

Thoughts on Tax Administration Reform to Support the Construction of China's Unified National Market

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Abstract

This paper examines the role of tax administration reform in supporting the construction of a unified national market. It systematically analyzes the mechanisms through which tax administration contributes to technological empowerment, rule unification, service optimization, and enhanced law enforcement. Based on practical case studies of tax administration in various regions, the paper reveals key issues present in the ongoing tax reform process. The study finds that the application of big data in taxation still needs improvement, local tax competition persists in a latent form, and barriers to information sharing and differences in law enforcement standards continue to have an adverse impact on the construction of a unified national market. In response, the paper proposes recommendations, such as deepening the “data-driven tax” reform, standardizing tax incentive systems, eliminating information asymmetry, and enhancing enforcement consistency. It emphasizes breaking down local barriers through digital transformation and institutional optimization to facilitate the efficient allocation of resources. The research concludes that to better serve the construction of the unified national market, tax administration reform should integrate data resources with a systemic approach, reduce policy gaps, and build a national collaborative governance network, thereby providing sustained impetus for high-quality economic development under the new development paradigm.

Keywords

Tax Administration Reform, Tax Big Data, China's Unified National Market, Information Asymmetry

1. The Mechanisms through Which Tax Administration Supports the Construction of China's Unified National Market

1.1. The Concept of China's Unified National Market

China's unified national market refers to the establishment of a unified market system, regulatory rules, infrastructure standards, factor flow mechanisms, and supervision systems across the country by breaking down local protectionism and administrative barriers. It aims to promote the free flow and efficient allocation of production factors such as goods, services, capital, technology, and data, creating a large-scale domestic market with transparent market rules, fair competition, and an open and orderly environment. The core objective is to eliminate market fragmentation, reduce transaction costs, stimulate market vitality, and form a modern market system that promotes mutual supply and demand and smooth circulation, thus providing solid support for the construction of a new development paradigm and high-quality economic development.

1.2. The Role of Tax Administration in Supporting the Construction of China's Unified National Market

As part of the fiscal and taxation system, tax administration is an important tool for national governance. Tax administration contributes to the construction of the unified national market through technological empowerment, unification of tax administration rules, optimization of taxpayer services, and strengthening tax enforcement. In terms of technological empowerment, the nationwide promotion of electronic invoices has been significant (Pasaribu, Ayu, & Pamuntjak, 2022). By January 2025, over 30 million enterprises in China had adopted electronic invoices. For instance, a logistics company in Shenzhen has directly connected its ERP system to fully electronic invoices, reducing reconciliation time from 7 days to just 1 day. Regarding the unification of tax administration rules, by 2025, China has completed legislation for 14 types of taxes, including VAT and individual income tax, covering over 80% of tax revenue. In 2024, China clarified the national unified tax rate and deduction rules under the Value-Added Tax Law of the People's Republic of China, effectively curbing the phenomenon of "tax havens" from an institutional level. In terms of optimizing taxpayer services, the electronic tax bureau has made it more convenient for businesses to relocate across provinces. Through the "one-click" handling of 89 types of tax-related services, including reporting cross-provincial tax matters, the time for enterprises to complete cross-provincial migration was reduced from 10 days to just 1 hour by 2024. Additionally, the number of business relocations in the Yangtze River Delta region increased by 42% year-on-year. Regarding strengthening tax enforcement, in 2024, the tax enforcement quality intelligent control system was launched nationwide, promoting stricter, more standardized, fair, and civilized tax enforcement. In Guangdong, the tax authorities established this intelligent control system to ensure the consistency of enforcement. Through these mechanisms, the tax administration sys-

tem has provided strong support for the construction of a unified national market. In the future, AI-driven real-time tax consultation services can further optimize taxpayer services, enabling businesses to receive real-time guidance on tax-related matters, reducing human errors, and improving tax compliance and service satisfaction.

