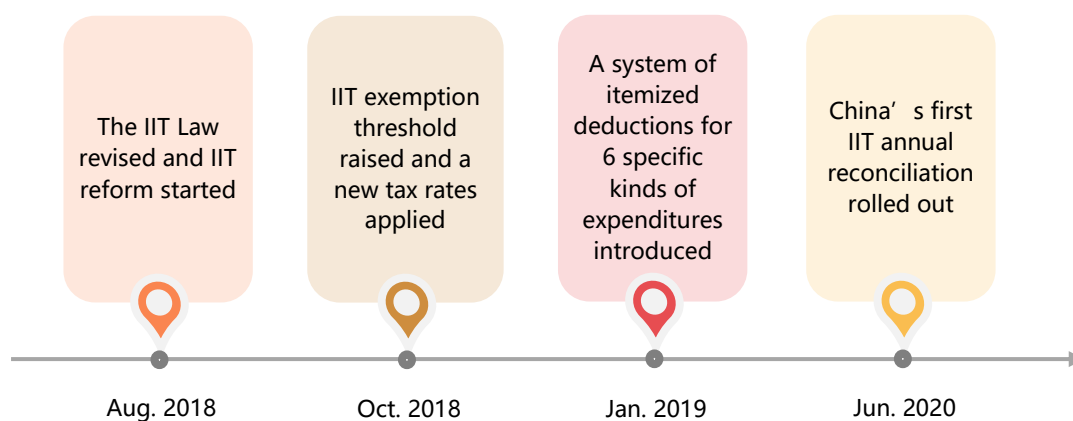


Technology-driven + Systemic Innovation: Smart Individual Income Tax Reconciliation

I. Overview of China's Individual Income Tax Reform

On August 31, 2018, the Individual Income Tax Law of the People's Republic of China was revised, marking the start of the IIT reform. Before 2018, China applied a schedular regime in its IIT collection and administration, where different categories of individual incomes applied different expense deductions and tax rates. Back then, it was mainly the withholding agents rather than taxpayers themselves who filed IIT tax returns. With the improvement of China's socioeconomic condition and people's livelihood, the drawbacks of the schedular regime have become increasingly obvious as it was less effective in making income distribution fair and responding to taxpayers' needs.

Taking into account the strengths and restrictions of its administration capacity, China's State Taxation Administration (STA) formulated an IIT reform plan borrowing experience from international best practices. A hybrid tax system that combines comprehensive and schedular regimes was implemented¹, with an aim to tax different types of incomes proportionately. This system not only takes taxpayers' capacity to bear the tax burden into account, but also makes it easier for the tax authority to put the IIT regular administration into place. The itemized deductions for specific expenditures are newly adopted to consider different backgrounds of taxpayers from the perspective of common and necessary family expenditures, thus can help reduce tax burdens and enhance fairness.



Milestones of China's IIT reform

¹ In China, the comprehensive income refers to wages and salaries, labor remuneration, author's remuneration, and royalties, which are subject to China's IIT annual reconciliation.

II. Main challenges

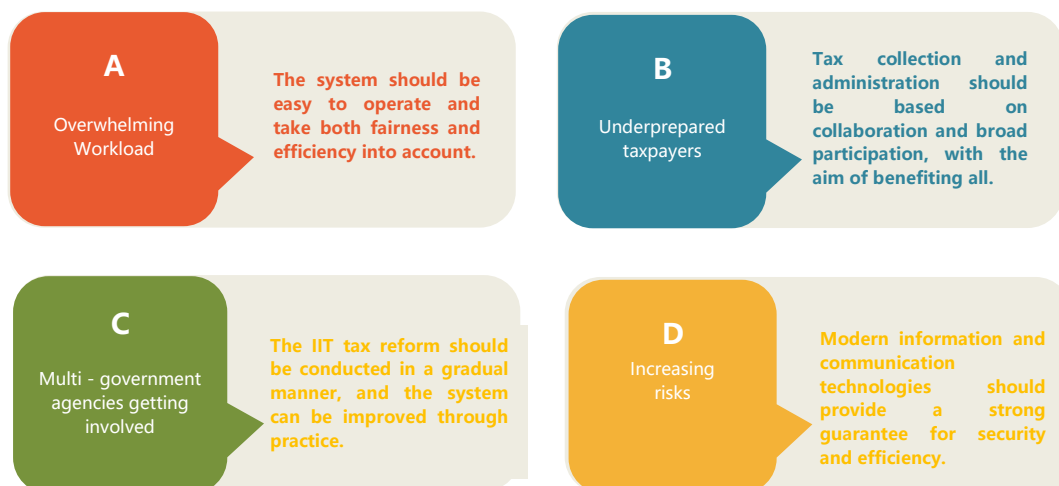
Overwhelming Workload. The annual IIT reconciliation requires a high degree of cooperation in terms of tax collection, tax service and tax information system. Considering China's huge population base, those systems are under enormous pressure.

