

# Research on the Construction of Tax Collection and Administration System for Natural Persons —Taking Live Streamers as the Research Object

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**How to cite this paper:** Zhang, H.R. (2018) Research on the Construction of Tax Collection and Administration System for Natural Persons. *Open Journal of Social Sciences*, 6, 89-95.

<https://doi.org/10.4236/jss.2018.65008>

**Received:** April 16, 2018

**Accepted:** May 15, 2018

**Published:** May 18, 2018

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## Abstract

As a new industry, live streaming platform has some new problems and challenges in tax management. This paper takes the YY live streaming platform as the research object, studies the source of income of the live streaming platform and the related personal income tax issues. Then, we put forward the difficulties of tax management around this industry. Finally, we put forward relevant countermeasures for these difficulties.

## Keywords

Natural Person, Tax Administration, Live Streaming Platform

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## 1. Status Quo of Live Streaming Platforms and Live Streamers

### Status Quo of China's Internet Development

According to the statistics released by the China Internet Network Information Center, by December 2015, the number of Internet users in China had reached 688 million, and the total number of new Internet users had reached 39.51 million. The number of Chinese mobile Internet users had reached 620 million, with an increase of 63.03 million compared to the end of 2014. The proportion of Internet users using mobile phones to access the Internet had increased from 85.8% in 2014 to 90.1% in 2015. According to the statistics in *The heat report of live streaming platforms industry in China* (2016), released jointly by the Institute of Policy and Economics in the Chinese Institute of Information and Communication and Wangsu Science and Technology Co., Ltd., there are currently more than 200 live streaming (webcast) platforms of various kinds, with 325 million users and 24 million daily active users. The market size now exceeds 10 billion RMB by December 2016. These figures indicate that the number of

people using the Internet in China is increasing. As a result of the “Internet+”, live streaming on the Internet has gained popularity rapidly. With this emerging live streaming industry, live streamers have also emerged and become popular. The income of the live streamers is no less than the popular stars of entertainment, such as Xiaozhi, who ranks No.1 in the popularity of the game live streamers, earning up to 40 million yuan a year.

## **2. The Source of Income for Live Streamers on the Platform YY**

In this research paper, we will use the YY platform (affiliated to Guangzhou Hua Network Technology Co., Ltd.) as the research object to study the source of income of live streamers on this platform.

When you open the YY live homepage, you can see that the live streaming is divided into several large categories: entertainment, games, and friends/socializing. Under these categories, you can find more specific channels like music, talk show, outdoor activities, online games, etc. It is reported that there are more than 3000 live streamers on the YY platform. There are mainly the following ways to gain profits:

### **2.1. Platform Signing Fees**

In the increasingly competitive live streaming field, various platforms have continuously raised their signing fees for famous live streamers. It is rumored that the former Hero League’s famous professional player Liu Mou joined Panda TV with a signing fee of 500 million yuan for three years. Due to technical advantages, online game live streamers have a relatively higher income than other live streamers in terms of signing fees given by the platform.

### **2.2. Virtual Gifts**

Netizens spend a lot of money to buy gifts for live streamers, and the live streamers will get their salary after certain deduction by the platform. This model does not depend on popularity. In this industry, personal charm and attractiveness of the live streamers are even more important. For example, a girl may only have seven to eight thousand fans, but her income may be higher than those with more than ten thousand fans. This part of income is currently the major source of income for most live streamers. Here’s an example of measuring a live streamer’s income through gifts from fans.

On the YY platform, the room number of this live streamer is 24,476, and the room name is [Blue Rain]. The exchange ratio between YY Red Diamond and RMB is 1000:1. According to the weekly contribution list on the first week of January 2018 of this live streamer, it can be seen that the person who ranked No.1 had offered this live streamer 123,892,200 YY Red Diamonds, 120,000 yuan’s worth of gifts, while the one who ranked No.2 had offered her 9,068,799 YY Red Diamonds, 9000 yuan’s worth of gifts. People ranking No.3 and below had

in total given her 45,000 yuan's worth of gifts. When we add up the numbers we find that the value of gifts she had received is 165,000 yuan in total. These dates were all taken on a Wednesday night, so it means that the live streamer had received such a large amount of money in merely three days. Let's suppose that there are 30 days in a month, and then the amount of gifts for the live streamer is 1,650,000 yuan per month. Normally, the platform would take 50% of the profits, and the guild she belongs to would take 30%. Therefore, the pre-tax monthly income of the live streamer is  $1,650,000 * 50% * 70% = 577,500$  yuan. Even when we assume that the No.1 on the weekly contribution list is her own guild, and subtract them from the total income, the pre-tax monthly income of the live streamer is still  $450,000 * 50% * 70% = 157,500$  yuan.

