

Research on China's Digital Economy Development and Tax Policy

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Abstract

Since the 18th CPC National Congress, China's digital economy has been booming, the scale of which is the second largest in the world, and the economic development is resilient. The continuous development of the digital economy will not only be conducive to promoting China's economic development and boosting domestic demand, but also play a key role in promoting the construction of China's modernised economic system and shaping China's competitive advantages in the international environment, while the rapid development of the digital economy at the same time, the current tax structure of the digital economic development of the inadaptability gradually appeared. In this paper, by systematically sorting out the development situation of China's digital economy and the current tax policies related to the digital economy, we point out the potential risks and challenges of the development of the digital economy, and give the corresponding recommendations.

1. Origins of the digital economy

The term "digital economy" first appeared in the literature in the 1990s, with the phrase "digital economy" appearing for the first time in 1994 in a newspaper article in The San Diego Union-Tribune, and was first highlighted in 1996 by Don Tapscott, who has been called the "father of the digital economy". In 1996, Don Tapscott, known as the "father of the digital economy", published the book "Digital Economy: Prospects for the Network Intelligence Era", which emphasised the concept of digital economy for the first time and gave a more detailed description of the concept in the book, making the digital economy come into the industry literature for the first time and into the public's view, which caused a great uproar in the industry. So far, the concept of digital economy has been initially shaped.

During the same period, the concept of digital economy was quietly emerging in various countries. Thanks to the development of information technology, the economy of the United States has been booming, as evidenced by high economic growth, low inflation and low unemployment. 1998 saw the release of an official article by the U.S. Department of Commerce

announcing the arrival of the digital economy, which began to be included in official statistics. Shortly thereafter, the U.S. Department of Commerce published studies titled "The Emerging Digital Economy" and "The Digital Economy," which led to the widespread use of the concept of the digital economy throughout society. After entering the 21st century, governments of various countries began to pay attention to the new concept of digital economy, and successively tried to formulate strategies and introduce relevant policies for the development of the digital economy. 2017, the digital economy was regarded as a new opportunity for the transformation of China's economic development, and appeared for the first time in China's "Work Report of the Government", which signified that China's economy began to shift towards digitisation.

2.The concept of the digital economy

Official level: The earliest official concept of the digital economy appeared in 1998 in the report "The Emerging Digital Economy" issued by the United States Department of Commerce, which briefly summarised the digital economy as follows: "The Internet is the infrastructure, information technology is the pioneering technology, the information industry is the leading and pillar industry, and e-commerce is the engine of economic growth. ". With the continuous development and progress of information technology, the international community's knowledge of the digital economy has been deepening, however, the conceptual definitions of the digital economy in various countries have their own focuses, making it difficult to form a fixed standard. The current concept of digital economy widely recognised internationally comes from the G20 Initiative on Digital Economy Development and Cooperation, which was signed and adopted by G20 leaders in September 2016 in Hangzhou, China. The agreement states, "Digital economy refers to a series of economic activities that use digitised knowledge and information as key production factors, modern information networks as important carriers, and the effective use of information and communication technologies as an important driving force for efficiency enhancement and optimisation of economic structure." In 2020, the United Nations Organisation for Economic Co-operation and Development (OECD) defined the digital economy as "encompassing all economic activities that are dependent on, or significantly enhanced by the use of, digital resources, specifically including digital technologies, digital infrastructure, digital services and data." The above international organisations' definitions of the digital economy all agree that data is the most basic and critical element of the digital economy, and that the digital economy is a new economic form based on data.²⁰²⁴ In the latest Research Report on the Development of China's Digital Economy by the China Academy of Information and Communications Technology (CAICT), the concept of the digital economy was elaborated more thoroughly, with the general characteristics of the digital economy summarised from the commonalities, and on the basis of which the digital economy is defined as the "digital economy". On this basis, the digital economy is divided into four parts: digital industrialisation, industrial digitisation, digital governance and digital valorisation, which not only gives people a more specific and precise understanding of the concept of the digital economy, but also has an important reference significance for the formulation and evaluation of policies related to the digital economy.