Underprepared taxpayers. Every taxpayer may have a unique situation or demand. Some of them are not familiar with the reconciliation process. These are contributing factors for a bumpy process.

Multiple players involved. During the reconciliation process, STA needs to collaborate with multiple players including the Ministry of Finance (MOF), banks, withholding agents and taxpayers, none of which has ever handled a large number of tax-filings and tax refunds in a very narrow time window.

Increasing risks. Individual income shows a trend of diversification and concealment. Disagreements on policies, administration and other issues may happen, which can lead to dissatisfaction and trigger negative public opinions. Personal information security and financial security also need to be prioritized to avoid information leakage or fraudulent tax refunds.

Design concepts and ideas



III. Solutions

Placing taxpayers at the center of the reform, the annual IIT reconciliation aims to innovate and upgrade multiple aspects of the individual income tax system including tax collection and administration, electronic filing channels, tax refund processes and multi-party collaboration.

- **Making full use of modern information and communication technologies to provide reliable technical support**

The big data and cloud computing technologies enable us to collect IIT data individually. This allows us to achieve data-driven tax administration via precise analysis, decision-making and policy implementation. By doing so, we are also exploring a brand new approach of tax collection and administration with Chinese characteristics that features big data analysis, whole process service and tiered administration. Our goal is to integrate service and supervision, so as to guide compliance with service and promote compliance with supervision.

Launching the powerful Individual Income Tax APP

In view of the widespread use of mobile phones in China, we have created the Individual Income Tax APP, which is a powerful tool for remote taxpayer service. It provides an online information transmission and interaction channel supporting efficient “one to many” communication between taxpayers and tax authorities. The app has not only optimized the use of taxpayer service resources, but also helped us meet the challenge of interacting directly with an overwhelming number of individual taxpayers. Taxpayers can complete the entire reconciliation process using the app, such as filing for itemized deductions and annual income tax returns, paying taxes via online banking or third-party mobile payment systems, applying for tax refunds, requesting income tax payment details and making inquiries. For the majority of individuals doing their taxes on the IIT APP, the whole process takes only a cellphone and a few clicks. The app is well-received by its users and has become a celebrity app in China’s e-government service for its user-friendly interface and practical functions. Up till now, the number of real-name registered individuals on the IIT app has reached over 100 million, enabling China to achieve a 95% remote filing rate in the IIT annual reconciliation. This places China in the lead globally in terms of providing “no-contact” taxpayer service and proves a successful attempt in the modernization of tax governance.



The Individual Income Tax APP was launched by the STA on Dec 31, 2018.

Providing high-quality pre-filing service

By harnessing the app’s advantage in processing tax-related big data, we are able to deliver accurate pre-filing of tax returns for a massive number of individual taxpayers, thus making it possible for most taxpayers to finish the whole filing process within minutes.

This has not only streamlined the filing process, but also effectively improved the quality of tax returns. Since 2019, the pre-filing service has helped hundreds of millions of taxpayers to make accurate filing of their tax returns, achieving 97% coverage or more for 3 consecutive years and putting China's IIT pre-filing service in the top league globally in terms of such indices as the coverage of pre-filing items and the rate of data application in the pre-filing service.

Improving the efficiency of IIT refund

The processing of IIT refund has been entirely digitalized during the annual IIT reconciliation, with automatic data-running throughout tax filing, tax refund approval and refund payment from the national treasury. Meanwhile, we have also achieved early intervention in risk management by cross-referencing and automatic monitoring of data from multiple sources in risk identification, as well as enhancing the accuracy and efficiency of refund approval via big data analysis of tax-related information. For these reasons, the processing time for IIT refund in China is less than the global average.

