

China's Practice of Tax Gap Analysis

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Why we do this

- **Conducive to the establishment of a unified and standardized financial transfer payment system**
- **Conducive to the scientific establishment and effective implementation of the tax revenue budget**
- **Conducive to improving the quality and efficiency of tax collection**
- **Conducive to promoting the tax system reform**

Why we do this (continued)

- **Improve the revenue target management:**
 - **Objectively determined**
 - **Scientifically allocated**
 - **Reasonably adjusted**
 - **Accurately assessed**

Tax Gap Analysis Approaches

- **Top-down Approach:** Based on macroeconomic data, we use Input and Output Model(IOM) or Stochastic Frontier Model(SFM) to estimate the gap of indirect tax
- **Bottom-up Approach:** Based on micro-data, we use Microanalytic Simulation Model(MSM) to estimate the gap of direct tax

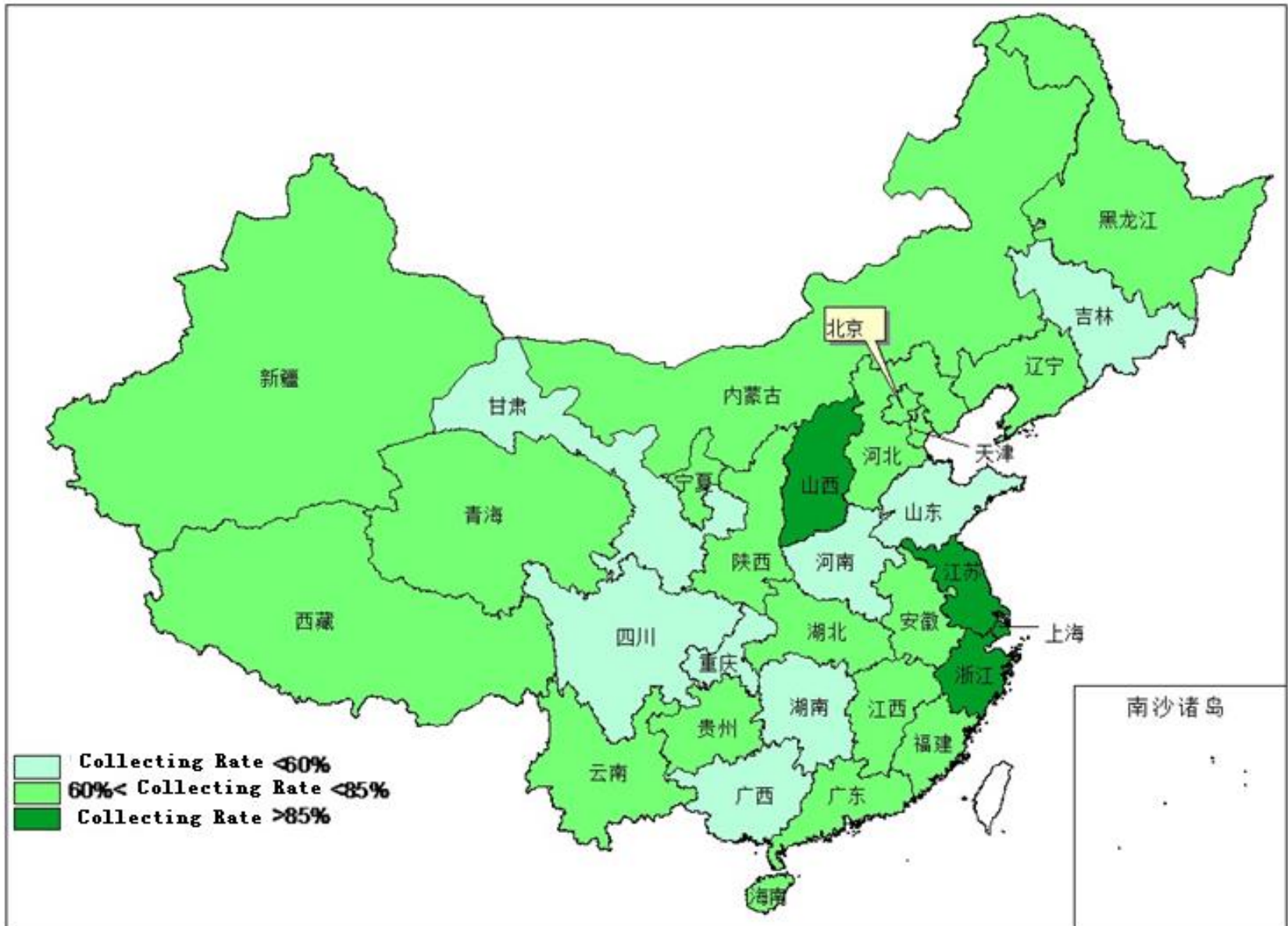
Top-down Approach

- **we estimate the VAT gap, which is relatively simple. We complete whole country and 31 regions of the VAT erosion estimation.**

