



# Research on Optimization of Tax Administration of Customer to Customer E-commerce in China

Na Hu\*

College of Economics, Anhui University, Hefei, Anhui 230601, China

\*1966056984@qq.com

**Abstract.** In recent years, China's e-commerce industry has been developing rapidly, and the C2C e-commerce transaction mode has gradually penetrated into people's daily life, which has greatly promoted the development of China's economy. At the same time, it also brings new challenges to China's tax collection and management, and how to optimise the tax collection and management of C2C e-commerce has become a problem that needs to be solved in China. This paper firstly introduces the relevant theories of C2C e-commerce, including its concepts and characteristics; secondly, it describes the current situation of China's C2C e-commerce tax collection and management; again, it analyses the problems existing in China's C2C e-commerce tax collection and management; finally, it puts forward the relevant suggestions for improvement, with a view to promoting the healthy and sustainable development of China's C2C e-commerce.

**Keywords:** e-commerce; C2C; tax administration

## 1 Introduction

In recent years, online shopping has been favoured by people because of its convenience, and e-commerce transaction mode has been gradually integrated into various social strata and penetrated into people's daily life. C2C e-commerce is a very important part of the e-commerce market, but due to the covert and digital features of its transactions, as well as the lack of a perfect tax collection and management system to match with it, a series of problems in tax collection and management still exist. This paper focuses on the problems of C2C e-commerce tax collection and management in China, and proposes corresponding solutions in order to promote the healthy and sustainable development of C2C e-commerce in China.

## 2 Literature Review

Regarding the problems of tax collection and management of C2C e-commerce, Hale(2011)<sup>[1]</sup>pointed out that state governments have been challenged to balance the forces of technological change against fundamental decisions about governance and

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administration. Guan Li (2016)<sup>[2]</sup> argues that the information involved in e-commerce transaction activities is easily altered. Qin Xianwen, Liu Weiming (2014)<sup>[3]</sup> argue that e-commerce operators are not required to apply for tax registration, which does not match the traditional tax collection and management model. Dong Lei, Wang Xiangdong (2019)<sup>[4]</sup> pointed out that problems such as lagging tax legislation have brought new challenges to tax administration work.

Regarding the improvement of C2C e-commerce tax collection and management, Gao Ping (2013)<sup>[5]</sup> argues that cloud computing technical means should be fully utilised to efficiently supervise tax sources. Lu Dongyang and Wang Xinqi (2020)<sup>[6]</sup> proposed that virtual goods such as information should be included in the scope of taxation. Li Qian (2020)<sup>[7]</sup> pointed out that on the basis of improving the tax collection and management system, it is necessary to strengthen the cultivation of complex talents for tax authorities. Diao Jingjing, Qin Jun (2020)<sup>[8]</sup> argued that the informatisation of the tax collection and management system should be increased. Yin Qiuxia (2022)<sup>[9]</sup> pointed out that the registration system should be improved and the tax jurisdiction should be clarified. Josep (2020)<sup>[10]</sup> argues that tax collection laws and regulations should be improved to prevent tax loss.

### 3 Theories Related to C2C e-Commerce

#### 3.1 The Concept of C2C e-Commerce

E-commerce is an online transaction mode realized with the help of the Internet. e-commerce transaction mode can make the time and space boundaries of the transaction subject become more and more fuzzy, saving the time and transaction costs of both parties in the transaction. c2c e-commerce is a very important part of e-commerce field, i.e. "Customer to Customer", which represents the transaction of goods between individuals and individuals through online platforms. C2C e-commerce is a very important part of e-commerce, i.e. "Customer to Customer", which represents the transaction of goods between individuals and individuals through online platforms, where buyers and sellers utilize Internet platforms to conduct transactions, and sellers usually need to pay a certain amount of membership fee to the platform, and consumers can browse the goods they want to buy on the platform, and make payments through third-party payment platforms after selecting the goods, and sellers arrange for shipment of the goods upon receipt of the order, and deliver the goods to consumers through logistics platforms. Through the logistics platform will be delivered to the hands of consumers. Currently there are many C2C sites on the Internet, Taobao is such a model.