● Designing an IIT collection and administration system with Chinese characteristics and in line with international practice

To make compliance of the new IIT Law easier and less costly, STA has implemented a series of measures for taxing the four categories of comprehensive incomes, including monthly IIT prepayment and year-end settlement for tax refund, to ensure the smooth roll-out of the IIT annual reconciliation.

Accurate tax withholding and prepayment on salary and wages

A cumulative withholding and prepayment mechanism is applied for taxing salary and wages. Eligible taxpayers and withholding agents apply a direct deduction of RMB 60,000 per year from salary and wages while withholding or prepaying the IIT. That is to say, in the months when the cumulative income is no more than RMB 60,000, no IIT is withheld and prepaid. Only when the cumulative income exceeds RMB 60,000 and in the subsequent months of the tax year, the IIT will be withheld and prepaid. Such mechanism enables taxpayers with a single fixed-term employment to make accurate IIT prepayments and frees them from having to participate in the annual reconciliation.

Exemption of overdue taxes for selective taxpayers

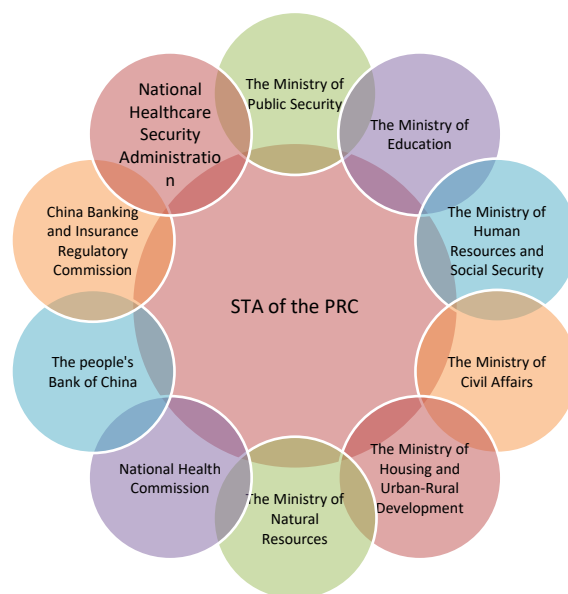
Given individual taxpayers' lack of awareness and experience in handling IIT, it is necessary to reduce the risk and scale of overdue tax payment in small amount prior to the IIT annual reconciliation. Specifically, medium and low income taxpayers with annual comprehensive incomes of less than RMB 120,000 or less than RMB 400 overdue taxes are exempted from paying their overdue taxes during the IIT annual reconciliation.

● Enhancing tax co-governance

Data sharing

Drawing advantages from the "1+10" inter-ministerial information sharing mechanism, a data verification channel has been established with 10 other government agencies, including the Ministry of Public Security, the Ministry of Education, the Ministry of Human Resources and Social Security, the Ministry of Civil Affairs, the Ministry of Housing and Urban-Rural Development, the Ministry of Natural Resources, the National Health

Commission, the People's Bank of China, China Banking and Insurance Regulatory Commission and the Ministry of Medical Insurance. Such mechanism has ensured the authenticity of the information submitted by taxpayers in their application for itemized deductions, streamlined requested materials for applying preferential treatment, improved the convenience and accuracy of tax-filing as well as reducing risks in tax compliance.



“1+10” inter-ministerial information sharing mechanism

Participation and contribution by relevant parties

Multiple parties including withholding agents, trade associations and volunteer groups have actively supported tax authorities in carrying out taxpayer education campaigns and helped taxpayers in their IIT annual reconciliation.

● Applying a progressive reform strategy

The STA applies a progressive strategy embodying the “practice-improve-upgrade” work flow throughout the IIT reform. In 2019, we issued the first batch of regulations on the annual reconciliation of comprehensive incomes to lay down the principle rules for the IIT collection and administration framework and working mechanism. In the following years of 2020 and 2021, we continued to optimize and upgrade taxpayer service as well as tax collection and administration measures during the IIT annual reconciliation. In this way, we have been able to make progressive improvements by taking a step further each year and make the IIT annual reconciliation mechanism more mature and well-rounded after three years of practice.