2. Issues in Tax Administration's Support for the Construction of China's Unified National Market

Tax administration has provided strong support for the construction of China's unified national market. However, with the deepening of the construction process, tax administration can further contribute to the development of the unified national market in four areas: 1) Leveraging big data and tax administration reforms to unlock the full potential of tax big data; 2) Standardizing tax incentive systems to reduce tax competition; 3) Eliminating information asymmetry in taxation to optimize tax administration efficiency; and 4) Strengthening tax enforcement to improve the quality of tax law enforcement.

2.1. The Potential of Tax Big Data Still to Be Explored

With the deep integration of tax administration and big data technology, tax big data has become a unique resource for modernizing the tax governance system and improving governance capabilities. With the implementation of the Golden Tax Phase IV project, tax big data has been applied across various aspects of tax administration. However, in the current environment, the full potential of tax big data has yet to be fully explored. In terms of data collection, the sources of tax data are still limited, and the data application standards across different regional tax departments have not been unified. As a result, the collection, application, and comparative effectiveness of tax-related data are relatively weak. Regarding data sharing, given that cross-regional taxation has become the norm in the digital economy, tax authorities are unable to directly access complete tax-related data such as financial accounts and platform transaction information. In terms of data usage, the current tax risk warning system is often limited to identifying and controlling risks for individual businesses based on tax data. A cross-industry, cross-regional supply chain risk assessment system has not yet been established, and it is not yet possible to use tax data to assess whether there are risks within a specific region's supply chain.

2.2. Tax Incentives That Are Unclear

For a long time, local governments have implemented a series of regional tax incentive policies to attract investment, promote economic growth, and increase fiscal revenue. These regional tax incentives create disparities in operating costs, hindering the market's ability to allocate resources effectively. They also expose market participants to unfair competition, potentially leading to an excessive con-

centration of capital and resources, thereby exacerbating regional imbalances in development. In June 2024, China's State Council issued the Regulations on Fair Competition, which require local governments to establish self-inspection and self-correction mechanisms to ensure a fair competitive environment. However, in practice, tax competition driven by unregulated tax incentives is deeply influenced by local protectionism, making it difficult to completely eliminate such practices through local self-inspection and correction. To date, China has not fully established a cross-regional, cross-departmental mechanism for monitoring fair competition, and the role of maintaining fair competition remains limited. At the same time, many regions continue to use local fiscal and tax incentive policies to attract investment, often using methods such as advance collection followed by refunds, which effectively create "tax havens" by offering lower tax rates. These inconsistent fiscal and tax policies severely undermine the consistency and effectiveness of market rules across China.

2.3. Tax Information Asymmetry

The 2025 China Tax Work Conference emphasized that the State Taxation Administration of China will steadfastly optimize the business environment, uphold the rule of law, and improve taxpayer satisfaction and compliance. Optimizing the business environment is closely linked to improving taxpayer satisfaction and compliance, and the efficiency and accuracy of tax administration are directly related to taxpayer satisfaction. In today's highly developed digital economy, the efficiency of tax administration is significantly influenced by the level of information exchange between tax authorities at various levels and localities, between tax authorities and enterprises, and between tax authorities and other departments. There is still considerable room for improvement in efficiently transmitting tax information, optimizing tax administration processes, and ensuring that tax information is more timely and effectively serves the work of tax administration. Some regions may face a lack of technical support, making it difficult to achieve comprehensive integration and application of big data. Additionally, there is a gap in the ability of local tax authorities to access and utilize big data, which may require the central government to provide additional funding and technical support to bridge this gap.

2.4. Tax Enforcement Capacity That Needs to Be Improved

Nationwide in China, with the deepening reforms such as the "tax-for-fee" conversion and the collection of social insurance contributions, the scope of tax authority responsibilities has gradually expanded. This expansion is inevitably accompanied by an increase in the volume of tax enforcement actions. However, the criteria for tax administrative discretion are not uniform across regions, and the intensity of tax enforcement by tax authorities also varies. For investors, they are likely to favor regions where tax authorities enforce regulations more leniently and where enforcement intensity is lower. This behavior undoubtedly undermines

the construction of a unified national market and the effective allocation of market resources. For example, in a land value-added tax settlement case in 2017, tax inspectors in Province A determined that the actions of the taxpayer amounted to tax evasion and imposed additional taxes and fines accordingly. In contrast, in Province B, a similar case was not considered tax evasion, and no such measures were taken. At the same time, the increasing number of tax administrative enforcement cases and tax-related litigations further necessitates the improvement of the quality of tax law enforcement (Bassey, Mulligan, & Ojo, 2022).

