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Research on tax cooperation mechanisms of China and countries along the "One Belt and One Road" in the post-BEPS Era

Huang Lijun
School of Big Data, Yunnan University of Finance and Economics, Kunming, Yunnan Province, China
503117521@qq.com

***Abstract*—As a major breakthrough in the reform of international taxation, BEPS Actions are widely recognized and highly valued by both developed and developing countries. Global tax reform entered into the post BEPS Era. Promoting tax cooperation between China and countries along the "One Belt and One Road" is an important task for China's taxation adapting to the new situation of the world tax reform. This study summarizes the characteristics of the post-BEPS Era and analyses the current situation and existing problems of tax cooperation between China and countries along "One Belt and One Road". After that, this study proposes three mechanisms to promote tax cooperation between China and the countries along the "One Belt and One Road". That is, the agreement mechanism, the collaboration mechanism of tax collection and management, and the tax service mechanism.**

Keywords—tax cooperation mechanisms; "One Belt and One Road"; the post-BEPS Era

I. INTRODUCTION

The international taxation issue has become increasingly important on the global political and economic agenda. At the G20 Hangzhou Summit in September 2016, When President Xi Jinping talked about "improving global economic governance and consolidating institutional guarantees," he pointed out that "we should strengthen cooperation in the fields of financial supervision, international taxation, and anti-corruption and improve the ability of the world economy to resist risks"(Xinhua net,2016). Representatives of the G20 also agreed with this concept and stated that they should "continue to support international tax cooperation to establish a global fair and modern international taxation system and promote growth" (Xinhua net,2016). Under the background of the huge change in the international economic order, the international taxation circle is facing the severe challenge that the taxation system does not meet the requirements of economic and social development. Major international tax reforms are in progress.

On October 5, 2015, the Organization for Economic Co-operation and Development (OECD) issued the final report on 15 Actions Plan for "Base Erosion and Profit Shifting" (BEPS). OECD countries and G20 non-OECD member countries, as well as other developing countries participating in the formulation of the project made the BEPS Action Plan. What's more, The BEPS Action Plan is the ultimate result of coordination and compromise among various countries because it takes into account the interests of all parties in both developed and developing countries, ,and it has been recognized by most countries in the world(Deng Liping, Wang Zhibiao,2016). In this sense, the tax era is now called the "post-BEPS era" by many scholars to distinguish the OECD's previous international tax rules about tax havens and transfer pricing of multinational corporations, which ignored reality needs and interests of developing countries and had not been recognized by most countries in the world. Now most countries are actively promoting the implementation of the BEPS Action Plan, and the international taxation reform has entered into the post-BEPS era.

In 2013, President Xi Jinping proposed the strategic initiative to jointly build the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" (abbreviated as "One Belt and One Road"), which had aroused widespread support and international attention from countries along the route. The proposal of the "One Belt and One Road" strategy has brought new opportunities for China and countries along the route, and tax support is a booster for the smooth implementation of the strategy. In the post-BEPS era, how do China and the 65 countries along the "One Belt and One Road" implement tax cooperation, strengthen international tax coordination, and unite forces to reduce taxation risks has become an important issue that urgently needs to be studied. The key to solve this problem lies in the establishment of cooperation mechanisms among them.

II. Three characteristics of the post-BEPS era

Before reconstructing the tax cooperation mechanism, we must have a deep understanding of the international tax environment. We believe that the post-BEPS era has three important characteristics: First, economic globalization and regional integration has become deepening; second, the demand of tax cooperation has gradually increased. Third, tax systems of most countries are undergoing major changes.

The deepening of economic globalization and regional integration is the major background trend of the entire world economy. Specifically, the international economy and society have become unprecedentedly interconnected and interactive. Free trade areas, customs unions, common markets, and economic alliances have emerged in an endless stream. Emerging economies and BRIC countries have been highlighted by world. The global economic landscape has undergone profound changes. Then, with the deepening of globalization and integration, the global deep-seated conflicts have become increasingly prominent. International public issues such as taxation, climate, and resources urgently need benefit coordination mechanisms. So, the sense of fairness plays an increasingly important role in the formulation of the "rules of the game" and is the fundamental guarantee of social cohesion (Jeffrey Owens, 2014).