IV. Achievements

The roll-out of the IIT annual reconciliation marks the achievement of China's IIT reform goals and demonstrates a significant improvement in STA’s capacity with regard to IIT

administration and taxpayer service.

- **Increasing the role of IIT in income distribution**

The goal of the IIT reform is to achieve effective adjustment of income distribution via the IIT annual reconciliation process. According to previous figures, approximately 48.65% of IIT taxpayers have received tax refunds in the year-end settlement, with around 39.08% getting a balanced sheet and a small proportion of high-income taxpayers making overdue payments. By this means, the fairness of our tax system is better realized.

- **Establishing an annual reconciliation system reflecting China's national conditions and international practice**

Taking full consideration of the current conditions in China's IIT collection and administration, the STA has encompassed a number of highly operable mechanisms in the annual reconciliation regime such as the cumulative withholding and prepayment filing, year-end settlement focusing primarily on tax refund, tax exemption for medium and low income groups as well as those obliged for small overdue payments, and tax refund for priority groups with both under-aged and senior dependents. These mechanisms have enabled us to carry out the IIT reform efficiently and progressively improved the annual reconciliation system to reflect both China's national conditions and modern governance idea while keeping in line with international practice.

- **Building an information system for IIT service and administration**

The rapid development of modern information technologies such as big data, cloud computing and artificial intelligence has significantly increased STA's capacity to carry out IIT administration and taxpayer service. By applying these technologies, the STA is able to innovate taxpayer service measures such as the IIT pre-filing service, tax handling on mobile phones, online interactions, electronic refund, online tax payment and automatic refund approval. Drawing both technological and systemic advantages, the STA has built up an information system that sustains IIT service and administration.

- **Enhancing China's overall governance with IIT annual reconciliation**

IIT reconciliation is a systemic and complicated process that involves voluntary tax filing, overdue tax payment and refund processing for hundreds and millions of individual taxpayers. Therefore, it is not possible for STA to accomplish it alone. We need to collaborate with multiple players including related government departments, withholding agents, volunteers and professional associations. Such extensive engagement with the government and its services in the IIT annual reconciliation process enables taxpayers to gain deeper insight into our nation's governance system, mechanisms and innovative measures, thus enhancing their sense of integrity, rule of law and participation in social governance. In light of this, the IIT annual reconciliation regime makes a good model of encouraging tax co-governance by both the government and the civil society, which could further contribute to the development of China's overall governance capacity.

Case Study No.2 from China

Better Communication to Better Society

A Brief Introduction of China's Tax Awareness Month

Every year in April since 1992, the State Taxation Administration (STA) will run a national taxpayer education program called the Tax Awareness Month (TAM). 2022 celebrates its 31th anniversary, making it one of the longest-running public awareness programs in China.



An Overview

1992 marked a turning point in China with its economy changing tracks from a centrally-planned one to a market one, albeit with distinct socialist characteristics. A modern tax system was taking shape along the process. STA found it paramount to educate the public about tax. Inspired by similar programs in Japan and South Korea, where there is a tax awareness week since 1954 in the former and a taxpayer day since 1966 in the latter, STA decided to start its own public education program.

Considering that China is so huge and the development varies among different regions, STA thought that the taxpayer education program needed more time each year, so the idea of the Tax Awareness Month (TAM) was born. The month was set on April, the first month in spring, a season for new beginning and hope. Sometimes TAM was prolonged if many new measures were introduced in a very short span of time, which was the case in 2020, 2021 and 2022, when relief measures to fight Covid-19 and to boost economy were rolled out in a quickened pace. In 2020 and 2021 the TAM was 50 days and 2022 60 days.