3. Pathway Suggestions for Tax Administration Reform to Deeply Support the Construction of China's Unified National Market

To ensure that tax administration reform deeply supports the construction of China's unified national market, the focus should be on areas such as deepening the integration of big data and tax reform, standardizing tax incentive systems, eliminating tax information asymmetry, and improving tax enforcement. By advancing tax administration reform along these directions, we can promote the effective allocation of market resources and provide stronger support for the establishment of the new development paradigm.

3.1. Deepening Big Data + Tax Reform, Digitally Empowering Tax Administration Services

In the coming period, tax authorities in China should strengthen digital thinking, enhance data application capabilities, and tap into the "treasure trove" of tax data. This aligns with the goals set out in the 14th Five-Year Plan for Digital Economy Development issued by the State Council, which emphasizes fully leveraging data as a key factor. The principle of "data-driven taxation" should be integrated into the entire tax administration process, advancing the digital and intelligent transformation of tax administration in line with modern societal and economic needs (Doiar, Liutikov, Skvirskiy, Garmash, & Kuvakin, 2022).

Firstly, a big data tax development strategy should be formulated and implemented. This strategy would use big data to drive business innovation, optimize the taxpayer experience, explore cutting-edge technologies, and accelerate the creation of a tax big data development plan. With a digitalization-driven strategy, the construction of a big data tax system should follow a clear framework, ensuring that information technology projects are included in the development strategy to avoid redundant and ineffective investments.

Secondly, the unified management and layered authorization for the use of tax data should be strengthened, with appropriate delegation of tax data access to grassroots tax departments. For unified control, scientific management methods should be applied to the data collected by tax systems at all levels, including organizing, monitoring, and coordinating data collection, archiving, security, maintenance, and storage. Regarding the use of tax data, in the current environment,

grassroots tax departments have limited access to data, and many data need to be reported up to provincial-level tax authorities before they can be obtained. These tax data are directly related to the operational status, tax payments, and risk mitigation of taxpayers within their jurisdiction. Therefore, under the premise of ensuring data security, more taxpayer information from within the jurisdiction should be made accessible to grassroots tax departments to improve taxpayer services.

Finally, the data elements should be improved. Big data technology places higher demands on data elements than ever before. Therefore, it is recommended to increase the collection of financial chain information during the data collection phase. Currently, invoice entry information includes details such as the buyer and seller's information, the name of the goods or services, unit price, total price, tax rate, and tax amount. Given the more convenient and diverse ways of financial transactions today, additional financial flow information could be incorporated into invoice data, such as the seller's receipt channels and the buyer's payment methods. The inclusion of financial chain information serves three purposes. First, it can accurately determine whether an invoice is fraudulent. If the account listed on the invoice for payment is an individual's or another organization's account without valid justification, or if there is a large number of invoices marked as paid in cash, these invoices carry a higher risk of being fraudulent. The system can automatically flag such risks based on the financial chain information. Second, it allows for tracking the financial chain. By recording the source and destination of funds on the invoice, it becomes easier to track the flow of funds in real-time, facilitating the identification of fraudulent invoices. Third, it helps confirm the substance of the related transaction. By recording detailed financial flows on the invoice, it becomes possible to verify whether the transaction is real, whether the corresponding income has been legitimately received, and whether the taxes have been paid correctly and on time.

