Research on Improving Tax Inspection Efficiency

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Abstract. This paper points out that tax inspection is the administrative law enforcement activity conducted by tax authorities to inspect and supervise taxpayers' tax-related behaviors in accordance with the law. It covers four major links: case source management, inspection, trial, and enforcement. Current challenges include insufficient informatization, uneven personnel quality, cumbersome institutional processes, limited legal enforcement, and an underdeveloped social credit system. Comprehensive measures such as data sharing, technological applications (e.g., big data, blockchain), process optimization, legal improvements, and credit system construction are required to promote digitalization and standardization of tax inspections, thereby enhancing tax collection efficiency and social benefits.

Keyword: Tax Inspection; Efficiency Improvement; Tax Collection

1 Introduction

Taxation is a fundamental pillar of national finance, and tax audit plays a crucial role as an essential component of tax administration. It serves to combat tax evasion and fraud, maintain tax order, and ensure equitable tax burdens. Currently, with changes in the economic landscape and ongoing reforms in the tax administration system, tax audits are facing both new challenges and emerging opportunities. Enhancing the efficiency and effectiveness of tax inspection—while upholding the principles of law-based taxation—has become a key task for tax authorities[1]. This paper begins with an analysis of the current state of tax audits in China and, by integrating modern information technologies and management theories, proposes practical strategies to improve audit effectiveness.

2 Definition of Tax Inspection

Tax audit refers to the administrative enforcement activity carried out by the Inspection Bureau of the Taxation Department in accordance with the administrative law enforcement authority granted by relevant laws and regulations. It involves the inspection and supervision of withholding agents, taxpayers, fee payers, and other related parties

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within its jurisdiction. Centered on the fulfillment of withholding obligations, tax obligations, fee payment status, and other tax-related matters by the subjects of inspection, tax audit is a key administrative procedure aimed at examining and handling compliance. It constitutes a crucial step and an essential component of the overall tax administration process[2].

3 Main Work Content of Tax Inspection

3.1 Case Source Management

Case source management refers to the process where tax inspection bureaus at all levels collect and process tax-related data, information, and clues about inspected entities, legally initiate cases, and transfer them to the next stage for supervision, follow-up tracking, and management. Through establishing a case source database, case sources are classified and processed. Establishing a case source database requires handling massive amounts of tax data, not only including self-declared tax data and information from taxpayers or withholding agents, but also tax registration records, invoice usage, tax preferences, qualification certifications, export tax rebates, corporate financial statements, and other tax-related data formed during tax management. It also includes clue data provided by external units such as public security, procuratorial organs, auditing departments, disciplinary inspection commissions, customs, and the People's Bank of China. Currently, the data source for case selection analysis comes from various data in the case source database. By directly retrieving or processing this data, case selection analysis indicators and models are established, and data analysis results are used for case selection.

3.2 Inspection Management

Inspection management refers to the process where tax inspection departments conduct tax inspections on inspected entities according to their statutory law enforcement authority and procedures. This involves collecting evidence materials that are authentic and relevant to prove the facts of the case. The inspection department verifies one by one the tax-related doubts pushed by the case source department and other tax issues discovered during the inspection, obtains relevant evidence materials, and makes tax inspection conclusions. During the inspection process, methods such as on-site inspections, ledger reviews, electronic information system checks, upstream/downstream enterprise collaboration, and bank account inspections can be adopted to conduct comprehensive checks on the production and business operations of taxpayers. By comparing the taxpayer's tax declaration and payment status, it determines whether illegal activities exist. After obtaining evidence of tax violations, inspectors must make qualitative handling and penalties based on relevant laws and regulations, forming an inspection report. Faced with massive tax data, the inspection stage needs to extract valuable parts related to violations. Traditional manual accounting checks are not only highly inefficient but also unable to horizontally and vertically compare and analyze the collected information. Therefore, it is urgent to vigorously popularize new technologies such as cloud computing and blockchain, improve the application of tax inspection data, and promote the digitization of tax inspections.

3.3 Trial Management

Trial management refers to the process where trial departments of tax inspection bureaus review evidence materials and inspection reports submitted by the inspection department based on laws, administrative regulations, rules, and other normative documents. The main tasks include verifying whether the clues from the case source department have been clarified, reviewing case facts, identifying inspection evidence materials and data, legally determining the nature of tax violations, and making decisions on handling and penalties. The trial process requires auditing the evidence materials and statistical data obtained during the inspection stage to form trial data. These two sets of data must be compared and unified to ensure the accuracy of the final handling results. If errors in inspection data are found during the trial, the case can be returned to the inspection department for supplementary investigation.

