American International Journal of Business Management (AIJBM)
ISSN- 2379-106X, www.aijbm.com Volume 07, Issue 02 (February -2024), PP 50-54

Challenges and Solutions of Digital Assets to China's Tax System

Ming Qian
Building 3, Limeng City, Hutang Town, Wujin District, Changzhou City, Jiangsu Province;
Xiamen University Tan Kah Kee College;

ABSTRACT:- The digital economy is developing rapidly, and digital assets are in the ascendant. Because China has not yet clarified the relevant policies and measures on taxing digital assets, a large number of tax revenues have been lost. Taxing digital assets is an inevitable product of the development of the digital economy era, and also brings certain challenges to the improvement of our tax system. This paper aims to clarify the significance of taxing digital assets, recognize the problems faced by taxing digital assets, and put forward solutions to the problems of taxing digital assets in China.

Key words:- Digital economy; digital assets; tax policy

Catalogue

I. Connotation and Development of Digital Assets....................51
1. Definition and special attributes of digital assets....................51
2. Development and taxation status of digital assets....................51
II. The necessity of taxing digital assets....................51
1. Maintaining public finance and social equity....................51
2. Preventing illegal uses....................51
III. Feasibility of taxing digital assets....................52
1. Property attributes of digital assets....................52
2.There are constantly improving regulatory measures....................52
IV. Challenges of digital assets to China's current tax system....................52
1. Unclear tax items and tax rates....................52
2.Complex measurement of digital asset....................52
3. Difficulties in tax information collection....................52
V. Suggestions for China's Tax System....................53
1. Scientifically determine tax items and tax rates....................53
2. Reasonably determine the value of digital assets....................53
3. Clarify and strengthen the responsibilities of all parties....................53
VI.Conclusion....................53
References....................54

I. CONNOTATION AND DEVELOPMENT OF DIGITAL ASSETS

1. Definition and special attributes of digital assets

Digital assets are economic values existing in digital form, usually based on blockchain or distributed ledger technology.Bitcoin, Ethereum and other common ones are used in games, collectibles, certificates and other fields.Special attributes of digital assets include decentralization, programmability, tamper-proofness and traceability.This makes them unique in cross-border transactions, smart contracts and asset digitization.The unique attributes of digital assets provide new possibilities for financial and business models, but there are also potential risks in terms of law, privacy and security.

2. Development and taxation status of digital assets

In the 1990s, the US government first proposed the concept of digital assets.Chinese society is widely exposed to digital assets, which can be traced back to Q coins and other virtual currencies launched by Tencent.With the prevalence of B2B and other online transactions and Bitcoin entering the public eye, the digital asset industry chain is booming. In order to meet the growing demand for digital asset applications, the State Administration of Taxation issued the "Request on Individual Income Tax on Income Derived from Online Sales of Virtual Currencies", recognizing Bitcoin as a digital asset. At present, the sources of digital asset income can be broadly divided into income as a means of production, income as a commodity, and income as an exchange medium.Most scholars believe that digital assets should be taxed, but the specific taxes that should be paid differ.In 2016, China issued the Implementation Measures for the Pilot Program of Replacing Business Tax with Value-added Tax, which did not take digital assets as a separate tax object. At present, compared with traditional transactions, digital assets have a series of problems such as virtuality, difficulty in rights confirmation, and uncertainty in value measurement. The traditional tax system is difficult to apply to the collection and management of digital assets.

II. THE NECESSITY OF TAXING DIGITAL ASSETS

1. Maintaining public finance and social equity

The rise of digital assets has posed new challenges to the traditional tax framework.Tax collection and management of digital assets can provide funds for the government to support public services such as infrastructure construction and social welfare projects, and maintain the healthy and stable development of the country's overall economy.In addition, taxing digital assets helps to achieve social equity.In the digital economy, the speed of wealth accumulation may exceed that of the traditional economy. Taxation can adjust the distribution of wealth and promote social equity.A reasonable digital asset tax system can also encourage innovation and investment and promote sustainable economic growth. Therefore, from the perspective of safeguarding public finance and social equity, it is necessary to collect taxes on digital assets.

2. Preventing illegal uses

The trading and holding of digital assets often involve a large amount of funds, and a transparent tax system helps prevent capital shuffling and other illegal activities.At present, there are countless cases of illegal profits by using the special attributes of digital assets.By taxing digital assets, the illegal cost of digital asset crimes can be increased, so that enterprises or individuals are constrained in the use of digital assets.In addition, through tax supervision, the government can better monitor capital flows, obtain a large amount of transaction information, reduce the occurrence of illegal activities, and thus ensure the stability of the financial system.

III. FEASIBILITY OF TAXING DIGITAL ASSETS

1. Property attributes of digital assets

The tax law stipulates that the objects included in the scope of taxation shall have property attributes.In form, although the ownership and transaction records of digital assets are usually managed through distributed ledger technology such as blockchain, there is no difference in essence with traditional transactions. They can obtain income through the transfer of property ownership, have economic value, and meet the tax scope stipulated by the tax law, and should be included in the tax list.

2.There are constantly improving regulatory measures

At present, many countries and regions have clarified the legal status of digital assets through laws and regulations, and require platforms and practitioners to comply with relevant provisions.Take digital currency as an example. At present, China's digital currency is mainly used to replace and supplement traditional currency, and its supervision and management are quite strict, and are in the process of continuous development and improvement.Tax authorities and the central bank realize data sharing, which alleviates the difficulties of digital asset collection and management, provides a solid foundation for tax authorities to collect and manage digital assets, and realizes theoretical feasibility.