3.2. Standardizing the Tax Incentive System and Reducing Tax Competition

Currently, the authority to tax incentives has been centralized, and many illegal tax incentive policies have been cleaned up. However, tax competition arises as local governments engage in harmful competition to secure more fiscal revenue in order to support local economic and social development. Additionally, tax competition reflects the competition between regions for limited markets and resources, making it difficult to resolve through a direct local coordination mechanism. To reduce tax competition, efforts should begin with top-level design. This includes improving the local tax system primarily based on shared taxes, stabilizing local tax revenues, and aligning this with policies that shift fiscal expenditure responsibilities upward to ease local fiscal pressures. Such reforms would redirect local governments' competition from offering more tax incentives to improving the business environment, fostering positive interactions between local govern-

ments, and ensuring that overall national tax revenue does not decrease while simultaneously increasing local fiscal income. This will lay the foundation for the construction of China's unified national market. In the context of cultivating local tax types over time, attention should first be focused on increasing the proportion of shared taxes to ensure a more scientifically balanced distribution of tax revenues between the national and local governments. Increasing the share of shared taxes can simultaneously strengthen national oversight of local tax policies, reducing the incentive for local governments to engage in illegal tax competition. This approach aims to achieve the goal of reducing tax competition.

3.3. Eliminating Tax Information Asymmetry and Optimizing Tax Administration Efficiency

In the digital age, the interconnection and sharing of tax data between tax authorities at various levels and regions has become increasingly important. To ensure the construction of China's unified national market and prevent some taxpayers from exploiting information discrepancies between tax authorities to evade taxes, it is crucial to strengthen the exchange of tax data between regions, while ensuring that the State Taxation Administration (STA) holds comprehensive national tax data. Optimizing tax administration through regional tax data exchange is especially important. To eliminate tax information asymmetry, it is necessary to enhance the data exchange between tax authorities, between tax authorities and businesses, and between tax authorities and other departments.

From the perspective of data exchange between tax authorities, although the STA has already established a vast database through the Golden Tax Phase III program and the gradually advancing Golden Tax Phase IV program, and allows local tax authorities to access it, in practice, grassroots tax authorities often need to report up to provincial tax authorities or contact corresponding local tax authorities to exchange data when they need information from other regions. This manual process of information exchange is cumbersome and complex. Therefore, it is essential to further decentralize database usage rights to facilitate the interconnection and sharing of tax information between tax authorities, thus supporting the STA's implementation of "data-driven tax administration" efforts (Nikiforova & Nessipbay, 2023).

From the perspective of data exchange between tax authorities and businesses, currently, tax authorities' systems and enterprises' financial systems are separate, which leads to businesses spending a significant amount of time and effort every year on accounting and invoicing tasks. Therefore, it is possible to further promote the transformation of businesses' financial systems to enable access to the "Leqi" direct connection mechanism. The "Leqi" platform refers to a platform that connects businesses' internal financial systems directly with tax systems through standardized protocols, providing businesses with a comprehensive, fully digitalized service for tax-related matters such as electronic invoicing, with open rules and unified standards. Through the "Leqi" platform, businesses can receive more

comprehensive and accurate tax services. By connecting to the “Leqi” platform, local tax authorities can access real-time data on businesses’ economic activities across China, allowing them to accurately assess tax liabilities, ensure fair taxation of economic activities, promote fair competition in the market, and facilitate the rational allocation of resources, thus supporting the construction of China’s unified national market.

From the perspective of data exchange between tax authorities and other departments, in many cases, the tax administration work of tax authorities requires cooperation with data from other departments. For example, in the administration of environmental taxes, many of the data related to emissions and the determination of pollutant discharge are handled by environmental protection departments, while the tax authorities are responsible for the enforcement of environmental tax regulations. Therefore, it is crucial to establish data exchange channels between tax authorities and other departments to optimize tax administration efficiency. By establishing a cross-departmental data exchange mechanism, tax authorities can more efficiently access various tax-related data and optimize tax administration processes. This will not only improve administrative efficiency but also ensure the unified implementation of tax policies across different sectors.