3.4 Enforcement Management

Enforcement management refers to the process where enforcement departments of tax inspection bureaus receive conclusive documents and relevant materials transferred from the trial department, deliver tax decision documents to the person subject to enforcement in a timely manner according to law, and urge them to pay taxes, arrears, and fines into the state treasury. The enforcement stage forms a closed-loop of all data and information throughout the case process. The case closure data and information formed during enforcement represent the final outcome of the case. This data is particularly important for the entire tax inspection work, constituting the data foundation for measuring case source analysis accuracy rate, inspection accuracy rate, case closure rate, penalty rate, and treasury entry rate, playing a crucial role in summarizing and analyzing cases. For persons who fail to fulfill their obligations, the enforcement stage must also take tax preservation measures and compulsory enforcement measures according to law to recover state tax revenues.

4 Tax Inspection Efficiency

Chinese scholars and experts have also defined tax inspection efficiency. He Chunjing and Hu Laosheng proposed that tax inspection efficiency refers to the effectiveness and impact of tax inspections on tax collection, taxpayers, and society within the tax collection management work[3]. It measures the efficiency of the tax inspection department's own work and the extent of its functional performance, aiming to achieve the maximum benefit with the least cost within a unit time or per case. Tax inspection efficiency differs from tax inspection effectiveness. "Efficiency" is more reflected in the "quantitative" aspect, emphasizing whether resource allocation is reasonable and the degree of resource utilization, simply put, it is the input-output issue of the tax inspection department. However, "efficiency" not only includes "efficiency" but should also be measured from the perspective of social and public interests, combined with the purpose of the tax department and the functions of the tax inspection department. This is a "qualitative" issue[4]. Based on the above views and related literature, the author believes that "tax inspection efficiency" refers to the embodiment of the tax inspection department's work efficiency, the extent of functional performance, and the achievement of tax benefits and social benefits when conducting inspections and related work on tax-related matters.

5 Existing Problems in Improving Tax Inspection Efficiency

Tax inspection efficiency faces many challenges involving informatization level, personnel quality, institutional perfection, legal enforcement, social integrity, resource allocation, and external environment[5]. First, insufficient informatization is a major obstacle. The data sharing mechanism between tax departments, other government departments, financial institutions, and enterprises is imperfect, leading to limited sources of inspection information. In addition, some tax agencies have low levels of informatization and insufficient data analysis capabilities, unable to effectively utilize advanced technologies such as big data and artificial intelligence for tax inspections. The inconsistency of information systems further restricts the informatization process, as systems in different regions and departments cannot seamlessly integrate and be effectively utilized.

Personnel quality issues are prominent[6]. Some tax inspectors lack solid professional knowledge in taxation, accounting, and law, making it difficult to handle complex cases. The training mechanism is not well established, preventing inspectors from updating their knowledge and skills in a timely manner. Human resource shortages mean that there are not enough inspectors to cope with the increasing number of inspection tasks, further constraining the improvement of inspection efficiency.

Institutional aspects reveal inefficiencies. Existing inspection processes are cumbersome and inefficient, making it difficult to respond quickly to tax issues. An incomplete internal supervision mechanism may lead to abuse of power and corruption during inspections. There is a lack of effective risk management mechanisms and scientific risk assessment tools, making it difficult to identify and address potential tax risks, increasing the difficulty and uncertainty of inspections.

Legal enforcement is insufficient. Current tax laws may not keep pace with economic developments and tax environment changes, resulting in inadequate legal basis for inspections. Penalties for tax violations are not strong enough to serve as a deterrent, affecting the authority and credibility of inspections. Some tax law provisions are ambiguous, leading to disputes in implementation and further affecting inspection outcomes.

An underdeveloped social integrity system also increases the difficulty of tax inspections. Some taxpayers lack awareness of tax laws and engage in tax evasion or underreporting, increasing the complexity and workload of inspections. The lagging development of the social credit system means there is no effective tax credit evaluation and management mechanism, making it impossible to fully understand taxpayers' credit status. Insufficient public oversight and support for tax inspections affect the transparency and credibility of inspection work.

Resource allocation is unreasonable. Inspection forces are unevenly distributed across regions and industries, leading to insufficient inspection intensity in key areas and sectors. Some tax authorities face funding and equipment shortages, affecting the normal operation of inspection work. A lack of specialized tools and equipment further limits the efficiency and accuracy of inspections.

Changes in the external environment pose new challenges to tax inspections. Rapid economic changes and frequent adjustments to tax policies create new uncertainties in inspection work. Complex international tax arrangements and frequent changes in global tax rules increase the difficulty of cross-border tax inspections. Frequent policy changes make it hard for businesses to adapt, adding complexity to inspection work.

These problems in terms of informatization, personnel quality, institutional perfection, legal enforcement, social integrity, resource allocation, and external environment jointly affect the efficiency of tax inspections. Systematic improvements across multiple dimensions are urgently needed to ensure effective implementation of tax policies and fairness in taxation. Through improvements in informatization, personnel training, institutional optimization, legal enforcement, social integrity system building, resource allocation, and external environment response, tax inspection efficiency can be significantly enhanced, better safeguarding the execution of tax policies, maintaining tax fairness, and promoting healthy economic and social development.