Academic level: Since the concept of digital economy was first proposed more than 20 years ago, staff from government agencies and scholars from all walks of life have been researching the connotation of digital economy from different perspectives, which has continuously enriched the social level's cognition of the digital economy and broadened the connotation and extension of the digital economy on the basis of this. Some scholars start from the prominent features of the digital economy, and locally describe the digital economy, for example, Don Tapscott, the father of the digital economy, puts forward that the digital economy has twelve features such as globalisation, virtualisation, etc.; some scholars also highlight the digital mobility features of the digital

economy, pointing out that the digital economy is a kind of economy used to describe the flow of numbers; the Oxford School of Economics and Huawei Company had a joint research, in the definition of the digital economy focused on highlighting its spillover effect; the U.S. Bureau of Business Analysis in the definition of the digital economy stressed that the digital economy is based on the Internet and so on. Some scholars have defined the concept of digital economy mainly by summarising the content of the digital economy, for example, a member of the US Census Bureau believes that the digital economy can be divided into three major parts, namely, e-commerce, e-business and e-business infrastructure. Domestic scholars from all walks of life start from different perspectives, some divide the digital economy into two major aspects, namely, the basic industries of digital economy and the integration effect of digital economy, some divide the digital economy into three major levels, namely, the information technology and equipment industry itself, the information technology industry as well as the data value-added industry, and some believe that the basic structure of the digital economy consists of the ICT industry, the digital media, and the network platform; at the same time, quite a number of scholars also divide the digital economy and its related concepts similar concepts to distinguish, so that readers can have a clearer perception of the concept of digital economy.

3. Status of development of the digital economy

3.1 Milestones

As the birthplace of computers, the United States almost monopolised most of the highly sophisticated technologies, including computer operating systems and processors, in the late nineteenth and early twentieth centuries. Driven by the development of information technology, the development of the global digital economy in this period showed the situation of the United States as a dominant player. Since the early nineties of last century, China opened up the Internet business, the Internet began to rapidly spread in the country, laying the foundation for the rapid development of China's digital economy. 2010-2016 is the era of "Internet +", the development of the digital economy during this period is mainly based on the mobile Internet applications, China's digital economy in the field of digital China's continuous breakthrough in the field of digital economy has broken the absolute strength of the United States in the field of digital economy, forming a bipolar situation between China and the United States. After 2016, with the emergence of artificial intelligence, blockchain and other technologies, the development of the digital economy is gradually moving towards the interconnection of everything, and all industries are moving towards digital transformation. With the population and policy dividends, China is rapidly rising in e-commerce, Internet finance and other aspects, and has a tendency to catch up with the United States.

3.2 Achievements in China's digital economy

3.2.1 Contribute to the growth of the national economy

According to data from the National Bureau of Statistics, the scale of China's digital economy reached 50.2 trillion yuan in 2022, an increase of 468 billion yuan year-on-year, accounting for as much as 41.5% of GDP, significantly higher than China's GDP growth rate. During the recent decade, the total factor growth rate of China's digital economy has increased by 0.09 (China Academy of Information and Communication Research, 2024), higher than the total factor growth rate of the national economy during the same period. The continuous improvement of the productivity of the digital economy has played a supporting role in the improvement of the productivity of China's overall national economy and promoted the development of the national

economy.

3.2.2 Industrial digitalisation is developing at an accelerated pace.

In recent years, the digital transformation of China's industry has progressed rapidly, and the penetration rate of China's industrial digital economy in 2022 has increased significantly, up to 24%. On the one hand, the mature application of 5G technology has expanded the breadth and depth of the development of the industrial Internet; on the other hand, the development of industrial digital platforms has opened up the data barriers upstream and downstream of the supply chain, and has strongly linked the whole process of product production. As for the service industry, with the Internet coming into thousands of households, the digital economy penetration rate of the service industry is close to 50 per cent. Among them, the emerging new modes of digitalisation in the service industry, such as online car rental, takeaway, telemedicine and other businesses are still further tapping the potential of digital transformation in the service industry. In the future, with the aging of the population, the digital transformation of the service industry for the elderly is also expected to become a major breakthrough point. 2022, China's agricultural digital economy rate of 10.5%, the effect of agricultural digitisation(China Academy of Information and Communication Research,2024). Thanks to the national rural revitalisation strategy, data from the Ministry of Agriculture and Rural Development show that in recent years, social capital investment for agricultural and rural informatisation has risen year by year across the country. In the research and production segment, there are a large number of national key laboratories for collaborative innovation in efficient breeding, arable land protection and intelligent farming; in the sales segment, the development of digital technology has made the supply and demand side of agricultural products effectively docked, real and reliable.