A specific theme would be set each year, taking into consideration of the policy/administration priority and the overall economic and regulatory climate. Some of

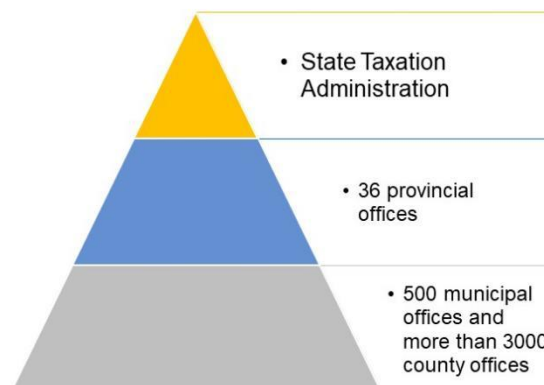
the themes were *tax and development, rule of law, VAT reform, tax side of the business environment, tax reduction, Covid-19 relief measures*, just to name a few. The overarching principle is to stay relevant to taxpayers. Each TAM would boil down to the following basics: What messages are we getting across to taxpayers? Why and how are these messages relevant to them? If the theme concerns administration, STA would go to great length to explain how the process works and send out the message that STA is always ready to help. The aim is to build a trusting dynamic.

How Does TAM Work

● **Coordination and Integration**

China has 1.6 billion people and 161 million market entities as of June 2022, which means the target audience of TAM is huge. The major facilitators of TAM are STA's offices across the country, which are structured like a pyramid, with the head office at the top, then 36 provincial offices, 500 municipal offices and more than 3,000 county offices at the bottom.

Figure 1: The Structure of STA



Source: State Taxation Administration of China

The head office of STA decides on a theme of TAM at the beginning of each calendar year. Then the local offices proceed to draft their own TAM plans, for they are closer to the target audience in the respective jurisdictions. The idea is to get the best out of strategic planning at the top and innovative execution down the chain. Key words here are coordination and integration.

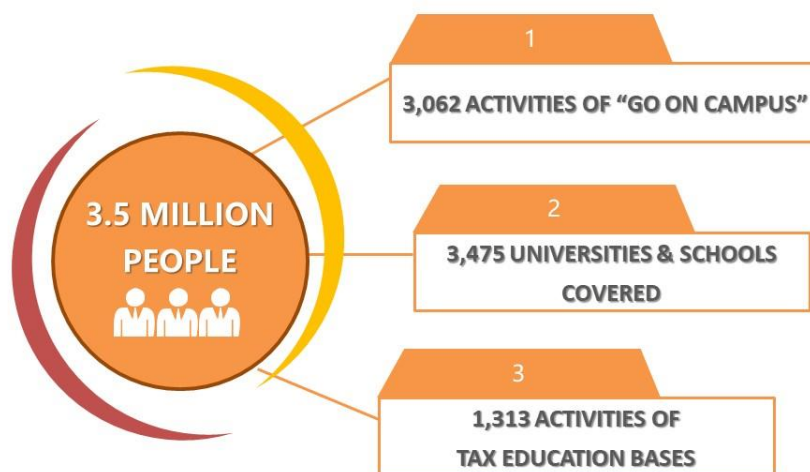
● **Tailored to Different Groups**

TAM messages are best received when they are tailored to different taxpayer groups. For example, there are special tax incentives for college graduates or military retirees who start a new business. Tax offices would set up information stands or hand out

pamphlets at job fairs targeting these people, offering them policy tips of those tax incentives. Workshops were also held by tax offices for companies investing abroad, offering general tips with respect to tax compliance in the target countries.

STA attaches great importance to educating future taxpayers, so it carries out various activities on campus during TAMs, including setting up tax awareness bases/boot camps, compiling simplified version of tax law textbooks for teenagers, holding "Future Tax Officer Lectures" etc. In 2022, STA offices across the country organized more than 3,000 "Tax on Campus" activities, covering 3,500 universities/schools and more than 3.5 million students.

Figure 2: "GO ON CAMPUS" Activities In 2022



Sometimes TAM activities were risk-oriented. Recently, STA publicized some high-profile tax evading cases involving famous actors/actresses or social media influencers, sending a strong message to potential non-compliant behaviours.

- **Service Oriented**

One of the key messages in a TAM is what we (the tax office) can do for you (taxpayers). So intrinsically TAM is service oriented. One of the popular practices in a TAM is to invite taxpayers to Walk the Walk, that is asking them to come to the service hall to have a taste of how the administration process works. Sometimes top management of tax offices will also walk the walk with an aim to identify areas for improvement from the perspective of a taxpayer. During the Covid-19 pandemic, the practice of contactless service got an unexpected boost and currently taxpayers can handle over 90% of their tax matters online, 99% of tax filing can be done remotely.