6 Improving Tax Inspection Efficiency

To enhance tax inspection efficiency, comprehensive measures must be taken in informatization construction, personnel training, institutional optimization, legal enforcement, social integrity system building, resource allocation, and external environment response. First, improving the level of informatization is key[7]. Currently, the data sharing mechanism between tax departments, other government departments, financial institutions, and enterprises is incomplete, with limited information sources. Therefore, it is necessary to establish and improve the data sharing mechanism. Additionally, some tax agencies have low levels of informatization and insufficient data analysis capabilities, making it difficult to effectively utilize advanced technologies like big data and artificial intelligence for tax inspections. Unifying information systems is also an important measure. Information systems in different regions and departments should achieve seamless integration and standardization to improve the synergistic effect of tax inspections.

Strengthening inspector training is essential. Some inspectors lack solid professional knowledge in taxation, accounting, and law, making it difficult to handle complex cases. Therefore, regular professional skill training should be provided to improve their overall quality and business capabilities. A sound training mechanism should be established to ensure inspectors can update their knowledge and skills in a timely manner to adapt to changes in tax policies and the environment. At the same time, the number of inspectors should be appropriately increased, and human resources reasonably allocated to ensure efficient completion of inspection tasks.

Institutional optimization is necessary. Existing inspection processes are cumbersome and inefficient, making it difficult to respond quickly to tax issues. Inspection processes need to be optimized to reduce unnecessary steps and improve work efficiency. An incomplete internal supervision mechanism may lead to abuse of power and corruption during inspections. Therefore, a sound internal supervision mechanism should be established to strengthen oversight of the inspection process. There is a lack of effective risk management mechanisms and scientific risk assessment tools, making it difficult to identify and address potential tax risks, increasing the difficulty and uncertainty of inspections.

Legal enforcement needs strengthening. Current tax laws may not keep pace with economic developments and tax environment changes, resulting in inadequate legal basis for inspections. Penalties for tax violations are not strong enough to serve as a deterrent, affecting the authority and credibility of inspections. Some tax law provisions are ambiguous, leading to disputes in implementation and further affecting inspection outcomes. Therefore, tax laws should be revised and improved in a timely manner to align with economic conditions and the tax environment, providing a solid legal basis for inspection work. Penalties for tax violations should be increased to enhance deterrence and uphold the authority of tax law. Tax law provisions should be detailed to reduce disputes in implementation, ensuring that inspection work is conducted in accordance with the law.

The underdeveloped social integrity system also increases the difficulty of tax inspections. Some taxpayers lack awareness of tax laws and engage in tax evasion or underreporting, increasing the complexity and workload of inspections. The lagging development of the social credit system means there is no effective tax credit evaluation and management mechanism, making it impossible to fully understand taxpayers' credit status. Insufficient public oversight and support for tax inspections affect the transparency and credibility of inspection work. Publicity and education should be used to raise taxpayers' awareness of tax laws and integrity, reducing instances of tax evasion and underreporting. A sound tax credit evaluation and management mechanism should be established to comprehensively assess taxpayers' credit status and implement differentiated management. Encouragement should be given to the public to monitor tax inspection work, enhancing its transparency and credibility.

Resource allocation remains an issue. Inspection forces are unevenly distributed across regions and industries, leading to insufficient inspection intensity in key areas and sectors. Some tax authorities face funding and equipment shortages, affecting the normal operation of inspection work. Lack of specialized tools and equipment further limits the efficiency and accuracy of inspections. Inspection forces should be rationally allocated based on regional and industrial characteristics to ensure sufficient inspection intensity in key areas and industries. Funding and equipment should be appropriately increased to ensure smooth operation of inspection work and improved efficiency. Necessary tools and equipment should be provided to inspectors to enhance the accuracy and efficiency of inspections.

Internal management issues cannot be ignored. Coordination among internal departments is insufficient, affecting the overall effectiveness of inspection work. The current performance evaluation mechanism may not fully reflect the achievements of inspectors, and the lack of an effective incentive mechanism affects work motivation and efficiency. Coordination among internal departments should be strengthened to improve the overall effectiveness of tax inspections. A scientific and reasonable performance evaluation mechanism should be established to fully reflect the achievements of inspectors and motivate them. An effective incentive mechanism should be developed to encourage inspectors to actively carry out their work and improve the quality and efficiency of inspection work.

7 Conclusion

Research on improving tax inspection efficiency has already seen analysis and contributions from many experts and scholars in theoretical studies. In practical work, tax inspection departments at all levels have also made efforts within their authority, continuously improving the tax inspection system, hoping to achieve a breakthrough in efficiency in China's tax inspection.

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