3.2.3 Regularisation of market governance

At present, China's digital governance has gone through the "governance with digital technology" and "governance of digital technology" two major phases, entered the iterative improvement period, the development of "reconstruction of the governance system "Since 2023, in order to create an environment that is conducive to the development of digital governance, we have been working on the following Since 2023, a series of rules on digital economy governance have been further refined in order to create a more stable and harmonious governance environment. Including, refining the specific rules of the antitrust law, clarifying the compliance boundaries of market players; making specific requirements on the information security obligations and responsibilities of market players, and so on. In the specific implementation process, digital governance is divided into government, urban and rural three major lines. The construction of China's digital government is mainly characterised by integrated government services, covering matters ranging from birth, education, employment and housing to retirement and pension for individuals, as well as matters such as recruitment, taxation, operation and bankruptcy for enterprises. As of April 2023, 1.367 billion cases of government services have been aggregated; the construction of smart cities has now gradually landed from the conceptual framework, under the premise of building intelligent infrastructure, the use of artificial intelligence, big data and other technologies to help the city to develop different intelligent application scenarios, to build a synergistic and unified system of data intercommunication, and to tandem the various businesses between different departments, so as to truly achieve the following "fast and convenient for the people" and "efficient burden reduction"; rural digital governance has been carried out in depth with the continuous expansion of the scope of rural digital construction. As far as public services are concerned, measures such as monitoring and

early warning of natural disasters in agriculture and publicity and popularisation of crop disease prevention, control and treatment have greatly enhanced farmers' sense of well-being. The collection and sharing of data at the grass-roots level has made it possible to prevent farmers from being subjected to financial fraud, such as online lending, and to protect people's property at the grass-roots level.

3.3 Overview of tax policies related to China's digital economy

3.3.1. Taxation system

(1) Value-added tax (VAT): With the development of the digital economy, emerging businesses, such as online services and online car rental, have continued to emerge, leaving gaps in the tax system arrangements in the relevant areas. In order to promote the fairness and transparency of the tax system and enhance the credibility of the tax law and the confidence of taxpayers, our government has introduced corresponding response policies to reasonably incorporate these emerging businesses into the scope of VAT revenues, so that taxpayers are clear about their own tax obligations, and the source of state revenues is timely safeguarded while a more harmonious and fairer business environment is also created to safeguard the competitive situation of the market. According to the arrangement of the 2024 Legislative Work Plan of the Standing Committee of the National People's Congress, the VAT Law will be enacted by the end of 2024, which will undoubtedly greatly enhance the authority and seriousness of VAT, further clarify the scope of VAT collection and guide taxpayers to pay taxes legally. In the long run, this will also improve and perfect China's tax law system, which will be conducive to the further implementation of the principle of tax law. (2) Income tax: China's economic development has now shifted from a high-speed development path to a high-quality development path. Science and technology innovation is the engine of China's high-quality economic development, and is the catalyst for China's economy to stand on another level. In recent years, China has mainly introduced a large number of income tax incentives to support the development of innovative, science and technology-based enterprises, including a lower tax rate of 15 per cent; in terms of tax base, there are policies such as extending the loss carry-forward period and pre-tax deductions; and even taxpayers who meet the conditions can be directly exempted from income tax. The implementation of these policies has encouraged enterprises and individuals to invest more in digital economy-related industries, and strongly stimulated innovation and development in the digital economy.

