

## **Thinking on Modern management of taxation system**

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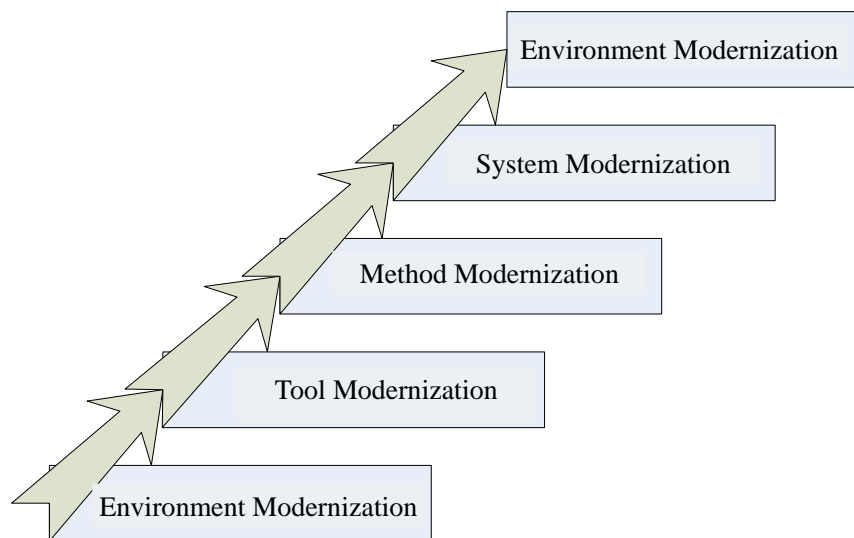
Modern management of taxation system is a big and realistic problem. Especially in Asian countries like China, taxation management has always been deemed as one integral part of administration and serves as one channel for the government to make contact with the masses. In fact, modern management of taxation system is one of the main parts of administration modernization. In the course of accomplishing the former, we are confronted with many challenges, including problems on concepts and methodologies as well as those arising out of practice and social environment. This article attempts to expound the connotation of taxation management and its evolution to modernization by using the framework of customary rule research and in combination with some practice in modern management of taxation system of China.

### **I. Connotation of Modern management of taxation system**

In general, taxation management is the collective term of the taxation management measures adopted by the authorities in order to implement the Tax Law and protect the lawful interests of the state and citizens, which includes such two aspects as management of taxpayers and tax sources and internal management of taxation authorities. The targets, processes, means and methods of internal and external management are totally different. The internal management of taxation authorities serves the management on taxpayers and tax sources with high-efficient and clean-handed work and low management cost as its target. To realize the target thereof, taxation authorities shall carry out administration according to law first to ensure the high quality and output, low transaction cost and high satisfaction of taxpayers. Low transaction cost covers the social transaction cost resulting from the implementation of taxation management measures and the transaction cost between taxpayers and taxation authorities.

Thus, modern management of taxation system is composed of modernization of the internal management in taxation authorities and modernization of taxpayers and tax sources management, which features a ceaselessly cyclic and progressive process as well as an everlasting process. How to solve these problems is one constant issue in the course of realizing the modern management of taxation system. In other words, modern management of taxation system is to realize the objectives fixed in taxation management by assimilating the most advanced management philosophies and methods as well as making full use of the available technical means in all the fields and processes of taxation management. We hereby need to point out that the following elements for modernization are implied in the definition given by us: the first is the modernization of taxation management environment, which acts as social and material base; the second is the modernization of taxation management tools, including the modernization of the tools universally used in the society and the tools involved in tax collection, the utilization and improvement of which will economize on manpower, reduce labor intensity and expand people's cognition scope and management capability;

the third is the modernization of taxation management methods, namely, some effective management methods in other fields and the application and innovation methods to be used after tools modernization will be utilized in taxation management field; the fourth is the modernization of taxation management system, in other words, certain improvement and reform in systems will be facilitated in accordance with the results of methods and tools improvement, featuring a leap from quantitative change to qualitative change; the fifth is that the modernization of taxation management system is bound to react the taxation management environment, thus impelling or causing the further improvement of ambient environment. Consequently, we find that modern management of taxation system is a cyclic and progressive process in fact.



## II. Process of Modern management of taxation system

Modern management of taxation system includes four stages or steps, i.e. environment modernization, tool modernization, method modernization and system modernization. After a cycle is completed, a new cycle will begin. In general, it is a gradually improvement course.