### **2.3. Sideline Industry**

Live streamers also model for advertisements and work as e-commerce providers. This is a great source of income for live streamers, especially in the early days of electronic contest. As the live streamer gradually becomes popular, commercial shows also become an important source of income. For example, the annual YY Festival provides a platform for the fans to meet their favorite live streamers.

## **3. A Close Examination of Personal Income Tax on Live Streamers**

### **3.1. The Live Streamer Is Signed by Live Streaming Platforms**

After the platform signs the live streamer, he/she becomes the staff of the platform. As there is an employer-employee relationship, the income obtained counts as salary. According to the provisions of article III of the Personal Income Tax Act of the People's Republic of China, tax is paid at the rate of 3% to 45%, withheld by the platform. As mentioned in the previous part, the platform provides signing fees for the live streamers. Such income should also be counted as salaries.

### **3.2. The Live Streamer Does Not Have Any Relationship with the Platform and There Is No Brokerage Company Involved**

The live streamer works independently. The company does not have his/her personal files, and he/she works as an independent labor. The personal income tax should be withheld and paid by the platform. According to the provisions of article II of the Personal Income Tax Act of the People's Republic of China, if the live streamer is paid no more than 20,000 yuan a month, he/she will pay tax at the 20% labor reward rate. If the live streamer is paid more than 20,000 yuan but no more than 50,000 yuan a month, he/she will pay tax at a 30% rate. If it exceeds 50,000 yuan, the tax rate would be 40%.

### **3.3. The Live Streamer Belongs to a Brokerage Company**

In one case, if the brokerage company regards the live streamer as an employee

of the company and signs a contract with the platform, the main parties of the contract are the brokerage company and the platform. The live streamer works on the platform in the name of the brokerage company. So, although the platform pays the live streamer, it is the brokerage company that pays the individual income tax. In another case, the brokerage company acts as an intermediary and introduces the live streamer to the live streaming platform. The contract signed by them is an intermediary contract. The live streamer does not work in the name of the brokerage company, nor does he/she belong to the platform. The live streamer broadcasts live in his/her personal image and name. The brokerage company does not bear the related risk or shoulder the related responsibilities. The platform only conducts a simple investigation into the live streamer. In this case, the income obtained by the live streamer also counts as remuneration for the service, and the personal income tax is withheld and remitted by the platform.

## **4. Difficulties of Taxation in the Live Streaming Industry**

### **4.1. The Live Streamer's Use of Net Name and Stage Name**

For example, like the [Blue Rain] Xiao beng mentioned in the previous part, you cannot get the real name of the live streamer on the live streaming platform. As a result, the tax authorities have no way to make sure whether the companies have withheld and remitted personal income tax for these live streamers or not, and whether they have paid personal income tax according to the tax rate. Using Jin San's personal income tax records and data analysis platform, we tried to check the personal income taxation records of YY's famous game live streamers Han X ying and Dong X feng, but on the above mentioned platforms, no relevant data could be found.

### **4.2. There Is No Uniform Standard for the Platform for Cash Withdrawals**

Audiences can give gifts to the live streamers by choosing Alipay, WeChat or bank cards, or even payment methods unique to the live streaming platform. Then, for the live streamers, income does not have to be withdrawn to the bank card. They can withdraw their income to different payment platforms. Therefore, the platforms for cash withdrawal are not the same. In this way, it is difficult for the taxation department to monitor the personal taxable income of the live streamers through the banking system, and it lacks other effective monitoring means. At the same time, citizens don't have enough awareness of taxation, and all the factors mentioned above result in a large amount of tax loss.

### **4.3. Diversified Forms of the Live Streamer's Income**

As mentioned earlier, in addition to the gifts reward income, the live streamer may also have commercial performance income, advertising income, and so on. For these incomes, the tax rate may not be the same. Also, it is also faced with

the problem of difficulties in supervising the actual tax collection and administration.

