Research on Tax Risk Management for High Net Worth Population in the Context of Digital Economy

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Abstract. This article takes the digital economy era as the background and analyzes the tax avoidance methods of high net worth individuals in China through case studies. Based on the research results of domestic scholars, it analyzes from the aspects of strengthening intelligent identification of tax risks, improving data management, and enhancing the professionalism of tax personnel, and proposes suggestions for improving the tax risk management of high net worth individuals.

Keywords: digital economy; High net worth individuals; risk management;

1 Introduction

In recent years, China's digital economy has made tremendous achievements, such as the continuous development of new technologies such as cloud computing and AI, which have gradually integrated into various fields, promoting the development of different industries. Taxpayers have made tax declaration more convenient, and the tax supervision methods of tax authorities have become more intelligent. But it also brings great challenges to the tax collection work of tax authorities.

Tax risk management refers to the process of taxpayer tax compliance risk management, which identifies taxpayers at risk through a tax risk management system and implements key tax supervision and tax collection management[1]. Since the reform of the tax sharing system, China has been continuously exploring new management systems. Since 2009, a pilot tax risk management system has been piloted. After more than 20 years of continuous development, the "Golden Tax Phase IV" has opened up new development space for tax risk management, and building a "digital tax" tax supervision pattern has become the next development goal. This is an important measure to achieve high-quality development of the tax industry during the 14th Five Year Plan period. In this context, tax bureaus across the country have joined the exploration of smart taxation, striving to improve the effectiveness of tax risk management.The tax authorities can identify taxpayers with risks through the tax risk management system, and then carry out targeted management of taxpayers. At the same time, they can also identify potential risks, strengthen monitoring of tax sources, and prevent the loss of tax revenue. The current number of high net worth individuals is showing a significant increase trend. They have multiple sources of income, operate funds in many fields, and have

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diversified tax avoidance methods. With the advancement of globalization, the frequency of economic and trade exchanges has increased, which undoubtedly provides high net worth individuals with more tax avoidance opportunities. Therefore, for tax authorities, their tax supervision is more complex and tax management is more difficult. in the context of the digital economy, in order to reduce the loss of tax revenue in China, play the role of tax regulation in income, narrow the wealth gap, and improve tax risk management, the problem of tax avoidance for high net worth individuals urgently needs to be solved.

Many scholars in China have conducted analyses from two different perspectives: Firstly, regarding the tax avoidance methods and reasons for high net worth individuals.

The research group of the State Taxation Bureau of Dalian Economic and Technological Development Zone (2013)[2] believes that multinational taxpayers can achieve tax avoidance through offshore trusts, setting tax havens as the place of company registration, and hoarding profits. Dong Lei and Wang Xiangdong (2018)[3] believe that due to the insufficient tax concession system in China, high net worth individuals are more willing to stay in the local area through profits or establish controlled companies in tax havens, thereby paying less taxes. Due to the uncertainty of people and time, Youjia (2019) [4]Trust can delay the payment of taxes, making it a common tax avoidance method for high net worth individuals. Han Yu and Sun Jiazheng (2014)[5]believe that in order to reduce tax loss, tax compliance risk management for high net worth individuals should be strengthened. However, China's awareness of tax risk management for high net worth individuals is still weak. Shen Shanhong (2022)[6] pointed out that corresponding risk testing models should be used to assess the risk of information declared by taxpayers, and then ranked according to the risk level, in order to carry out targeted tax counseling and tax inspections. Han Yu and Sun Jiazheng (2014)[7] believe that in order to reduce tax loss, tax compliance risk management for high net worth individuals should be strengthened. However, China's awareness of tax risk management for high net worth individuals is still weak.Li Jing (2021)[8] believes that in the context of the digital economy, due to the tax authorities not fully utilizing advanced technology, there are often problems such as lack of intelligent risk identification and failure to comprehensively analyze high net worth individuals when dealing with tax risks.

