

Research on Tax Risks and Administration Arising from the Phenomenon of Tax Evasion by Celebrities

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Abstract

In recent years, several celebrity tax evasion incidents have been exposed, which has caused widespread discussions. As a high-income group, celebrities evade tax by a large amount, and their tax payment has become the focus of people's attention. This paper analyzes the impact of the phenomenon from the study of tax evasion by celebrities themselves, and the causes of tax evasion by celebrities through investigation, as well as the tax risk points in the process of tax payment by celebrities by combining with relevant professional literature. Finally, suggestions and countermeasures are put forward for the tax collection and management of celebrities.

Keywords

Celebrity Tax Evasion, Tax Risk, Theoretical Analysis, Governance Measures

1. Introduction

1.1. Research Background

In recent years, the tax evasion incidents of film and TV stars have been hotly debated. In 2021, Zheng Shuang was reported for tax evasion, and then the taxation department made a decision to recover tax, add a late payment fee and impose a fine totaling 299 million yuan according to the law. In 2022, Deng Lun was found to be suspected of tax evasion by the taxation big data analysis, and after the taxation inspection, Deng Lun was punished and paid back taxes totaling 106 million yuan.

China's taxation department attaches great importance to the taxation problems of the film and television industry and keeps issuing relevant documents to

regulate them, for example, the State Administration of Taxation issued the Notice on Carrying Out Comprehensive Governance in the Field of Culture and Entertainment in September 2021, which proposes that the personal studios and enterprises set up by celebrity artists and network anchors should be counseled to establish accounts in accordance with the law and declare taxes through checking and collecting, and regular tax Risk analysis, etc. Therefore, it is necessary to study the tax evasion behavior of celebrities, discuss and analyze their tax risks and make suggestions on tax collection and management of celebrities, to better strengthen the collection and management of celebrities and other high-income groups, prevent the tax evasion behavior of celebrities and reduce tax loss.

1.2. Literature Review

At present, there are many studies on tax evasion in the film and television industry in China. For example, Sun Zheng (2019) studied the deficiencies in the current tax collection and management system in China from the changes in the income structure of high-income groups in the film and television industry and clarified the current tax status of the main income of high-income groups in the film and television industry; Hu Liang (2020) analyzes the tax evasion cases of film and television industry employees to understand the causes and means of tax evasion, so as to summarize the improvement countermeasures for the tax collection and management problems of the film and television industry. Guo Hailong (2020) uses the thinking of big data to conduct data analysis, analyze the potential personal income tax risks, and implement the way of pre-filled levy management for high-income and high-net-worth natural persons to add the view of personal income tax levy management for them.

In summary, different scholars have analyzed the tax evasion in the film and television industry from multiple perspectives and put forward problems and corresponding countermeasures. In this paper, we analyze from the perspective of tax risk identification and put forward suggestions for tax collection and management.

2. The Impact of Tax Evasion by Celebrities

2.1. Reduce National Tax Revenue

As a high income earner, the most direct result of tax evasion by celebrities is the reduction of national tax revenue, and since income tax is the main source of national tax revenue, the illegal behavior of celebrities will lead to the loss of national tax revenue. The reduction of national tax revenue will also reduce the funds for social public goods and services, which will harm the interests of the public.

2.2. Undermine the Principle of Tax Fairness

China's taxation is characterized by the principle of fairness, in which vertical fairness indicates that the tax burden borne by different incomes is different, and the higher the income, and the higher the tax burden borne, the higher the tax

paid should be. Taxation has the function of regulating income distribution and promoting fairness, but the tax evasion behavior of celebrities leads to the destruction of the function of taxation. While ordinary low-income people pay taxes according to the law, high-income people such as celebrities evade taxes and pay less taxes than they should, which undermines the principle of tax fairness and causes serious tax injustice.

2.3. Increase the Cost of Tax Collection and Administration

In order to cover up the extra income obtained from tax evasion, celebrities will definitely spend a lot of manpower and financial resources to make the income seem legitimate. To check the tax evasion behavior of taxpayers, the taxation authorities will definitely increase the intensity of tax audits, expand the scope of investigation and punishment, and use big data technology to capture the suspected points of tax evasion of taxpayers, which will increase the workload of taxation authorities and increase the cost of tax collection and management.

