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# *Foreign Firms Set for Tougher Tax Scrutiny- By LI XIANG(China Daily)(2014-12-03)*

## Tax Evasion by Foreign Companies

- As the world's top destination for foreign direct investment, China is the victim of tax evasion
- Experts have estimated that tax evasion and avoidance by foreign companies have resulted in an annual reduction of at least 30 billion yuan ($4.9 billion) in tax revenues.
- The common tactic used by companies to avoid tax:
  - ✧ transfer pricing
  - ✧ Specifically, a parent company sells its product or services to a subsidiary company overseas at a price below the production cost.
  - ✧ The effect: an apparent loss for the parent company, which has actually shifted its profits to a subsidiary in a lower-tax location.
- Motivation and conditions for tax evasion: the various tax standards and competitive tax policies among different countries.

## Measures to Curb Cross-border Tax Evasion

- International level:
  - ✧ Leaders of G20 called for improving international tax rules and tax information exchanges among governments.
  - ✧ There was a multilateral tax agreement, known as the Convention on Mutual Administrative Assistance in Tax Matters.
- Domestic level:
  - ✧ China improved its legal system by introducing Corporate Income Tax Law in 2008
  - ✧ China will establish a system to monitor foreign companies' profitability to curb cross-border tax evasion.
  - ✧ The system will allow the government agency to acquire profit information on foreign companies and use information technology to prevent companies from shifting profits overseas.
  - ✧ China joined the tax agreement in August 2013 and began to implement automatic tax information exchanges.
  - ✧ China's approach to tax avoidance has changed from being reactive to proactive, with a focus on changing taxpayer compliance and conducting risk assessment-based tax investigations.

## Benefits from Anti-avoidance Measures

- The country's tax revenues from anti-avoidance measures rose to 46.9 billion yuan in 2013 from only 460 million yuan in 2005.
- New actions will force foreign firms to be more prudent and serious about their tax structures and practices in China.

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1. Source: http://usa.chinadaily.com.cn/business/2014-12/03/content_19013773.htm