#### 3.2 Characteristics of C2C e-Commerce

##### *Flexibility in the Way Transactions are Conducted*

C2C e-commerce transaction mode, buyers and sellers are no longer subject to the restrictions of time and location, at any time and any place can be goods and services transactions, compared to traditional trade can only be traded in a fixed location, timed to open and close, C2C e-commerce transactions are more convenient and flexible. At

the same time, with the continuous development of China's economy, the internationalization of trade is deepening, and the internationalization of C2C e-commerce transactions has become an inevitable trend.

### ***Transaction Data Is Hidden***

C2C mode of buyers and sellers through the online virtual platform for transactions, transaction settlement, transportation of goods and after-sales service, etc. are carried out online, unlike the traditional trade model, the seller is often no physical store, all the transaction processes are completed on the online virtual platform, the transaction environment has a virtual nature. At the same time, C2C e-commerce transactions are mostly paperless transactions, transactions usually leave only electronic vouchers, the existence of the seller sells goods but does not give each other invoices, the transaction data has a strong hidden.

### ***Electronic Payment of Money***

Relying on Alipay, online banking and other third-party payment platforms for monetary payments, C2C e-commerce transaction mode realizes the electronic payment of money. Different from the traditional trade mode, C2C e-commerce transaction mode, buyers and sellers do not need to sit down to negotiate the signing of the contract, but also eliminates the checking of bills and other cumbersome processes, which saves a certain amount of labor costs and time costs, and can promote the realization of the transaction to maximize the benefits.

## **4 China's C2C E-Commerce Tax Collection and Management Status Quo**

The Law of the People's Republic of China on Electronic Commerce provides that "e-commerce operators shall fulfill their tax obligations in accordance with the law" and that "e-commerce operators shall issue paper invoices or electronic invoices for the sale of goods or provision of services". At the same time, the law also states that "even e-commerce operators who do not need to register as market entities shall pay taxes in their transactions in accordance with the law". Although the law clearly stipulates that e-commerce operators should pay taxes, the relevant laws and regulations are not very detailed and systematic, and the possibility of taxpayers avoiding taxes is still large. Under the background of digital economy, China's C2C e-commerce is developing rapidly, because of its convenient and flexible characteristics, it gradually penetrates into people's daily life, and occupies a place in the trade system. The prosperity of C2C e-commerce industry, in addition to playing an important role in pulling China's economic growth, also provides more jobs to the society, which is conducive to easing the pressure of employment and maintaining the stability of the society. With the continuous development of C2C e-commerce, China's C2C e-commerce tax collection and management also made some optimization adjustments accordingly, but the effect is

not significant. As C2C e-commerce has the characteristics of concealment and virtualization, the phenomenon of tax evasion is endless, and the scale of tax loss is also on the rise year by year, and the shortcomings of the current tax collection and management model are becoming more and more prominent, and it is unable to meet the needs of supervision.

## **5 Problems in Tax Collection and Management of C2C E-commerce in China**

### **5.1 Inadequate Legal System**

The E-commerce Law of the People's Republic of China came into force on January 1, 2019, which focuses on the regulation of the e-commerce field, although there is a reference to the e-commerce operators have tax obligations, but there is no detailed tax collection and management regulations, in the C2C e-commerce tax collection and management, China is still a lack of relevant laws. Although the E-commerce Law and the Measures for the Administration of Network Transactions require e-commerce operators to carry out tax registration, there is no clear explanation of the conditions of registration, and a unified standard has not yet been formed, which makes many e-commerce operators do not know whether they want to carry out tax registration, and leads to a lot of taxpayers outside of the tax collection and management. Moreover, the tax department has no unified standard and lacks legal basis when taxing C2C e-commerce operators, which makes the legality of taxing challenged. In recent years, China has introduced a series of tax policies on e-commerce, but there has not yet been a more detailed description of the C2C e-commerce sector. The inadequacy of the legal system makes the tax authorities lack institutional safeguards when collecting taxes, and it is easy for the tax authorities to have internal disagreements on whether, what and how much to tax, which is not conducive to subsequent supervision.