3.3.2. Tax collection and management

With regard to value-added tax (VAT): the original paper-based invoice system is no longer able to meet the explosive and highly virtual economic activities in the context of big data. In the face of the rapid development of digital economy, China has begun to endeavour to develop technical means to promote the implementation of the electronic invoice system. The Value-added Tax Law of the People's Republic of China (Draft) (Second Review Draft) clearly stipulates that electronic invoices have the same legal effect as paper invoices, which improves the efficiency and quality of tax collection and management, and gradually adapts to the pace of rapid development of the digital economy. From the "tax management by invoice" of Golden Tax Phase III to the "tax management by numbers" of Golden Tax Phase IV, China will undoubtedly gradually move towards multi-angle, transparency and intelligence in tax inspection. For a long time, China's VAT invoice system has been suffering from the problem of imperfect chain, which will lead to a certain degree of double taxation and hit the economic vitality of enterprises. In this regard, China's tax policy has been constantly amended and improved, such as: State

Administration of Taxation Announcement No. 5 of 2024, which clearly stipulates that since 29 April 2024, the official implementation of resource recycling enterprises to the natural person end-of-life product sellers "reverse invoicing". This new regulation will solve the problem of difficulty in obtaining invoices and pre-tax deductions in the resource recycling industry, and greatly promote the development of the industry. Under the platform economy model, a large number of natural persons who have never registered for tax payment become taxable entities, which may result in a significant loss of tax resources due to the small amount and hidden nature of their transactions, coupled with the limited supervision of the platforms where they are located and the lack of linkage with the tax authorities. In response to this phenomenon, the Draft Law of the People's Republic of China on Value-added Tax (Second Review Draft) emphasises that the tax authorities shall establish a mechanism for sharing value-added tax-related information and cooperation with the departments of industry and information technology, public security, customs, market supervision, the People's Bank of China, financial supervision and management, and so on. The relevant departments shall, in accordance with laws and administrative regulations and within their respective scope of duties, support and assist the tax authorities in VAT collection and management. Information sharing and work coordination among departments can reduce the work pressure of tax authorities, enhance their efficiency in combating illegal tax evasion and plug the loophole of using platforms to avoid paying taxes. (2) Income tax: Based on the initial maturity of technologies such as cloud computing and artificial intelligence, the convenience and happiness of people's lives in the new era and the consideration of the financial stability of the State, the State has launched intelligent tax support tools such as the Personal Income Tax APP and the Golden Tax IV. As far as enterprises are concerned, the current information interoperability among various departments connects information on the registration status of enterprises, personnel changes, capital changes, tax payment behaviour, etc., which realises all-round and multi-angle real-time monitoring of various business operations of enterprises, and is conducive to restricting the tax non-compliance behaviours of enterprises out of a fluke mentality. In the future, with the advancement of technology and techniques related to the digital economy, the information related to other non-tax businesses is also expected to be integrated into the data analysis database of individual enterprises, and the tax authorities will truly achieve three-dimensional tax audits; as far as individuals are concerned, through the information interoperability of the official departments, the data on the identity of individuals, their family status, and their incomes will be consolidated into a personal file, and then, through the intelligent monitoring of individual income and expenditure, the taxpayers' tax information will be collected and organised in a timely manner. Taxpayers' tax information is collected and collated in a timely manner through intelligent monitoring of individual income and expenditure businesses, and pushed to the information platform after accurate calculation. At the same time, the data analysis mechanism for taxpayers' past tax behaviours will effectively improve the accuracy of supervision, and the incentive and punishment mechanism for taxpayers' trustworthiness will encourage tax compliance.

3.3.3 Tax incentives

China's tax incentives for the digital economy mainly focus on three major taxes: value-added tax (VAT), enterprise income tax (EIT) and personal income tax (PIT). VAT-related tax incentives are more inclusive, such as the end-of-period tax rebate policy for VAT for small and micro enterprises, and the reduction of the levy rate for small-scale taxpayers by 1%, etc. Enterprise income tax incentives are mainly targeted at hi-tech, software, integrated circuits, and

other science and technology enterprises, such as regular reduction and exemption of enterprise income tax for key software enterprises encouraged by the state and extension of the carry-forward years for the losses of hi-tech and small-, medium- and medium-sized new science and technology enterprises; Individual income tax incentives mainly focus on the transformation of scientific and technological achievements, such as cash incentives for the transformation of scientific and technological achievements in office to reduce or exempt individual income tax, and equity awards for scientific and technological organisations to pay individual income tax in instalments.