In the above-mentioned environment, demands for tax cooperation among countries have become increasing. At present, international tax competition and coordination coexist, but the power of tax coordination is gradually being strengthened (Deng Liping, 2016). This is one reason why the BEPS Action Plan can be implemented. It is a "realistically optimized" international taxation interest coordination and compromise mechanism. From the current point of view, the international tax coordination actions represented by the BEPS Action Plan can well unite all parties, promote the development of international tax cooperation, and control the scope of international tax competition. This "sub-optimal" path is likely to become a long-term trend in the future of international taxation (Deng Liping, 2016).

As the international environment for the operation of the taxation system has undergone earth-shaking changes, coupled with the acceleration of the informatization and digitization trends, the geographical mobility of the tax base has been significantly enhanced. In response to the pressure from these changes, many governments are seeking major reforms of the tax system. Almost all OECD countries and most of the BRIC countries have implemented structural tax reforms. Reform measures include lowering tax rate, expanding tax base, and increasing reliance on tax of consumer sectors (Li Chunpu, 2017). Tax authorities are also working hard to expand access to information through cooperation to deal with potential tax base erosion and profit transfer. In short, regardless of changes in the environment, the game of power, or the need for internal tax reforms in countries, international tax cooperation will become the trend and inevitable choice in the post-BEPS era.

III. The Status Quo and Existing Problems of Tax Cooperation between China and Countries along the "One Belt and One Road"

The "One Belt and One Road" strategy is a groundbreaking major initiative put forward by China in response to the trend of the times. It is committed to build a regional cooperation system which encompasses the Eurasian continent, and further develops and deepens exchanges and cooperation in various aspects such as economy, politics and culture. In the end, an all-around regional integration and cooperation structure will be formed. In 2017, China's enterprises conducted a total of $14.36 billion non-financial direct investment in 59 countries along the "One Belt and One Road", accounting for 12% of the total foreign non-financial investment for the same period, an increase of 3.5 percentage points from the previous year. China's enterprises implemented 62 mergers and acquisitions in countries along the "One Belt and One Road" with an investment of 8.8 billion U.S. dollars in 2017, a year-on-year growth of 32.5%. The number of newly contracted foreign projects in 61 countries along the “One Belt and One Road” amounted to $14.43 billion, 54.4% of the value of new contracts signed by foreign contractors in China accounting for the same period. Moreover, it is a 14.5% year-on-year increase(People's Republic of China Ministry of Commerce Website,2018).

In recent years, in order to support enterprises “going out” and solve the tax risks of “going-out” enterprises, China’s tax department has actively cooperated with the country’s diplomatic strategy and has sped up the process of agreement negotiation and signing with countries along the “One Belt and One Road”. In 2016, of the 10 countries and regions in which China is negotiating, five are countries along the “One Belt and One Road”. Among the six signed tax treaties (including protocols and exchange of letters), four were signed with countries along the “Belt and Road”(Liu Peiqi, Liu Kai,2017). As of the end of May 2017, China has established bilateral tax cooperation mechanisms with 116 countries and regions and signed 106 bilateral tax treaties, arrangements and agreements, of which 54 are with countries along the “One Belt and One Road”(China’s State Administration of Taxation Website). In addition, it has formed the third largest network of agreements in the world, covering major foreign investment destinations of China. The signing and implementation of tax treaties between China and the countries along the “Belt and Road” are shown in the table below.

TABLE I. SIGNING AND IMPLEMENTATION OF TAX AGREEMENTS BETWEEN CHINA AND COUNTRIES ALONG THE “ONE BELT AND ONE ROAD”

Tax Treaty	Countries that have signed tax treaties	East Asia: Mongolia 9 countries of ASEAN: Singapore, Malaysia, Indonesia, Thailand, Laos, Cambodia, Vietnam, Brunei and Philippines 12 countries in West Asia: Iran, Turkey, Syria, Israel, Saudi Arabia, Oman, UAE, Qatar, Kuwait, Bahrain, Greece and Egypt 5 countries in South Asia: India, Pakistan, Bangladesh, Sri Lanka, Nepal 5 countries in Central Asia: Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan 7 countries of CIS: Russia, Ukraine, Belarus, Georgia, Azerbaijan, Armenia and Moldova 16 countries in Central and Eastern Europe: Poland, Lithuania, Estonia, Latvia, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Serbia, Albania, Romania, Bulgaria and Macedonia
	Countries that have not signed a tax treaty	Southeast Asia: Myanmar, East Timor South Asia: Afghanistan, Maldives, Bhutan West Asia: Iraq, Jordan, Lebanon, Yemen, Palestine
Tax Credit	Including indirect credit (more than 10% shareholding)	ASEAN: Singapore, Thailand, Vietnam, Indonesia, Malaysia West Asia: Israel, Turkey, UAE, Cyprus, Kuwait South Asia: India, Pakistan, Bengal CIS: Russia, Ukraine, Belarus Central and Eastern Europe: Bulgaria, Macedonia, Estonia, Hungary, Slovenia, Poland, Czech Republic, Slovakia, Lithuania, Latvia, Croatia, Romania
	Does not include indirect credits	West Asia: Oman, Iran, Bahrain, Egypt Central Asia: Uzbekistan, Kazakhstan, Kyrgyzstan