### 2.1 Environment Modernization

Taxation management depends on certain social environment, which includes the legal environment and economic environment of the society, people's living environment, business management level and the standard of technologies used universally. The environment we are now under is that China has entered into an information-based era, which witnesses that IT has almost penetrated into every aspect of our life, Internet has been popularized, E-administration of the government and e-commerce of enterprises have been spread gradually, the management level of enterprises is improved greatly due to their participation in international competitions and China's accession to WTO, the transaction costs of enterprises get lower and lower because of the application of electronic accounts, the transaction is speeded up increasingly and the informatization degree of the financial institutions like banks is very high. In addition, the overall economic increase level is good, the differences among regions are still existent and people's living standard has been improved greatly. However, the gaps between cities and rural areas and among

regions are still large, greatly affecting the overall economic consumption and investment functioning. Thus, the environment Chinese taxation management relies on is gradient.

From the view of the system environment of administration, administration according to law has been regarded as the first objective put forward by the Chinese government. Furthermore, the philosophies and methods of public administration has infiltrated into routine management of the government as well as taxation management.

## **2.2 Tool Modernization**

Presently, the taxation management tools can be divided into two categories in China, i.e. tax collection tools and universal tools. Tax collection tools consist of invoice and bank A/C, while universal tools mainly cover IT, communication technology, false proof technology, data identification technology, other relevant technologies and corresponding equipment and facilities as well.

Firstly, let's discuss the modernization of universal tools. When taxation authorities conduct taxation management, they will use these technologies, arm with the equipment and set up or employ these public infrastructures, thus simplifying the tasks that were complicated and strenuous in the past so as to liberate the manpower from it. For example, taxation accounting and statistics, which is very heavy task previously, has now become very simple work. If you can use these accounting and statistic software systems and input the data into them accurately, you can get satisfactory results from the systems. And the manpower resources saved can be chosen to engage in more sophisticated assignments with higher added value, such as analysis on tax sources and the relations between tax revenues and GDP structure, etc.

Secondly, it is necessary for us to discuss the modernization of tax collection tools. In many western countries, the bank accounts of taxpayers have been authorized according to law, by which they have to be under the control of taxation authorities. However, there are no sufficient laws and regulations in this field in China, thus the control of taxation authorities on taxpayers' bank A/Cs, credit cards, etc. is almost blank. In reality, if taxation authorities are authorized according to law, the problems, which seems difficult to be solved nowadays, will be settled easily, because the informatization degree of financial institutions in China is very high and there is no technical barriers at all. Another tax collection tool used in China is invoice. When the invoice was firstly put into use, the financial industry in China was not developed. Under such circumstances, competent authorities had to control tax sources and collect turnover tax, income tax and other taxes by uniform business vouchers. All the tax systems in China are almost designed on the basis of such technical means. If the modernization in the technology and management of invoice cannot be achieved, the foundation of modern management of taxation system won't exist. As time went by, electronic invoice, tax control invoice (invoice that is issued by the tax control facilities), invoice certification and crosscheck & comparison, etc. appears. Meanwhile, a series of innovations on the technology and management means of invoice are conducted. For instance, the anti-fake tax control is introduced to monitor the issue and application of special VAT invoice and the tax control POS machine are popularized to issue common invoices, etc., all of which integrate electronic technology,

anti-fake technology and network technology as well. Of course, some of the measures used in them are transitional, but they have laid the foundation for establishment of national uniform invoice certification and crosscheck & comparison system as well as the realization of online real-time invoice issue between taxpayers and taxation authorities in the future.

Tool modernization also includes the modernization of infrastructures and main equipment. As for taxation management, the tools consist of the backbone information network covering the whole country, network systems extending to various taxation authority branches, computer equipment and other relevant devices.

## **2.3 Method Modernization**

By method modernization, we mean that the methods in modern management, economics, mathematics and information science are put into the practice of taxation management to realize the change of management thoughts and the effectiveness produced by tool modernization are given free rein to improve the quality and efficiency of taxation management. The modern management of taxation system in China is now at this stage. In view of the characteristics at such stage, Director Xie Xuren put forth the thoughts of scientific and meticulous management and has taken a series of means and measures to improve taxation management methods.

In particular, we formulate relatively scientific and reasonable taxation plans through macro-forecast on taxation and economy, and then explain taxation plans by analyzing local and industrial economy, thus the general problems existing in taxation management are found out. Finally, we think different cases over and take appropriate measures to solve the problems. In order to heighten the tax payment compliance of taxpayers and raise the pertinence and availability of tax sources management and accuracy of check case selection, the tax payment evaluation method is employed to specific taxpayer. By using the economic model to simulate the economic operation of specific enterprise, we can estimate the tax categories under normal operation conditions of the enterprise and the difference between total taxes payable and actual taxes paid. After that, we will analyze the financial statements and tax returns submitted by enterprises to find out problems and doubtful points. According to the size and grade of different problems, they are delivered to tax sources managerial personnel for further interview and on-the-spot check. Serious problems will be handed over to the inspectors for examination and settlement.