3.4 Risks and challenges to the development of China's digital economy

3.4.1. Data security

In the era of digital economy, data, as a brand new production factor, has the characteristics of dispersion, virtuality, reusability and so on. The increasingly developed intelligent technology can not only summarize and integrate the data, but also collate and analyze the data according to the user's past behaviours, and portray the user's data image through data visualization and other technologies. On this basis, the individual user data will be classified into the relevant population database according to the conditions of matching, and then you can use big data to predict the user's needs to accurately place advertisements and improve the product turnover rate. While realising huge economic benefits, data information is inevitably used by some speculators. In recent years, data security issues continue to emerge, and cases of data leakage, tampering and abuse are common, including some large listed companies. 2021 Tesla had uploaded domestic data to an offshore server in violation of Article 31 of China's Data Security Law and was ordered to rectify and localise the data storage within the specified period. Not coincidentally, DDT Global Corporation was found to have collected a number of users' personal sensitive information in violation of the law in 2022, and the penalty amount was as high as 8.026 billion yuan. From the official notification of punishment cases, the relevant organisations that misuse user data in violation of the law and do not take protective measures for sensitive data include not only medium and large technology enterprises but also schools, hospitals, individual households and so on. This shows that it is urgent to strengthen data security and protect people's data and information.

3.4.2 Data divide

The volcanic eruption of data in the era of the digital economy has brought about a wealth of opportunities while also highlighting the problem of inequality in digital resources. As far as enterprises are concerned, this inequality is reflected between state-owned enterprises and private enterprises, and between large enterprises and small and medium-sized enterprises. Compared with the latter, the former has a wider and more powerful access to information resources, more advanced information technology capabilities and stronger sources of capital, strong enterprises in the role of the Matthew effect continues to thrive, and gradually open the gap with the disadvantaged enterprises, so that the market shows a bi-eighty division; as far as the region is concerned, this inequality is embodied in the eastern region and the western region, the urban area and the countryside and townships. Compared with the latter, the former has more favourable infrastructure and industrial support for the development of the digital economy, and the development of digital technology will feed back into the regional economic growth, further widening the data divide; as far as the group is concerned, this inequality is reflected in the level of education, the quality of social interaction between individuals, the former compared with the

latter to obtain new knowledge and capabilities of the opportunity is much higher than the latter, in its continuous iterative learning and progress, the data gap between individuals will also be widened. As they continue to learn and progress iteratively, the data gap between individuals will also deepen.

3.4.3 Regulatory policy

In the face of new business models springing up in the era of the digital economy, China's corresponding regulatory policies are lagging behind. For example, after the epidemic, all kinds of online group-buying business appeared, and the head of the group took a certain amount of money per order as a return when purchasing services on behalf of the group, and many of the head of the group's monthly income far exceeded the starting point of personal tax. However, as the business is conducted through online platforms, and the tax authorities do not have corresponding data supervision policies for the corresponding platforms, this has led to the loss of this part of the tax. For example, various online consulting activities are convenient and inexpensive, and people can solve problems in various fields in a timely manner without leaving their homes. However, there is no way for consumers to check whether the experts recommended by online platforms have the appropriate qualifications, and there is no way for the tax authorities to verify the authenticity of their income information. The lack of supporting policies for the regulation of various economic businesses will, to a certain extent, disrupt the market order and limit the development of the economy.