		ASEAN: Laos, Philippines, Brunei CIS: Moldova, Azerbaijan, Georgia, Armenia
Tax allowance	Both sides give each other tax allowance	Ordinary tax allowances: Malaysia, Thailand, Pakistan, Bulgaria, Cyprus, Malta, South Korea, Vietnam, Jamaica, Mauritius, Yugoslavia, Papua New Guinea, Macedonia, Seychelles, Ireland, Portugal, Cuba, Oman, Tunisia, Morocco, Brunei
		Fixed rate credits of Investment: Pakistan (dividend:10%, interest:10%, franchise:15%, technical service fee:15%); Cyprus (dividend:10%, interest:10%, franchise:10%); Malta (dividend:10%, interest:10%, concession:20%); Vietnam (dividend:10%, interest:10%, concession:10%); Jamaica (dividend:5%, interest:7.5%, concession:10%); Kuwait (dividend:10-20%, interest:20%, franchise:20%).
	give a one-sided tax allowance	Tax allowance generally limited to investment revenue: Denmark(dividend:10%, interest:10%, franchise:2%); Singapore (dividends: 10% or 20% depending on the proportion of investment, interest: 20%, franchise: 20%); Canada (dividends: appropriate at 10% or 15% based on investment ratio, interest: 10%, franchise: 20%, dividend of joint venture: not taxable); Hungary (dividend:20%); UAE (dividend:20%, interest:20%, concession:20%).

What's more, China actively cooperates with countries along the "One Belt and One Road" on tax collection and management. On August 27, 2013, China signed the "Multilateral Convention on the Administration of Mutual Tax Collection and Assistance" (hereinafter referred to as the "Convention"). In June 2017, China and government representatives from 65 countries and regions jointly signed the "Multilateral Convention on the Implementation of Tax Treaty Related Measures to Prevent Tax Base Erosion and Profit Transfer (BEPS)". In addition, in recent years, China has also actively established cooperative relations with international organizations and regional organizations, such as actively participating in OECD, Forum on Tax Administration (FTA), BRICS countries, Study Group on Asia Tax Administration and Research (SGATAR) and other international organizations. In May 2016, the 10th FTA Conference was held in Beijing. In May 2017, the "One Belt and One Road" International Cooperation Summit Forum was held in Beijing. In 2018, SGATAR will also be held in China.

At the same time, China also has some problems in the process of tax cooperation with countries along the "One Belt and One Road". The following points of problems are summarized: First, the scope of the signing of taxation agreements needs to be expanded and the contents of the agreement need to be updated. Due to certain problems in the asymmetry of information, identity of residents, sources of income, and determination of permanent establishments, the implementation of tax agreements lacks of practicality. And this creates an opportunity for companies to avoid taxation. Then it led to the erosion of tax base and the obstacle of the BEPS Action Plan implementation. Second, in the aspect of cooperation on tax administration, due to the absence of international tax information exchange platform, the exchange of international tax information is difficult. Given that all countries are in the process of tax adjustment, sometimes the timely tax information of countries along the "One Belt and One Road" cannot be advanced. Third, the level of foreign-related services needs to be improved and the inter-departmental coordination mechanism is poor, business efficiency is low. What's more, the lack of professionals leads to lack of professionalism.

IV. THE CONSTRUCTION OF TAX COOPERATION MECHANISMS BETWEEN CHINA AND COUNTRIES ALONG THE "ONE BELT AND ONE ROAD"

China's efforts to strengthen tax cooperation with countries along the "One Belt and One Road" should not only solve the immediate problems, but also pay attention to the construction of long-term mechanisms. It is an irresistible trend to systematically solve problems encountered in the real world and construct tax cooperation mechanisms. In light of the current status and the existing problems of China's tax cooperation with countries along the "One Belt and One Road", we believes that it is necessary to focus on the establishment of cooperation agreement negotiation and revision mechanism, international tax collection and management cooperation mechanism and cross-border tax service consulting mechanism.