3.4. Strengthening Tax Law Enforcement and Improving the Quality of Tax Enforcement

To strengthen the standardization of tax law enforcement, the following measures should be taken to regulate tax enforcement practices. Firstly, streamlining and reducing household inspections: Tax authorities at all levels should review and reduce unnecessary household inspections, strictly manage inspection plans, and alleviate the burden on taxpayers. Secondly, implementing the “double random, one public” supervision model: This involves randomly selecting inspection targets and randomly assigning enforcement personnel, with inspection results publicly disclosed in a timely manner to enhance fairness and transparency in enforcement. Thirdly, strict enforcement procedures: Tax authorities should improve enforcement procedures, refine guidelines, strengthen record-keeping of enforcement activities, improve enforcement methods, and enhance checks on authority to protect the legitimate rights of taxpayers. Fourthly, standardizing administrative discretion and strict management of tax assessments: Tax authorities should strictly control assessment management to ensure accuracy and fairness in tax law enforcement (Yimam & Mekonnen, 2023). Lastly, accurate application of administrative penalty discretion standards: Enforcement reviews should be strengthened to ensure the legality and reasonableness of administrative penalties, enhancing public confidence in tax enforcement.

Given the increasing number of tax administrative reconsideration and litigation cases faced by China’s tax authorities, and in line with the requirements of comprehensive rule of law, there are two key areas for improving the professionalism of tax judicial practices: Firstly, building a team of tax judicial professionals

with strong legal qualifications: The selection of personnel who have passed the legal professional qualification exams to join tax authorities can enhance the professional competence and case-handling ability of tax judicial staff. Currently, provincial and municipal tax authorities have a sufficient number of public lawyers, and the level of judicial specialization is relatively high. However, grassroots tax authorities, which directly interact with the vast majority of taxpayers, often lack sufficient legal professionals with the necessary legal knowledge and qualifications. Therefore, it may be worthwhile to selectively recruit more legally qualified personnel at the grassroots level and consider allowing judicial staff from higher tax authorities to assist with legal matters at the local level. Secondly, establishing an effective mechanism for connecting tax judicial work with administrative enforcement: This will ensure the proper implementation of tax policies and the fair handling of tax cases. As the rule of law advances, taxpayers' legal awareness is gradually increasing, raising higher demands for compliance in tax authorities' work. Improper tax administrative enforcement can lead to tax litigation and a decrease in taxpayer satisfaction. Therefore, establishing an effective connection system between tax judicial work and administrative enforcement, while strengthening the review of tax enforcement compliance, is essential. This ensures the uniformity of enforcement standards and intensity, preventing market entities from exploiting policy arbitrage due to differing enforcement practices. This approach also contributes to the construction of China's unified national market.

4. Conclusion

Tax administration reform is a key pillar in driving the construction of China's unified national market. Through mechanisms such as technological empowerment, unified rules, optimized services, and strengthened enforcement, the tax administration system has significantly reduced market transaction costs and improved the efficiency of factor flow, providing institutional guarantees for breaking local barriers and promoting fair competition (Wulandari & Limajatini, 2022). However, the reform still faces challenges such as the underutilization of tax big data, the hidden presence of regional tax competition, inadequate cross-regional information sharing, and disparities in enforcement standards. These issues urgently require systemic reforms to further unleash institutional dividends.

In the future, it is necessary to deepen the digital transformation of tax administration with "data-driven taxation" as the core, strengthen the full-chain management and cross-regional sharing of tax data, and upgrade industrial chain risk prevention from "single-point monitoring" to "overall collaboration". Through optimizing the central-local tax allocation mechanism, space for non-compliant regional tax incentives can be reduced, shifting the focus of competition from "tax incentive gaps" to "business environment". By utilizing tools like the "Leqi" platform to eliminate data barriers between tax authorities, enterprises, and across departments, a unified national tax governance network can be established. Mean-

while, through the nationwide unification of enforcement discretion standards, professional judicial team building, and mechanisms such as “dual-random, one-open”, the transparency and credibility of tax enforcement can be enhanced.

As the reform deepens, tax administration will more efficiently serve the unification of market rules, optimization of resource allocation, and coordinated regional development, injecting long-term momentum into the construction of a large-scale domestic market characterized by mutual supply-demand promotion and smooth circulation. Ultimately, it will become an important engine for high-quality economic development in the new development pattern.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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