3.4.4 Tax policy

Taxpayers: Thanks to the popularity of the Internet and the transformation of people's thinking, it is no longer as difficult as it was in the past for ordinary people to participate in commercial and economic activities, and they can even become one of the independent distributors of a product just by adding a link under their own Jitterbug video. The diversity and virtuality of digital economic trading activities are more convenient and quicker for taxpayers, but for tax authorities, the flexibility of digital economic trading activities is often unfavourable to the supervision of tax subjects. Because, under the current system and technical means, if taxpayers do not apply for tax registration in accordance with the relevant provisions of the Tax Administration Law and the relevant platforms are unable to provide the taxpayers with business transaction data, it is difficult for the tax authorities to obtain information on the business activities of taxpayers, and there is no way to collect taxes. Taking the platform with goods as an example, the blogger puts up the goods for sale on his personal homepage, but the actual share of sales involves the corresponding platform, the original manufacturer, the three-party payment platform, and the blogger himself as a number of economic subjects. It is difficult to determine the division of income of each taxpayer during the actual audit by the tax authorities. At the same time, the same blogger may use more than one small number to hang out different links, and the same commodity may be recommended by more than one blogger at different prices, which makes it difficult for the tax authorities to collect and manage such scattered and numerous economic activities. (2) **Object of taxation:** as mentioned earlier, the core production factor in the era of digital economy is data, but it is difficult to determine how much value the data itself can bring. In the process of data assets participating in social distribution, raw data need to be screened and cleaned and analysed and a series of other operations in order to produce certain economic benefits and bring their economic value into play. In this process, firstly, enterprises will face the problems of how to ensure that they have the corresponding data ownership, and whether the data technology capability can

support the massive data processing, etc., which needs to be supported by a large amount of capital and relevant technical personnel; secondly, as there are no clear regulations in China on how to reasonably classify the nature of data property rights, and how to determine the value contribution of data of different natures, it is difficult to accurately measure the value of data elements at the official level; Secondly, as there are no clear regulations on how to reasonably classify the nature of data ownership and how to determine the value contribution of data of different natures, it is difficult to accurately measure the value of data elements at the official level; Thirdly, even if enterprises and the government have solved the headache of technical problems and quantified the value of data, further analyses are needed to solve the problems of how to classify the benefits brought by data elements among individuals, platforms and tripartite parties, as well as how to price the benefits of different nature of data. (3) Tax Jurisdiction: Traditional economic activities are mainly offline, and tax jurisdiction is often differentiated and determined geographically, while economic transactions in the digital economy are often carried out online, without geographic constraints, and with a strong degree of covertness and mobility, which greatly enhances the degree of uncertainty in the delineation of tax jurisdiction. As far as the international are concerned, the reformulation of the standard for the division of tax jurisdiction in the digital economy era will undoubtedly break the previous international taxing practice. As different countries have different national conditions and degrees of economic development, the implementation of the new policy has its own considerations, and the implementation of the new rules will foreseeably encounter certain resistance. In the era of global interconnection, if some countries insist on the original rules or are reluctant to follow international policies, they are likely to become a new type of tax depression in the era of digital economy. As far as a country is concerned, the flexible use of digital technology in economic activities has broken the limitations of the traditional economy of realising transactions through physical carriers, and the place where the transaction takes place has become blurred. For countries that only follow the principle of dividing tax revenues according to the place of production or consumption, it is very easy to cause the phenomenon of uneven distribution and widening of the gap of tax revenues among regions, and further have a distorting effect on the income distribution structure of the country. (4) Tax collection and management: Compared with the traditional means of collection and management such as manual entry of information and manual visits and audits, the use of modern information technology such as cloud computing and artificial intelligence has made great progress in China's tax collection and management. However, in the process of specific practice, on the one hand, China's tax authorities lack a large number of tax personnel who are skilled in the use of big data technology to efficiently sort out the huge amount of data, which may lead to the potential of digital technology can not be maximised; on the other hand, it is still difficult for our existing technical means to fully access the complete tax-related information, and when both parties to the economic transaction activities for the sake of economic interests and through an endless variety of means of concealment, tampering with data, the tax authorities will not be able to fully access the complete tax-related information. On the other hand, it is still difficult for us to obtain complete tax-related information through the existing technical means. This is not only limited by technical conditions, but also due to the lack of current legal and policy regulations on access to tax-related information. At the same time, although the concept of information interaction and data integration among departments has been emphasised, it is still difficult to establish an intelligent tax collection system for sharing and common governance due to different technical levels among departments and different standards for various economic data.

4. Suggestions

4.1 Strengthening technology development and innovation

In terms of mobile network construction, China has basically realised the full coverage of 4G network on the basis of focusing on the development of 5G network, and has already built the world's largest 5G communication network, which is in a leading position in the world. However, due to the lack of domestic construction of submarine cables and core patented technology limitations, China's current data value chain to the international expansion of power is limited. In the future, China's digital economy development wants to go to the next level, the key is still to focus on attacking the weak part of the digital value chain, resisting the pressure from developed countries, and at the same time, through the attraction of foreign investment to learn advanced technology, cultivate domestic scientific research and technological talent to form a conscientious development cycle. Do a good job in high-end chips, integrated circuits and other areas of medium- and long-term layout of the preparation, over time, to improve the technological fulcrum for the breakthrough of the digital economy.