IV. CHALLENGES OF DIGITAL ASSETS TO CHINA'S CURRENT TAX SYSTEM

1. Unclear tax items and tax rates

Before tax collection and management of digital assets, it is necessary to clearly identify their tax items and corresponding tax rates. Digital asset transactions mainly involve turnover tax and income tax.In digital assets, take digital collections as an example, it can be identified as a digital work, or a combination of digital works and physical objects or equity. The tax law does not clearly stipulate whether digital works existing on the blockchain belong to electronic publications, and whether the part identified as a combination of digital works and physical objects or equity needs to be classified into different tax items and accounted separately.

2. Complex measurement of digital asset value Price is the basis for taxation, and value is the basis for price formation. The value measurement of digital assets is complex. Market fluctuations, lack of standard valuation methods and the absence of laws and regulations all bring difficulties to the value measurement of digital assets. The price of digital assets is affected by supply and demand, market sentiment and technical factors, which makes it difficult to accurately predict their value. In addition, the lack of unified valuation standards and accounting standards means that different entities may use different methods to measure the value of digital assets, increasing the difficulty of tax collection and management of digital assets.

3. Difficulties in tax information collection

The difficulties in tax information collection of digital assets mainly come from the levels of technology, international coordination and privacy protection, which bring great challenges to tax authorities to obtain effective information. First of all, because the information is stored in a distributed network rather than a centralized database, the decentralized characteristics of blockchain technology make it difficult for regulatory authorities to directly access relevant data. Secondly, digital asset transactions occur globally, and cross-border transactions are complex. The absence of international coordination and standardized tax regulations makes it more difficult to share tax information of cross-border digital asset transactions. In addition, the anonymity and privacy protection characteristics of digital assets bring a series of problems to identify and track tax information.

V. SUGGESTIONS FOR CHINA'S TAX SYSTEM

1. Scientifically determine tax items and tax rates

To clarify the tax items and tax rates corresponding to digital assets, attention should be paid to the essence of digital asset transactions. Taking digital collections as an example, they can be taxed in two categories. One is the sale of digital collections containing only digital works on the chain, which generally refers to simple digital publications, which can be identified as books, newspapers, magazines, audio-visual products and electronic publications listed in the "Provisional Regulations on VAT", and the corresponding VAT rate is 9%.The other is the sale of digital collections containing both digital works and physical objects or equity. The tax items and tax rates are determined according to the physical objects or equity contained in them. If the physical objects are VAT taxable goods or services, the tax items and tax rates corresponding to the physical goods or services are levied; if the equity is intangible assets, the VAT tax items and tax rates are applied according to the sale of intangible assets.

2. Reasonably determine the value of digital assets

To reasonably determine the value of digital assets, it is necessary to first build a standardized framework and formulate the measurement standards of digital assets to reduce the differences between different markets. Secondly, it is necessary to improve the transparency of the market and reduce uncertainties through information disclosure and compliance standards, so that investors can more clearly understand the true value of digital assets. In addition, technological innovation should be strengthened to establish a more transparent and secure digital asset trading system by using advanced technology, so as to reduce the possibility of manipulation and improper valuation.Finally, clear digital asset regulations should be formulated to regulate market behavior, and third-party audit institutions can be introduced to strengthen supervision and conduct regular audits of digital assets to ensure the accuracy and transparency of their value measurement.

3. Clarify and strengthen the responsibilities of all parties

Promote global cooperation, promote international tax information sharing cooperation, and establish a global standard for digital asset transactions, so as to facilitate the sharing of cross-border transaction information and collaborative taxation.Strengthen the responsibilities of platform parties to ensure that digital asset trading platforms are legal and compliant, and encourage platforms to adopt stricter identity verification and KYC mechanisms to reduce the possibility of anonymous transactions.In addition, smart contract technology should be used to ensure that the corresponding taxes are directly levied in digital asset transactions to reduce tax losses.Finally, public education related to digital asset taxation should be actively carried out to improve the taxpayers' awareness of tax responsibilities related to digital asset transactions.

VI. CONCLUSION

At present, tax collection and management of digital assets is a major problem facing China's taxation, and also poses a challenge to international taxation.It is crucial to actively deal with the taxation of digital assets. Based on the current situation of taxation on digital assets in other countries, China should put forward corresponding solutions in combination with its national conditions, formulate relevant laws and regulations, strictly regulate digital asset trading platforms, improve the public's awareness of taxation on digital assets, avoid tax losses in China, ensure tax fairness, and better seek the well-being of the people.

REFERENCES

[1]. 王宝顺，张燕，蔡颜西.数字藏品对我国税收制度的挑战与应对[J].税务研究，2023（06）：59-64
[2]. 吴丽文.数字税征收的国际实践与中国应对建议分析[J].纳税，2023,17（10）：13-15
[3]. 张晓宇.对数字资产征税的必要性及可行性探析[J].国际商务财会，2023,08：49-51
[4]. 宋迎春，易星言.我国数字资产税收政策的问题研究[J].特区经济，2023（02）：59-62
[5]. 王敏，袁娇.数字资产税收治理难点与治理路径创新[J].税务研究，2022（11）：17-22
[6]. 谢磊.数字资产对我国增值税制度的挑战及应对[J].时代经贸，2022,19（10）：45-47
[7]. 王永超.数字资产交易课税法律问题研究[D].河北经贸大学，2022.
[8]. 杨志勇.数字资产税征收的国际实践与我国的政策建议[J].经济纵横，2020（11）：102-110
[9]. 蔡昌.数字资产的价值计量、税收政策与税制优化[J].新经济导刊，2023（07）：43-51

Ming Qian
Building 3, Limeng City, Hutang Town, Wujin District, Changzhou City, Jiangsu Province;
Xiamen University Tan Kah Kee College;