A. Construction of a negotiation, signing and revision mechanism for cooperation agreements

Under the “One Belt and One Road” initiative, China’s investment enthusiasm for countries along the “One Belt and One Road” has increased. However, the speed of negotiations on tax treaties and some framework tax agreements signed before have been out of step with the speed of development of foreign investment enterprises. This leads to the inability to meet the requirements of “going out” companies to reduce tax risks. Therefore, to stepping up tax cooperation with countries along the “One Belt and One Road”, we should first consider how to establish a cooperation mechanism for agreements negotiation, signing and revision. For this purpose, China should strive to expand the scope of tax treaties by accelerating negotiations on tax treaties with 10 countries not signing tax treaties with China. At the same time, China's tax authorities should revise the signed tax agreements, refine the tax rate, tax base, tax incentives, and specific measures for resolving tax disputes, and strengthen the determination of resident status, permanent body, and sources of income. In a word, the construction of a negotiation, signing and revision mechanism for cooperation agreements will fundamentally help coordinate the relationship of tax interests between China and the countries along the “One Belt and One Road”.

B. Constructing international tax collection and management collaboration mechanism

The construction of international tax collection and management collaboration mechanism will help increase the transparency of taxation and increase the confidence of investors in the “One Belt and One Road” economic and trade exchanges with certainty in taxation. First of all, it is necessary to accelerate the establishment of an international tax information-sharing platform. In the information age, with the maturity of the internet and big data technologies and the gradual acceleration of tax modernization, it is particularly important to build an international tax information platform. On February 14-16, 2018, the first global meeting of Platform for Collaboration on Tax (PCT) was held at the headquarters of the United Nations. The topics of the meeting included the development of tax administration capabilities and tax cooperation. This shows the importance of tax collaboration platform. The construction of the “One Belt and One Road” tax information-sharing platform needs to be led by China’s tax authorities, and needs actual participation and deep integration of government agencies and authoritative public agencies in the region. The tax information-sharing platform will not only help countries and regions to strengthen the collection of tax-related information, enhance the management of tax sources, but also will help companies understand tax systems of the countries to invest in and reduce tax-related risks. Secondly, we need to establish country tax databases in cooperation with countries along the “One Belt and One Road”. By collecting, collating, analyzing, studying, publishing, and updating tax data of counterpart countries, regularly publishing tax information analysis reports, compiling and updating tax guidelines of relevant countries, we strengthen cooperation and sharing of tax resources with countries along the route. Finally, we should strengthen dialogues and exchanges with countries along the “One Belt and One Road”. In particular, study how to improve tax collection and management capabilities together, help other developing countries build capacities, and encourage other countries to participate in international tax cooperation are also very important.

C. Constructing cross-border tax service consulting mechanism

At present, in order to help domestic enterprises understand the tax system of the countries along the “One Belt and One Road” and China's tax incentives policies, China’s tax authorities have specially set up a website for “One Belt and One Road”. On this website, the Chinese government issued in real time the taxation department’s work on the “One Belt and One Road”, the resolution of related policies, and the implementation of international taxation advice, etc. To furtherly promote tax cooperation between China and countries along the “One Belt and One Road”, the following points require our attention to build a cross-border tax service consulting mechanism. First, establish a one-stop management model for tax service agencies, which is specifically responsible for the cross-border trade and investment of enterprises. This one-stop tax service agency must provide professional records for companies from their establishment to their cancellation and improve tax registration. Second, timely update information of the "One Belt and One Road" special website, conduct detailed analysis, and increase publicity. Third, strengthen the training of tax service professionals, and pay special attention to the training of professionals in the tax system and language of countries along the “One Belt and One Road”.

V. CONCLUSION

In the face of the current rapid development of multinational corporations and information technology, the BEPS Action Plan has provided the international community with a rare opportunity for all countries in the world to work together to explore new ways of international taxation arrangements. If China and the countries along the “One Belt and One Road” can work together in a concerted effort to follow new international rules and strengthen tax cooperation, then we both will achieve a win-win situation in tax revenue and economic development.

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