2.4. Bad Social Influence

As public figures, celebrities have certain appeal and influence, and should convey positive power and guidance to the public. Their illegal behavior of tax evasion is a bad demonstration to the public, but also damages the national taxation interests, causing unfair tax burden and low efficiency of resource allocation, causing public resistance and bad social influence.

3. Identification of Tax Risks in the Process of Star Tax Payment

3.1. Establish an Organization to Convert the Nature of Income

Celebrities usually set up their own personal studios, and they can choose different forms of organizations to convert their income nature, such as self-employment, partnership, or corporation. The maximum tax rate for each of these forms is lower than the maximum personal income tax rate. Celebrities often convert high amounts of pure personal income into income from self-employment or business income to reduce their income tax liability. The studios are usually very small, with unsound books and confusing accounts, making it easy to transfer the personal income of the stars, and the studios can choose to pay taxes such as approved levies to minimize the tax paid.

3.2. High Personal Income not Legally Taxed

A star's income is high, usually including fixed salary obtained from contracted companies, commercial advertising fees, investment income, and personal studio income. In order to reduce the tax burden, they usually use the following illegal means: through shady contracts to conceal the real transaction amount, the explicit income will be reduced and the tax paid will be lowered accordingly; through investment to reduce the tax rate, for example, the star participates in

investment and converts the income into dividends or capital gains, which will lower the applicable tax rate of the income and thus reduce the tax; split the high single income and obtain it several times in different periods, which can reduce the income. The applicable tax rate can be applied several times, and tax incentives can be applied several times; after-tax income can be obtained directly, so that the payer of the film can pay personal income tax instead of the star. These tactics allow stars to evade a large amount of tax, resulting in the loss of personal income tax from the national tax.

3.3. Abuse of Tax Incentives

Stars usually register multiple shell companies in areas with tax incentives for the film and television industry, and use the companies under their names to transfer income and profits in disguise, thus evading corporate income tax. China's film and television tax avoidance resorts include Hainan Free Trade Port, Xinjiang Horgos, Zhejiang Hengdian, Jiangsu Wuxi, etc. These places have many tax incentives and large tax benefits. It is more difficult for the taxation department to supervise the income taxation of the stars and the companies under their names.

3.4. Change Taxpayer Status

Some celebrities even give up their current nationality to avoid taxes and join the nationality of a low-tax country to pay taxes in a low-tax country to reduce their tax burden. Celebrities are highly mobile in their performing arts activities and their income includes both domestic and foreign income. Taxpayers may take advantage of the differences between the implementation standards of different countries' tax jurisdictions to evade tax, and there is also the possibility of transferring personal assets to foreign countries with low tax rates or tax havens to escape the supervision and management of tax authorities.

4. Theoretical Analysis of Enhanced Levy Control for Celebrity Groups

4.1. Tax Fairness Perspective

Tax fairness means that the state should match the tax burden of taxpayers with their affordability, so that the burden level among taxpayers is balanced. Tax fairness is a prerequisite for taxpayers to maintain tax compliance. The tax evasion behavior of high-income people such as celebrities makes taxation unfair and aggravates the psychological imbalance of taxpayers, which to a certain extent will make taxpayers motivate and act the same way to evade tax. Strict penalties for celebrities can improve the tax environment and promote taxpayers' tax compliance.

4.2. Tax Compliance Perspective

Tax compliance refers to taxpayers' fulfillment of tax obligations by tax laws, and

timely and accurate declaration to the state. It means that taxpayers pay taxes on time and correctly, and comply with the management behaviors of taxation departments and their taxation enforcement officers under laws and regulations. The A-S model is the most representative among the theories of tax compliance. According to the A-S model, taxpayers' economic decisions are rational, and they will make tax risk trade-offs to maximize their benefits, and the A-S model conclusion is that the tax audit rate and the penalty multiplier are positively related to the amount of declared taxable income. This conclusion indicates that the higher the tax audit and penalty multiplier, the higher the penalty, and the better the prevention of tax evasion by stars.