- **Whole-of-Society**

STA holds the view that taxation is an important part of social governance, so it is conducive to involve as many participants in society as possible to engage in TAM, which in turn will enhance the overall tax morale in society. Over the years, many government departments, banks, social security institutions, industry associations took part in TAM activities, contributing their respective perspectives and enriching taxpayer' s experience. Sometimes celebrities such as Olympic Champions were invited as Tax Ambassadors to spread TAM messages. A side benefit of this whole-of-society approach is that taxpayers come to realize that STA is not working alone but sharing information with third parties to collect taxes, thus encouraging more taxpayer compliance.

- **IT-Enabled**

Information technology proved to be a silver bullet in communicating TAM messages more efficiently and effectively. Take the example of Wechat, China' s biggest social media platform which has 1.3 billion active users by June 2022. Capitalizing on its huge coverage and ease access, many tax offices opened corporate Wechat account to disseminate policy & administration updates, using texts, videos, animations, cartoons to optimize delivery.

Utilizing big data technology, STA can identify the target companies of a new policy and push tailored notification via Wechat or email to different recipients in those companies. For example when a new tax reduction policy is introduced, the CEO of a target company will receive a push notification about the key policy points, the CFO receives policy interpretation while the account receives advice on the procedures to apply for the reduction. The process is accurate, fast and effective, generating very positive from taxpayers.

- **Tax can be Fun**

Local tax offices can be very creative when conducting TAMs, resulting in an interesting and colorful scene sometimes. For example, there was a great poet named Su Dongpo who was born in the year of 1037 in China' s Sichuan province. Legend has it that he had a very smart sister known simply as "Sister Su". The two of them often had witty conversations and local history is full of their anecdotes. Building on the popularity of Sister Su, Sichuan Office of STA created a cute cartoon character of Sister Su and launched a taxpayer education program called "Sister Su talks about Tax", which went viral among the public. Another example is in the Guangxi Zhuang Autonomous Region, where many ethnic minorities live who has the tradition of singing folk songs. The Guangxi Office of STA compiled TAM messages to make them fit into some well-known folk songs, which was well received by the local public.

Better Citizens & Society

- **Better Dynamic between Taxpayers and Tax Administration**

TAM's positive impact on tax compliance is significant, with the rate of on-time declaration and payment on the rise while the incidence of irregularities on the decline. Access to "non-contact" tax services reinforces this trend. By the end of January 2021, the number of corporate users of STA's E-Tax system increased to more than 65 million, the percentages of e-payment were 91% at the same time, on-time declaration rates of corporate income tax and value-added tax increased to 97.14% and 98.25% respectively.

TAM also helps to build trust between taxpayers and tax administration. A third-party survey showed that people's satisfaction score toward tax administration had increased from 76.93 points in 2008 to 87.2 points in 2021.

- **Better Doing-Business Environment**

Over the years, STA used the feedback from TAMs to improve taxpayer services, the result of which is manifested in the World Bank Doing Business Report (DBR). The ranking of tax indicators of China had risen 63 places from 2006 to 2019, and the tax time indicator of China ranks 47th in the world, above the average for OECD members. According to a survey conducted by the China Council for the Promotion of International Trade (CCPIT) on China's doing business environment in the second quarter of 2022, the satisfaction rate from the selected pool of 500 plus foreign invested enterprises reached 89.32%.

- **Better Society**

From a broader perspective, we can see that TAM acts as a catalyst to help the public better understand tax, especially its role in nation building. Through TAMs, people came to realize that tax plays an important part in poverty alleviation, pollution reduction, and more recently Covid-19 pandemic response and relief. The awareness that tax is highly relevant to society in general and to each individual's well being will prompt citizens to be more engaging in paying taxes and in the process of rule of law, to be a more cooperative player in the society.

Case Study No.3 from China

Valuation Matters

Shenzhen pilots a scheme to coordinate tax and customs pricing for imported goods from related parties

Introduction

When it comes to valuation for imported goods between an onshore company and a related offshore company, two sets of rules will come into play simultaneously, one from tax administration and the other from customs administration. However, tax administration tends to focus on whether or not the price of the imported goods is higher than the arm's length price, potentially eroding the tax base of the underlying income tax, while customs administration concerns more about whether or not the price of the imported goods is lower than the arm's length price, potentially eroding the tax base of the underlying customs duties. These two conflicting perspectives often leave the importer in a dilemma, complying with one will make it at odds with the other. Both the World Customs Organization and the OECD have acknowledged that this predicament is a universal problem².

