy promotes the increasingly frequent economic and trade exchanges, and the cross-border tax disputes also show an upward trend. Especially, compared with the past, in the digital economy era, more small and medium-sized enterprises participate in transnational business activities. How to safeguard their legitimate rights and interests has become a new topic faced by governments all over the world. Therefore, in the short term, we can give priority to improving the existing mechanism, gradually innovate and explore multiple solutions (such as establishing a regional arbitration mechanism); In the long run, we should improve the tax certainty and enhance the predictability of tax policy and collection and management, so as to put the focus from "dispute resolution" to "dispute prevention".

## **3.4 Suggestions on Future Cooperation Management**

### **3.4.1 Replace "permanent establishment" with "significant economic presence" to identify tax obligations.**

Under the background of traditional economic model, the concept of permanent establishment effectively helps to balance the distribution of tax benefits between source country and resident country. However, under the new situation, according to the report on tax base erosion and profit attribution issued by OECD, tax avoidance is one of the common ways to erode the tax base of direct tax by avoiding the formation of taxable existence in the source country. In addition, even if an entity exists in the country of origin, enterprises can use digital information technology to make a more flexible layout of the enterprise value chain, and artificially avoid forming a permanent establishment in combination with the specific exemption provisions of traditional permanent establishment, so as to achieve the purpose of tax avoidance.

In order to solve the above problems, OECD revolutionized the judgment standard of "significant economic existence", that is, the way Indonesia judges taxpayers in the digital economy, and the impact on the economic development of its enterprises by comprehensively considering income factors, digital factors and user factors. The income factor refers to the continuous income of enterprises in the country. Digital factor is that enterprises establish meaningful and lasting interaction with users or customers in the source country through the network, including determining the source of customers through IP address, which is commonly used in ASEAN countries. The user factor is to judge whether the non resident enterprise has a meaningful and substantial impact with the country of origin from the perspective of user groups. You can refer to the number of monthly active users, the number of online

contracts signed in a tax year, and the amount of customer data collected through the digital platform.

### 3.4.2 Protecting the growth space of digital economy while increasing tax revenue

Digital economy is a new driving force for future development and a new competitive advantage that governments of all countries strive to seize. Balancing the use of digital economy to increase tax revenue and create a good development environment is a key issue of great concern to all countries. From the practical measures taken by ASEAN countries, when introducing digital tax, all countries pay more attention not to give excessive tax burden to relevant enterprises and not to excessively squeeze the development space of digital enterprises. In terms of tax rate, the tax rate of digital economy is generally lower than that of enterprise income tax. In terms of avoiding "double taxation", the sales and service tax deduction credit system introduced by the Malaysian government aims to solve the problem of domestic double taxation, and the "Double Taxation Avoidance agreement" between countries aims to reduce transnational tax conflicts.

### 3.4.3 Improve the tax registration of digital enterprises

The "concealment" of digital economy lies in the absence of actual trading and consumption places and physical bills, which makes the implementation of the existing tax system difficult. ASEAN countries, including Singapore, have made efforts to improve the registration system of e-commerce operators, especially overseas suppliers, that is, to block tax avoidance and tax evasion from the source data. In fact, online transactions are easier to "leave marks" than offline opposite transactions, which is easier to track and prove. Using information technology to improve the tax registration and collection of digital enterprises can ensure high tax administrative efficiency and have great prospects in the future. It is an important lesson for the tax systems of various countries under the background of digital development.

### 3.4.4 Pay attention to the application of information technology in tax collection and management

We should make full use of the technical advantages in the fields of artificial intelligence, Internet of things, identification technology and blockchain to lay a solid foundation for more transparent, reasonable and efficient tax collection and management in the digital economy. Blockchain technology is introduced in the transaction link to record each transaction information, and consensus technology is used to solve the problem of information asymmetry, so as to make the taxable income clearer. Use artificial intelligence technology to design an advanced tax collection system, reduce the process burden of enterprise tax payment and the work difficulty of tax authorities, and do a better job of online automatic tax payment more intelligently, conveniently and efficiently. Use Internet of things technology to build a bridge between people and things, things and things, improve the mutual confirmation and confirmation of tax payment in different transaction links, form a new tax collection and management mode under the digital economy, ensure the tax collection and management, and serve the economic development of the free trade zone.

## IV. CONCLUSION

2020 marks the 10th anniversary of the full completion of the China ASEAN Free Trade Area. Over the past decade, China ASEAN trade volume has doubled from US \$292.8 billion in 2010 to US \$684.6 billion in 2020, making it the "golden decade" of China ASEAN Economic and trade relations. As COVID-19 has been raging around the world, resulting in a sharp contraction in demand in the international market, the cross border digital economy has maintained an upward trend in both sides, making outstanding contributions to the two largest trading partners. Establishing a multilateral, democratic and transparent global Internet governance system is the principle to be followed in global digital economy governance. China and ASEAN countries should actively participate in the construction of cross-border digital economic governance and continuously improve the breadth and depth of cross-border tax collection and management cooperation. The achievements made by China and ASEAN countries in digital economy tax governance will provide more "public goods" for member countries to share dividends in the Internet era, and win a more favorable international tax business environment for e-commerce enterprises of various countries to participate in global digital market competition.

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