To sum up, although China's tax risk management for high net worth individuals is constantly improving, there are still many urgent problems that need to be solved. Based on the actual situation in China, this article will propose practical and feasible suggestions from the perspectives of tax authorities and high net worth individuals.

2 Case Introduction

In 2021, the Hangzhou Municipal Taxation Bureau conducted an investigation into the live streaming industry with high tax risks and found that the live streaming sales queen, Huang Wei (Weiya), had underpaid in taxes. She was subsequently asked to rectify the situation multiple times, but there has been an incomplete rectification. Finally, the tax authorities conducted an in-depth investigation and found that Huang Wei was fined twice the amount of 116 million yuan underpaid in transforming her income form.

2.1 Case Analysis

According to tax reports from tax authorities, it can be seen that Huang Wei signed agreements with live streaming platforms multiple times between 2019 and 2020 through her own sole proprietorship or invested partnership enterprises to transfer the labor remuneration obtained from her live streaming sales to the company's account. To some extent, her main goal is to achieve the goal of underpaying taxes. For well-known hosts like Huang Wei, who can earn sales commissions, slot fees for goods entering the live broadcast room, and fan tips of hundreds of thousands or millions through each live broadcast, a 40% tax rate is applicable when declaring and paying personal income tax based on labor remuneration. If they sign an agreement with the live broadcast platform through their own studio, they will pay personal income tax based on their operating income, with a maximum tax rate of 35%. At the same time, if the studio meets the conditions for auditing and collection, a lower tax rate will be applied. assuming that Huang Wei can earn 2 million yuan from a live broadcast without considering other taxes, deductions, and final settlement, she needs to pay 633000 yuan of personal income tax based on labor remuneration and 473500 yuan of personal income tax based on operating income (20% of expenses). By changing her income form, she can achieve a tax underpayment of 159500 yuan.

2.2 Analysis of Anti Tax Avoidance Basis

Based on the above analysis of the purpose of Huang Wei's establishment of a studio, it can be seen that the essence of this case is a tax avoidance case that converts labor remuneration income into operating income. This is mainly because, firstly,Although the live streaming platform has signed an agreement with Huang Wei's studio, the reason why merchants can pay high fees to have their products appear in Huang Wei's live streaming room is mainly due to its high social influence. According to the regulations on the scope of labor remuneration in State Taxation Office Document No.1996 148, Huang Wei provided her personal influence rather than studio influence during this process. Therefore, the entry fee obtained should be subject to personal income tax based on the labor remuneration. In addition, the large-scale sales of goods mainly rely on Huang Wei's introduction of the goods rather than the studio itself, which falls within the scope of labor remuneration income. Therefore, the sales commission obtained should be subject to personal income tax according to the labor remuneration income; Secondly, Huang Wei established both sole proprietorship and partnership type studios, most of which were established in 2019 and 2020, and the sole proprietorships did not have registered capital. At the same time, the partnership enterprises she participated in have now been dereegistered. From these, it can be seen that the main purpose of her studio establishment may be to better transform the form of income, rather than to continue operating through the studio.

3 Inadequate Tax Risk Identification by Tax Authorities

3.1 The Tax Authorities Lack Intelligence in Identifying Tax Risks

Insufficient mastery of advanced technology makes it difficult to automatically and effectively analyze existing data[9], making it difficult to identify high net worth individuals outside of the enterprise, thereby preventing the use of risk identification technology and increasing the possibility of tax loss. At the same time, the potential tax risks rely more on the experience and judgment of tax personnel, as well as insufficient depth of risk analysis for complex matters.Failure to fully utilize advanced technology to establish models and insufficient integration of data analysis methods with tax business not only results in low efficiency, but may also lead to inaccurate risk analysis, resulting in high net worth individuals engaging in tax avoidance behavior.