Total VAT Loss Rate



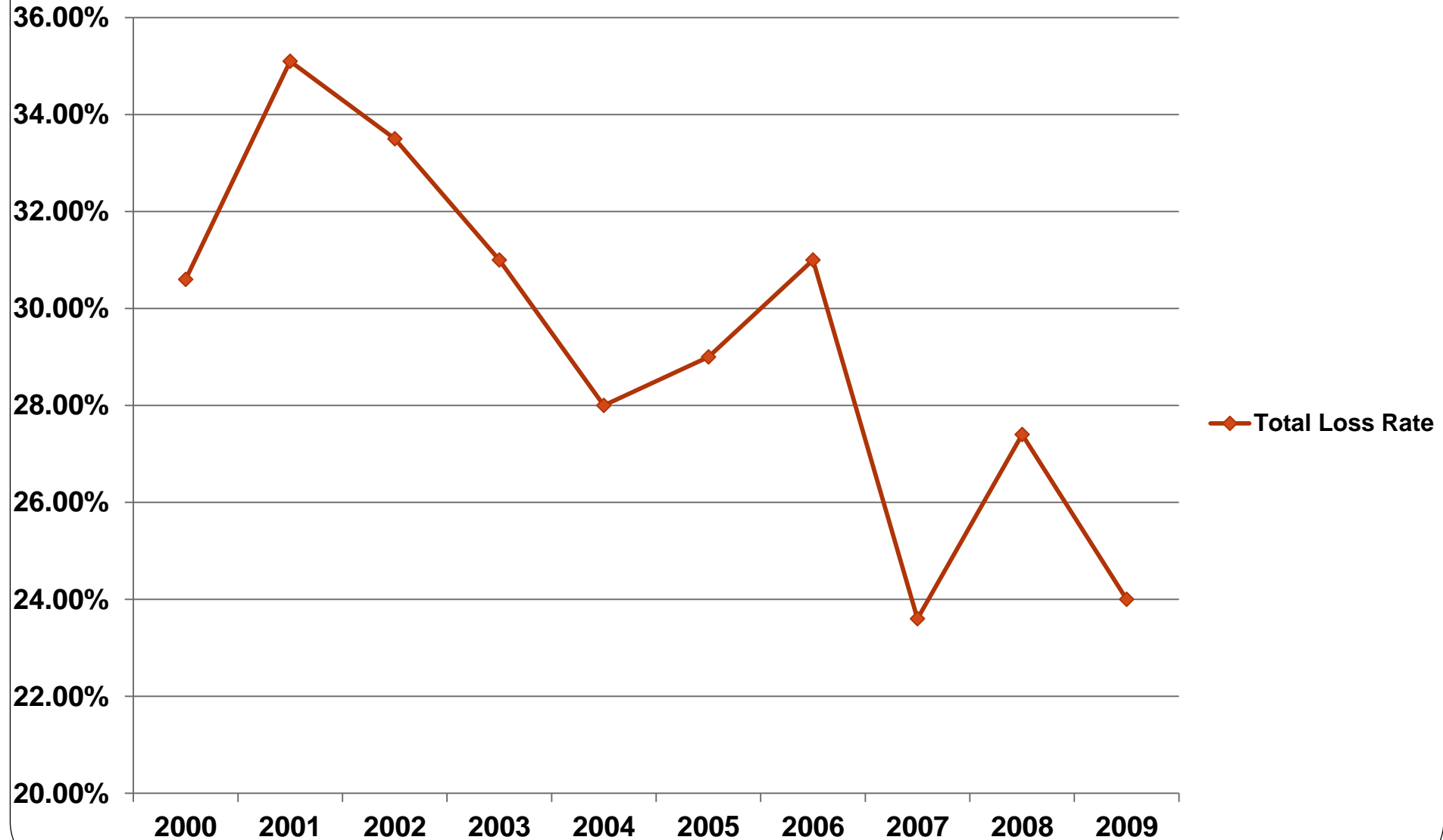
VAT Collecting Rate of 31 Regions



Top-down Approach (continued)

- **Based on the experience of the VAT gap estimation, we use SFM to calculate the loss of total tax revenue**

Total Loss Rate



Bottom-up Approach

- **We use microanalytic simulation model(MSM) to carry out the enterprise income tax loss estimation in some areas:**
 - **Random sampling**
 - **Audit**
 - **Statistical inference**

Comparison

- **Top-down approach**
 - **Advantages**
 - data acquisition
 - more intuitive
 - less cost
 - **Disadvantage**
 - rely on national economic accounting and other macroeconomic data
 - the regional statistical standards are not entirely consistent
 - not suitable for more complex taxes

Comparison (continued)

- **Bottom-up approach**
 - **Advantage**
 - accurate estimation process
 - wide application range
 - reliable estimation results
 - **Disadvantage**
 - difficult to get micro-data
 - human factors exist in the audit process

- Thank you!