At the request of a taxpayer, Shenzhen Tax Office and Shenzhen Customs worked together and found a solution successfully for the challenge. Then they proceeded to establish a scheme to coordinate tax and customs pricing, with the guidance from the State Taxation Administration (STA) and the General Administration of Customs, offering fairness and certainty to taxpayers. It is the first similar scheme in China, setting a precedent welcomed by the business community.

The Case

- **Facts**

XCo, a tax resident of country X, sells recreational goods to YCo, a low risk distributor in Shenzhen, China. Both XCo and YCo are wholly-owned subsidiaries of ACo, a multinational enterprise (MNE) in country A and the brand-owner of the recreational goods. YCo imports more than 1000 items of recreational goods from XCo and sells them to third parties, wholesale or retail. The marketing strategy for the sales of those goods in China as well as their selling prices are established by ACo. ACo has invested heavily in developing valuable intangible assets associated with the goods, so it assumes the research and development risks while YCo assumes the market risk and inventory risk with respect to the goods sold in China.

² *Practical Manual on Transfer Pricing for Developing Countries*. New York: United Nations, 2021: 119 - 3.6.6.7 points out that "There has been a great deal of focus internationally on the interplay between transfer pricing and customs valuation methods. Following two joint World Customs Organization (WCO) - OECD conferences in 2006 and 2007, it became clear that harmonization of the two systems was not a realistic proposition."

- **Issue**

YCo was challenged by Shenzhen Customs because the latter found that the declared price of some items imported from XCo was lower than comparable goods. If YCo increases the import price and pays extra import duties, it will raise the corresponding cost and reduce its profit, exposing itself to potential transfer pricing risk with Shenzhen Tax Office. So it turned to Shenzhen Tax Office for a solution.

- **Solution**

Teaming up. Shenzhen Tax Office and Shenzhen Customs acknowledged that the dilemma of YCo is a legitimate concern, and they decided to explore the possibility of collaboration on the pricing of the import between related parties, finding a middle ground between them. The two authorities accepted application documents from YCo, compared relevant data against both internal data such as tax/customs database and external data such as industry reports and publicly available information. Additionally, they conducted function interviews with staff in YCo as well as on-site facts-finding in the company.

Deciding on Pricing Method. Although both customs and tax authority evaluate the import price of related-party based on the arm's length principle, the customs usually evaluates the price of **an individual item** in the customs declaration, while transfer pricing analyzes the rationality of **a whole transaction**. Due to the wide variety of goods imported by YCo and the lack of "price of the same or similar goods" in practice, it is not feasible to value those goods item by item. In the end, Shenzhen Customs came to agree that the pricing should be based on the valuation of the overall transaction.

Then they moved on to the pricing method. There is a strict application order in customs valuation with the Transaction Value Method as the top priority. However, there is no strict order in the selection of transfer pricing methods (Table 1). In this pilot case, because the imported goods of YCO are entirely sold to third parties in China, both customs and tax authorities accepted the rationality of the sales revenue of YCO and treated it as the basis of calculation of import price. After rounds of discussions, the two authorities finally settled on the Resale Price Method with the following:

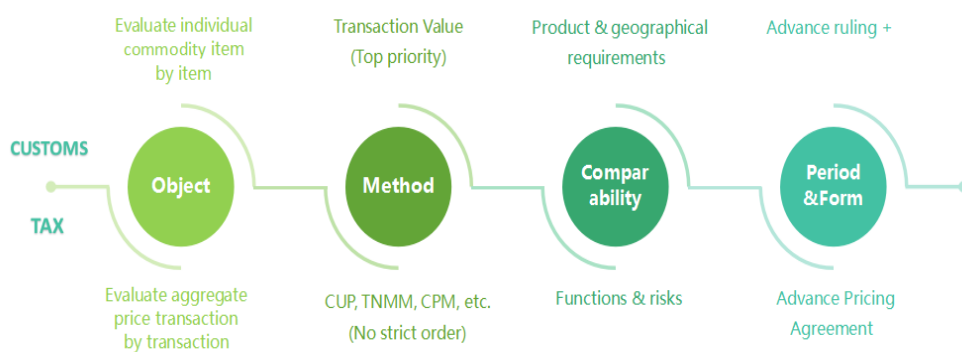
Fair transaction price = Resale price to uncontrolled party x (1 - Gross margin of comparable uncontrolled transaction).