3.2 Incomplete Data During Risk Management

due to the complexity of information, taxpayers often use various transaction methods to conceal their true transaction intentions[10], resulting in low quality information obtained by tax authorities. a mechanism for managing tax related information for high net worth individuals has not yet been established. Tax authorities mainly obtain property information through self declaration or withholding agents, and a portion is obtained through third-party information. the quality of data obtained is not high, making it difficult to integrate all of a person's property information, thereby affecting the efficiency of tax administration. In the context of big data, due to the different quality control standards for data collected by different departments, in the past, data missing issues could be detected in a timely manner through manual processing.

3.3 Low Professionalism of Tax Authorities

The development of the digital economy era has brought a large amount of data, requiring tax personnel to have higher professional knowledge and business level,Tax authorities should continuously learn new professional knowledge in order to better apply it in practice. High net worth individuals have experienced and knowledgeable tax evaders, who can keep up with the development of the times and explore new tax avoidance methods, making tax avoidance methods more specialized. Due to the impact of policy lag, existing grassroots tax personnel lack professional knowledge reserves and in-depth understanding of new tax risk management concepts. In practical operations, it is often difficult to use professional equipment for risk analysis and establish efficient tax risk warning mechanisms, resulting in some high net worth individuals avoiding risk identification and increasing the possibility of tax loss.

3.4 The tax collection and management system is not sound

At present, the collection methods of personal income tax in China are self payment and withholding and payment. The form of withholding and payment of taxes on wages and salaries minimizes the possibility of tax evasion. However, self declaration mainly relies on the taxpayer's tax awareness, tax ethics, and other influences, resulting in serious tax loss in this part.The collection of personal income tax is mainly the responsibility of local tax authorities, but there are many taxes that local tax authorities are responsible for collecting, not just personal income tax. Therefore, local tax authorities cannot focus on handling the collection and payment of personal income tax.

4 Conclusion and Improvement Suggestions

4.1 Enhancing Intelligent Recognition Capabilities

Risk identification and risk monitoring are important components of tax risk management[10].Using artificial intelligence for risk analysis, based on the salary, job position, and other information of high net worth individuals, the property information of high net worth individuals is imported for risk identification. Then, risk levels can be ranked and a risk database can be established. The system can collect various tax related information from taxpayers, analyze and integrate them, Screen out taxpayers with tax risks, then rank the risk levels of taxpayers, and the tax authorities will focus on monitoring these involved personnel.

4.2 Improve Tax Related Data

Realize information sharing, establish an information sharing database for high net worth individuals, and clarify the responsibilities of each department. Emphasis should be placed on investigating high net worth individuals with high tax risks. In addition to self declaration by taxpayers, tax authorities can also use third-party channels to obtain information, expand the scope of information collection, and ensure the integrity of information.On the basis of fully utilizing CRS, continuously compensating for the risk of asset leakage of high net worth individuals during the information exchange review process, in order to maximize the effectiveness of information exchange.

4.3 Enhancing the Professionalism of Tax Personnel

National tax authorities should scientifically allocate tax personnel and attach importance to the construction of tax risk teams. In the era of big data, tax authorities should train a team of Internet tax risk management talents, select and train complex talents with rich experience in tax management and big data analysis, regularly train tax risk management personnel with professional knowledge, learn tax risk assessment models, and identify potential risk taxpayers. In addition, tax personnel can be trained to better understand the tax avoidance methods of high net worth individuals and their tax planning directions, in order to formulate response measures and reduce the occurrence of tax avoidance behavior.

4.4 Improve the tax collection and management system

To increase the proportion of income tax in our country, we must pay attention to the issue of personal income tax loss, especially for high net worth individuals. As personal income tax is levied by local tax authorities, a specialized department can be established within the local tax authorities to deal with the collection and payment of personal income tax. A tax department mainly targeting high net worth individuals and low - to middle-income groups can be set up to supervise taxpayers, with a focus on those who have one or more instances of tax evasion. Secondly, improve the information sharing mechanism, strengthen the connection between departments, and establish an efficient tax management information sharing platform. Finally, increase efforts to promote the consequences of tax evasion.

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