4.3. Tax Risk Management Perspective

Tax risk management refers to the tax management activity which tax authorities reasonably allocate tax management resources to different tax risks of taxpayers, prevent and control tax risks, improve tax compliance of taxpayers and enhance the management level of tax authorities through various risk response means such as risk reminder and tax assessment. The theory should be applied in the department of taxation authorities, and tax authorities should scientifically identify, evaluate and audit the tax risks of film and TV stars according to the characteristics of the entertainment industry, and formulate efficient identification systems and preventive measures.

5. Governance Measures to Prevent Tax Evasion by Celebrities

5.1. Improve the Personal Income Tax System

At present, the taxation scope of individual income tax in China is small and cannot fully cover all types of star income. The taxable income items should be increased to expand and clarify the taxation scope, to give full play to the regulating function of individual income tax. In addition, the tax rate structure of individual income tax should be improved. Since the highest marginal tax rate of individual income tax is as high as 45%, which will stimulate taxpayers to change the nature of income for tax evasion. The national tax authorities can adjust the top marginal tax rate to reduce the tax burden on celebrities' high-income groups and reduce the occurrence of tax evasion by celebrities. The loopholes of the individual income tax system should be improved, and the check-and-tax method for celebrity individual business owners in the film and television industry should be continued and implemented.

5.2. Sound Tax Incentives for the Film and Television Industry

Many local governments have introduced many tax incentives for the film and television industry in order to promote local development, but these policies do not work as they should, and increase the probability of tax evasion by stars and their studios. Taxation departments should tighten the relevant tax incentives, strictly examine the eligibility of studios and companies for tax incentives, con-

duct regular book audits and tax assessments, and prevent tax evasion by stars from policy implementation. In addition, more tax incentives should be set to promote the high-quality development of the film and television industry, and tax incentives to attract investment and increase local government revenue should be abolished.

5.3. Increase the Penalty for Tax Evasion

From the theoretical analysis, it is known that increasing the penalty for taxpayers can inhibit the occurrence of tax evasion and enhance the tax compliance of stars, so the tax authorities should impose higher multiples of fines on taxpayers who deliberately evade taxes. In addition to this, penalties should also be imposed in other aspects, such as inclusion in the list of defaulters, prohibition of public activities for a certain period time, restriction of high spending, influence on leaving the country, etc. Only by limiting and punishing from various aspects of life and work and increasing the cost of violating the law can the occurrence of tax evasion be curbed, preventing stars from trying to opportunistically exploit the loopholes of the law and preventing the loss of tax money.

5.4. Use Big Data to Strengthen Collection and Inspection

China's taxation department should make full use of big data technology to establish a joint tax-related information sharing platform of various departments so that taxation authorities can cooperate with other departments and expand the information sharing surface so that all tax-related information and tax source information of stars can be completely monitored and key supervision can be carried out for people with abnormal data. It is also possible to establish the tax files of stars with high income, analyze the income information utilizing big data, and judge whether the scope of their economic activities, the distribution pattern of tax sources, income source channels, and tax information match, and compare the tax amounts of stars with the same level of income and the historical tax amounts of the same stars, which will help to accurately predict and grasp the changing pattern of tax sources, to more effectively carry out early warning of tax risks.. Big data can also be used to scientifically identify, evaluate and audit the tax risks of film and TV stars, and formulate efficient identification system and preventive measures.

5.5. Strengthen the Tax Compliance Awareness of Stars

Taxation authorities should regularly popularize tax law knowledge to film and television companies and star studios to make them clear about their tax obligations. Using the network media, short videos on the popularization of the law are made to promote and update the hot policies. When taxpayers have corresponding needs and questions about taxation services, set up special staff to answer the problems encountered in the process of taxation, timely announce the new policies of taxation law related to the film and television industry and in-

interpret the new policies for them, promote stars and their studios to actively and accurately declare their taxes, enhance their sense of responsibility to pay taxes according to the law and strengthen the tax compliance awareness of stars.

6. Conclusion

The fine incident of tax evasion by celebrities tells us that tax evasion is undesirable and one should fulfill the obligation of paying taxes according to the law and pay taxes on time. There are also various tax risks in the process of taxation of celebrity high-income group such as high personal income without compliance tax payment and abuse of tax preferential policies. Therefore, we propose to improve laws and regulations, use big data to strengthen supervision, increase the penalty of tax evasion and enhance the awareness of tax compliance of celebrities to strengthen the tax revenue collection and management of celebrity groups.

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Conflicts of Interest

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

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