Table 1

Customs	Tax
Transaction Value Method	Comparable Uncontrolled Price Method (CUP)
Identical Goods Method	Resale Price Method (RPM)
Similar Good Method	Cost Plus Method (CPM)
Computed Value Method	Profit Split Method (PSM)
Deductive Value Method	Transaction Net Margin Method (TNMM)

When the two authorities did the benchmarking analysis, the customs valuation focuses on the comparability of products and the geographical requirements for comparable enterprise groups. And tax authority mainly considers the functions and risks such as supply, marketing, research and development. In this pilot case, given that there is a large difference between the gross profit margins of wholesale and retail, and that the change of their proportion would influence the overall gross margin, the two authorities selected wholesale and retail comparable enterprises respectively and adjusted the price according to the median of the comparable enterprises. In the end the two authorities achieved agreement on benchmarking analysis.

Tripartite Consensus. The two authorities and the YCo signed a memorandum of understanding, requiring that during the applicable period of coordinated management, YCo shall submit an annual report on the implementation of transfer pricing coordinated management to Shenzhen Customs and Shenzhen Tax Office within 6 months after the end of each year. Shenzhen Customs and Shenzhen Tax Office shall conduct follow-up supervision respectively.



The Scheme

Goal: It is expected to reduce tax burden associated with cross-border trades and improve tax certainty, simplify the subsequent tax and customs supervision and compliance requirements, and change from management ex post to management ex ante.

Policy Basis: Promoted by the success of this pilot case, Shenzhen Tax Office and Shenzhen Customs proceed to issue jointly *The Notice on Related Issues Concerning the Collaborative Management of Transfer Pricing of Related-Party Imported Goods and its Supporting Documents (the Notice)* on 18 May, 2022, establishing a unified approach of combining the customs valuation and transfer pricing to provide certainty to MNEs.

Procedure: The Notice outlines the following four-step-procedure: application and acceptance, evaluation and consultation, signing of memorandum, implementation of memorandum.



Applicable Period: The Memorandum will be valid for 3 years, after which it will automatically expire. Taxpayers may apply to the Customs and the Tax Authorities for renewal within 90 days of the expiration date.

The Message

This case study offers an interesting and insightful example of how tax administration or even government administration works in general in China. It is widely known that China has a central government and many reforms are conducted in a top-down manner. Not all of them apparently. In the above case study, Shenzhen Tax Office and Shenzhen Customs took the initiative to find a solution to a long and wide-spread problem, by working collaboratively and creatively. Its success may be studied and modeled by other cities or provinces, paving the way for a nation-wide solution. In a sense this is a bottom-up approach. The State Taxation Administration and the General Administration of Customs, the respective central organ for tax and customs, will monitor, review and facilitate the process of establishing a national framework to collaborate on tax and customs valuation. It is fair to say that the Chinese model is a mutual learning, self-evolving one, with players from the top and local contributing their share to a maximum result.

The collaboration between Shenzhen Tax Office and Shenzhen Customs is another example of China's whole-of-government approach to make its doing-business environment more competitive. Tax-wise, the State Taxation Administration is teaming up with Business Registration authority, banks, social security institutions and other government bodies/third parties to exchange information. Taxpayers are experiencing a significant

reduction of compliance cost by not having to file the same information to different administrations. More cooperation among government bodies is expected in the process where China strives to optimize its E-government.

Shenzhen ranked first in innovation capacity among major Chinese cities in 2021, according to a report endorsed by China's Ministry of Science and Technology. It seems that the innovation momentum in technology sector is spilling over to government administration. For example Shenzhen Tax Office completed the first case of simplified procedure for unilateral advance pricing arrangement in China, focusing on helping enterprises achieve tax certainty and improving China's business climate. In addition, Shenzhen Tax Office pioneered in advanced ruling practice, which is not officially available across the country.