In order to improve the quality and efficiency of taxation management, the tax sources are classified in a scientific way, that is to say, the tax sources are classified according to the operation characteristics of taxpayers in different scales and industries. The terms in mathematics are used to look for the isomorphic and homomorphic assemblage of enterprises and abstract the taxpayers with the largest universality as one management subset so as to conduct scientific management and improve the management efficiency. At the same time, the law of great numbers is also playing certain role according to the statistic law. It happens frequently that 80% of the tax revenues comes from 20% of the taxpayers, that is to say, 80% of the taxpayers only offer 20% of the tax revenues. However, at least 70% of the energy of taxation authorities is consumed. Hence, we shall implement pertinent management to key taxpayers and serious problems.

Based on current informatization conditions, we shall use the theories like systematology, cybernetics, degenerative feedback, operational research to recreate the tax collection flows, pick up the major flows and auxiliary flows respectively as well as the key route of these flows, abstract and define the basic elements and essential factors of common flows. After that, we shall recreate the taxation business flow, simplify and optimize the management links and taxpayers' tax processing links, thus reducing the taxation management cost.

By risk evaluation, taxation authorities adopt different management measures according to various risk grades. For example, the taxation preservation measure shall be taken to those taxpayers who are suspected of tax evasion; special monitoring shall be carried out to those taxpayers who are suspected of tax avoidance; taxpayers who owe taxes shall be urged to declare or pay the taxes overdue. If necessary, corresponding legal measures will be adopted. Meanwhile, in order to encourage the taxpayers to pay taxes according to law, taxation authorities carry out the tax payment credit class appraisal system. To taxpayers with high credit class, taxation authorities can reduce the number of checks and provide more convenient service when they process relevant taxation formalities.

In addition, one important characteristic of modern taxation management is that taxation authorities regard taxpayers as customers and rational economic men. Then, the informatization and modernization of internal management becomes a very urgent problem. To realize the informatization of official documents and financial affairs, taxation authorities shall learn from enterprises in terms of assessment of human resources and performance, incentive system, internal customization management, etc. and absorb appropriate nourishment from modern business management theories.

## **2.4 System Modernization**

After the modernization of taxation management method is basically realized, taxation authorities shall consider how to consolidate the achievements that have been already made. Meanwhile, the taxation management system and structure shall be reorganized so as to ensure the realization of modern management of taxation system and the leap from quantitative change to qualitative change. We think that the system modernization can be accomplished using the following steps:

(a) Institutionalize the efficient management modes, experience and methods. The achievements obtained in the aforesaid stages are generally represented by the experience, methods and management modes of some individuals and organizations. We shall summarize and abstract these experience and methods as well as analyze and extract the management modes, then fix them in the form of specific systems.

(b) Reorganize the taxation business by scientific methods. That is to say the taxation policies, flows, posts and functions are recombined, allocated and optimized after the recreation of flows. The taxation management setup shall be reorganized, the posts shall be reallocated and functions shall be further divided after business reorganization.

(c) Establish the internal incentive and constraint mechanism that is in conformity with the characteristics of taxation authorities in light of the result of business and setup reorganization, thus solidifying the achievements acquired in taxation business and setup reorganization.

(d) Raise the organization's adaptivity. Taxation authorities shall conduct transformation on management concepts and thoughts, gradually offer the socialized and customized service to taxpayers and reform the tax collection flows and management flows, making it more suitable for rational economic men. Furthermore, taxation authorities shall combine the reduction of taxation management cost (including the management cost of taxation authorities and cost for the taxpayers to comply with taxation management and the tax law) with the economisation of social transaction cost (including the transaction cost between taxpayers and taxation authorities and that among taxpayers) so as to reach the optimum conditions of taxation management and make preparation for the change of social environment.

### **III. Conclusions**

Modern management of taxation system involves a series of stages and different tasks shall be completed at each stage. It features a continuous process where distinct emphases are highlighted. The key to the successful modern management of taxation system is how to grasp the right opportunity and stage to solve the principal contradiction and primal problem at current stage so as to make preparation for the next stage. Modern management of taxation system represents itself an everlasting topic, so there is still a long way for us to travel. Only every participant works hard, can new problem be found out and solved and can we always take our place in the front ranks of the era.