## **5. Research Conclusions and Assumptions**

### **5.1. Research Conclusions**

With the rapid development of the live streaming industry, the income level of the live streamers is rising rapidly. The income of the well-known live streamers can even be comparable to the first line of performing stars. But because the live streamers generally take the network name, stage names and other non-real way to live, the source of income had been hidden. It is difficult to supervise the income of live streamers because the tax authorities are in an inferior position of information collection in tax management. The tax authorities are always in the inferior position as they cannot obtain the symmetrical information. This is the root cause of problems and loopholes in the tax administration system [1]. Information asymmetry is a kind of regular restricting factor in the practice of tax collection and management; although it can't eliminate asymmetric information fundamentally, we can try to create conditions to mitigate the restriction of asymmetric information [2]. Therefore, the general idea of establishing a natural person tax collection system should be building up a tax administration system that realizes information symmetry and relies on the third party information.

### **5.2. Proposal: Constructing a Tax Administration System for the Live Streaming Industry**

#### **1) Establishing a live streamer personnel file to report to the tax collection and management department**

For live streamers working on live streaming platforms, the platforms should establish personnel files and associate their stage names with their real names. At the same time, they are required to make declarations of their live streamers' taxable earnings, and the live streamers whose income tax is withheld and remitted by the brokerage companies should be marked. These data should be reported to the tax collection and management department regularly to facilitate supervision and monitoring.

#### **2) Building a unified cash withdrawal platform to facilitate supervision of tax authorities**

Build a system in which live streamers are paid through bank accounts only, rather than through Alipay or WeChat or any other payment platforms that are difficult to monitor. Then the authorities can use the banking system to control the taxable income of the live streamers. Any money transferred to the live streamers' bank accounts through the live streaming platform should be regarded as the income obtained by the live streamers from the live streaming platform. In this way, the authorities can accurately monitor the live streamers' taxable income, and make sure that they pay their personal income tax in accordance with the personal income tax law.

### **3) Improving the two-way reporting system and the monitoring system of tax collection**

Firstly, a two-way declaration system should be established and improved. This system combines withholding and self-declaration, and in this system, the withholding agent and taxpayer should report the taxpayer's personal income and taxation status to the authority respectively, establishing a cross-check between them [3]. Also, we should further promote the detailed declaration of withholding and remittance, clarify the legal responsibility of the withholding agent, and require all legal persons who pay individuals to submit relevant forms and provide information to the tax authorities. Secondly, more attention should be paid to the implementation of the withholding and remittance regulations, which can be used in business training, in rewards and punishments and to strengthen supervision. The authority can establish a file management system for key taxpayers with high income, and actively supervise high-income live streamers to track and manage their taxation and give them reminders, to encourage key taxpayers to consciously report on their own taxation at the end of the year [4].

### **4) Constructing a third-party platform for the acquisition and application of tax-related information**

For live streamers that broadcast live on multiple platforms and gain profits from a range of diverse sources, it is difficult to supervise their taxation if the taxation authority works alone [5]. Therefore, it is necessary to establish a third-party information platform to carry out another kind of supervision from a different perspective. In light of the fact that there are still sectoral interests in our country, the construction of third-party information platforms led by the authorities is apt to get bogged down in "departmental disputes". Therefore, it is advisable for the government to plan and integrate independent and neutral national fiscal and taxation data centers, to collect, register, process and manage taxation information. In this respect, reference can be made to the E-TAX electronic system developed in Australia [6]. The Australian Taxation Office uses information networks to manage routine tasks such as tax declaration, export tax refunds, and document flow. Also, the federal tax office and state tax offices, tax administration systems and taxpayers, tax administration systems and finance, insurance, customs, courts, administrative judges and large enterprises have all achieved information sharing through an interconnected information network. A socialized information network can accurately use all relevant information to verify the authenticity of tax declarations. Apart from tax declaration, it is also used in tax-related consultations, tax assessments, and tax audits. This method of fully using external forces to implement socialized management can fundamentally control the loss of taxation and reduce the cost of tax collection. At the same time, the Australian Federal Taxation Office has established two data processing centers that are responsible for the collection, processing, analysis, and feedback of taxation information throughout the country, and has achieved

centralized and unified processing of tax information.

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