### **5.2 Difficulty in Identifying Elements of the Tax System**

First, it is not easy to define the subject of taxation. Although the law stipulates that qualified e-commerce operators need to carry out tax registration before they can carry out transactions, however, in practice, tax registration is not a mandatory procedure, and the conditions for tax registration have not been uniformly stipulated. Secondly, it is difficult to determine the basis for tax calculation. The electronic data can be easily altered, the authenticity of the data is difficult to ensure, and the operators are individuals, the accounting system is often not sound, the tax department can not accurately determine the basis of taxation; third, it is difficult to determine the place of taxation; C2C e-commerce transactions are carried out through the online virtual platform, which makes the concepts of time and space become more and more fuzzy; fourth, it is difficult to classify the object of taxation. Under the C2C e-commerce model, operators sell not only traditional goods and services, but also some digital products. At present, there

is still much controversy over whether digital products should be classified as traditional goods or intangible goods for VAT purposes.

### **5.3 Low Level of E-Commerce Business of Tax Officials**

At present, for C2C e-commerce this new industry, tax officials on its business processes, operational mechanisms and other understanding is not sufficient, which also for taxpayers to avoid paying taxes provides a certain operating space, there is the possibility of taxpayers to use this asymmetry of information to hide the income.

## **6 Conclusions**

The rapid development of information technology has given rise to e-commerce as a new mode of transaction, and C2C accounts for a large part of it, and plays an important role in promoting economic growth, but as mentioned above, the tax loss of China's C2C e-commerce industry is more serious, and the tax collection and management needs to be improved urgently, in order to promote the healthy and sustainable development of China's C2C e-commerce, this paper puts forward the following suggestions for improvement in the targeted manner:

### **6.1 Improvement of the Tax Legal System**

The tax authorities should join hands with other relevant departments to supplement and amend the inadequacies of existing tax laws. For example, the tax and industry and commerce departments can work together to establish a tax registration system for e-commerce, stipulating that e-commerce operators must first register for tax purposes before they can conduct business. At the same time, e-commerce platforms should require operators to provide their tax registration certificate numbers and verify with the relevant departments to confirm that the operators have completed tax registration before they are allowed to operate on the platforms, so as to ensure the smooth progress of C2C e-commerce tax collection and management through multi-party collaboration.

### **6.2 Clarifying the Elements of the Tax System**

Firstly, it is clear that C2C e-commerce is the subject of taxation. The subject of taxation is all individual operators engaged in e-commerce. It is necessary to determine the authenticity of their identity information, which can be identified through networking with the systems of the public security organs if necessary; secondly, it is necessary to clarify the basis for tax calculation. Collaboration between tax authorities and third-party payment platforms can be strengthened by requiring third-party platforms to audit the authenticity of C2C e-commerce trading activities and share the collected data with tax authorities; third, clarify the place of taxation. Although the online virtual platform is invisible and intangible, the server is tangible, so the tax location can be determined

according to the location of the server; fourth, clarify the tax object. The scope of taxation should be optimised and adjusted to include digital products such as e-books and emerging commodities such as game equipment and live streaming vouchers, and to refine their classification.

### 6.3 Fostering a tax complex

It is necessary to improve the business level of tax personnel in the field of e-commerce and further cultivate tax complex talents. In the actual operation process, tax personnel can be organised to learn e-commerce knowledge and help them fully understand the operation mechanism of e-commerce. At the same time, tax authorities should strengthen the collaboration with e-commerce enterprises and third-party payment platforms to achieve interoperability.

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