4.2 Promoting digital transformation of industries

As a manufacturing country, China has great potential for industrial digital transformation, with the scale of industrial digitalisation almost doubling in just five years. Prompted by the epidemic, the willingness of various industries for digital transformation has surged, laying the foundation of demand for industrial digital transformation. However, in the actual integration of digital technology with the real economy, SMEs may be deterred by financing difficulties and uncertain input-output ratios, slowing down China's accelerated pace of industrial digitisation. Therefore, it is necessary to introduce a series of tax incentives to support the plight of SMEs and lower the financing threshold for SMEs. With regard to the technical problems of industrial digitisation, tax breaks and other means can be adopted to encourage enterprises to cultivate talents on their own, and the exchange of talents from large enterprises to small and medium-sized enterprises can also be strengthened through the construction of exchange platforms and other means.

4.3 Enhancing the effectiveness of digital governance

As far as top-level design is concerned: first of all, it is necessary to clarify the basic principles and conceptual framework for the development of China's digital economy, so as to ensure that the development of the digital economy is on the right path; on this basis, it is necessary to speed up the construction of the digital economy standard system, so as to achieve the consistency and integration of the indicators of the digital economy, and to facilitate the follow-up of the statistical matters; at the same time, it is necessary to improve the relevant laws and regulations, and to regulate the policies on market access, competition mechanism, means of review, and penalties, in order to ensure orderly expansion of the market. In terms of specific practice, it can be implemented in three aspects: at the government level, it should vigorously develop the construction of digital economy infrastructure and safeguard the external environment for the development of the digital economy; docking with the international arena, gradually launching tax policies targeting the revenue of digital services to ensure that there is no loss of fiscal revenues and to promote the virtuous circle of fiscal revenues and expenditures; and setting up a platform for the integration of data to intelligently monitor and prevent the risks of the digital economy. At the market level, a unified national data registration system should be established to facilitate subsequent unified management; a data credit system should be created to urge and

supervise enterprises to regulate their business; and the creation of leading enterprises should be strengthened to consolidate the foundation of the market and serve as a model for digitalisation. At the individual level, encouraging the construction of digital economy disciplines and nurturing young talents; introducing high-level digital talents to support the digital development of enterprises.

4.4 Improving the tax system

Internally, the tax-related laws of the digital economy should be improved, such as revising the Enterprise Income Tax Law and the Value-Added Tax Law, clarifying the concept of “permanent establishment” in the digital economy to solve the problem of income jurisdiction, and solving the legal gaps in the taxing of cross-border digital services; clarifying the criteria for the identification of taxpayers in the emerging business to solve the problem of unclear identification of taxpayers by the tax authorities, and improving the tax policy elements of the digital economy. The tax authorities can clarify the identification criteria of taxpayers in emerging businesses to solve the problem of unclear identification of taxpayers and improve the elements of tax policy for digital economy. It can also consider designing a new tax system based on the characteristics of the digital economy, learning from foreign practices to introduce a digital service tax, clarifying the taxing standards and tax jurisdiction for the cross-border digital business of large multinational digital platforms, compensating for the loss of the domestic tax base, and ensuring a fair competition between domestic and foreign enterprises in terms of taxation. Externally, international tax cooperation should be strengthened to promote China's tax system to be in line with international rules. China is a large country with a digital economy, and the transnational nature of the digital economy determines that it is difficult for a single country to solve relevant tax issues independently. By being actively active in international tax platforms such as OECD and G20, it can strengthen cooperation with other countries in tax information sharing, profit transfer regulation, etc., and even participate in the formulation of international tax rules through international influence when China has a certain discourse power in the international arena. In order to cope with the tax jurisdiction disputes and tax base erosion problems brought by the digital economy, and to ensure the fairness of domestic and foreign enterprises in terms of tax burden.

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