

# Research on the Problems and Countermeasures of Tax Collection and Management of Internet Finance: Illustrated by the Example of P2P Online Lending Platform

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## Abstract

Peer-to-Peer (P2P) online lending platform is an important field for Internet Finance tax administration. In this paper, a series of related problems are brought out, including laws and regulations lagging behind economic development, weak consciousness of individual self-declaration, opaque data on P2P platforms, difficulty in defining regulatory bodies, and irregular accounting procedure. To this end, the researchers put forward following suggestions: establishing a sound real-name transaction system and registration system; establishing an information-sharing mechanism with financial regulatory agencies and credit rating agencies; defining P2P online lending platforms as individual income tax withholding agents; standardizing the accounting procedure of the platforms' current funds; applying the blockchain technology to electronic invoice management.

**Key words:** Internet Finance; Tax collection and management; P2P; Online lending platform

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## INTRODUCTION

With the repaid popularization of internet technology, Internet Finance, as a new field that combines traditional finance with internet technology, is developing in a booming way. The sub-category of Internet Finance, such as P2P online loan, crowdfunding, third-party payment, big data in finance, digital currency, have shown tremendously innovative vigor. Take P2P online loan as an example, the number of platforms rapidly increased in China in 2012. By 2018, China had 7703 P2P online loan platforms. However, the corresponding tax administration was strongly impacted at the same time, with such problems as, laws and regulations lagging behind economic development, weak consciousness of individual self-declaration, opaque data on P2P platforms, difficulties in defining regulatory bodies, and irregular accounting procedure. The above problems of the P2P online loan industry are the epitome of the tax administration challenge caused by the whole Internet Finance industry. Therefore, this paper will take P2P online loan as an example to deeply analyze the situation and problems in tax administration, and explore pertinent advice.

## 1. LITERATURE REVIEW

Internet Finance not only solves the financing difficulties of small and micro enterprises, but also makes investment channels more diversified, and deeply influences the original financial pattern (Yan, 2015). However, due to the virtuality of transactions on the Internet Finance, the invisibility of transaction subjects, the paperless transaction process and the cheapness of transaction costs, the traditional financial tax policies are no longer suit for Internet finance, which leads to a large number of supervision loopholes in the tax administration of Internet Finance industry in China.

Some relevant literatures discussed the tax administration of Internet Finance have shown that

Internet Finance business activities cannot be declared and paid the tax voluntarily (Bian, etc. 2014; Geng, 2016), Internet Financial service platform cannot efficiently fulfill the obligation of withholding and payment (Yu, 2016), the concealing of the transaction causes difficulties in tax source supervision (Cheng, 2016), unclear jurisdiction of the tax cadastre (Liu, 2016), etc.

To this end, scholars at home and abroad put forward their suggestions: incorporate tax administration of Internet finance into top-level design (Kong, 2016); strengthen cooperation with industry and commerce, financial supervision and other administrative departments, formulate corresponding policies and measures, and utilize the Internet to reduce information asymmetry (Ye, 2015); improve tax registration of Internet Financial participants and promote informatization (Liu, etc. 2015; Wu, etc. 2015); At the same time, some scholars tried to use the optimal tax theory to construct the Internet financial tax system (Qian, 2015).

At present, most of scholars' researches mainly analyze the tax collection and management of Internet finance from macro perspective, and a few researches on P2P only focus on mode, risk and supervision, while there are few literatures on tax collection and management. The innovation of this paper lies in the intensive study on the tax collection and management of Internet finance combined with the example of P2P online loan platform. In view of these problems, relevant tax collection and management strategies are put forward scientifically.

## 2. STATUS OF TAX COLLECTION AND MANAGEMENT OF P2P ONLINE LOAN PLATFORMS

Since the issuance of *The Guidance on Promoting the Healthy Development of Internet Finance* (hereinafter referred to as *Guidance*) in 2015, relevant regulatory documents have been issued constantly. The P2P online loan industry in China has completely left the period of unregulated growth, which has resulted in the raised threshold and more stringent compliance inspection of the industry. As of 2018, the P2P online loan platforms had a cumulative number of 7703, with 1363 basically normal operating.<sup>1</sup>

The P2P online loan attracts borrowers due to its small amounts, fast lending and simple procedures, and attracts lenders due to its high return. Therefore, the transaction volume increased year by year. In 2017, the transaction volume was up to RMB3895.235 billion. Resulted from the "Thunder" incident, the transaction volume in 2018 fell to RMB1936.633 billion, but it was still a big number.<sup>2</sup>

<sup>1</sup> Data source: www.p2p001.com

<sup>2</sup> Data source: www.p2p001.com

Large transaction volume was supposed to bring in a lot of tax revenue, but it brought in large tax loss. The P2P online loan, as a sub-category of Internet finance, belongs to finance in essence, but it relies on Internet technology, and has the characteristics of transaction virtuality, transaction subject concealment, paperless transaction process and low transaction cost. It was these characteristics that distinguished P2P from the traditional financial industries, and made their tax collection and management face with the problems described in the following paragraphs, leading to tax evasion eventually.

## 3. PROBLEMS OF TAX COLLECTION AND MANAGEMENT OF P2P ONLINE LOAN PLATFORMS

### 3.1 Laws and Regulations Lag Behind Economic Development

The lag of laws was highlighted by the rapid development of the P2P online loan, the cumbersome and time-consuming legislative process. The relevant tax management regulations for the Internet finance P2P online loan have not yet been issued, so it is difficult to implement effective tax collection and management for P2P platforms, and the tax elements cannot be clarified. The problems of tax collection and management of the P2P online loan platforms is different from the traditional situation, which makes the original tax laws and regulations leaky.

### 3.2 Weak Individual Awareness of Self-Declarations

In the actual transaction, both borrowers and lenders are mostly individuals or individual businesses, whose awareness of self-declaration of interest income tax is relatively weak. Moreover, due to the geographical dispersion and large number of individuals, it is difficult for tax authorities to supervise and manage them, and the awareness and enthusiasms of individual self-declarations will be even less, which is not conducive to the tax payment.

### 3.3 Opaque P2P Platform Data

Internet finance has the characteristics of concealment and virtuality. Some transaction data on the platforms will not be publicly disclosed. Even if they are, it is difficult to distinguish the authenticity of the data. The existing platforms such as Renrendai, Yirendai, generally only disclose annual financial auditing reports. Some detailed transaction data cannot be verified by tax authorities. Even if it is disclosed or reported, the huge transaction volume will bring high tax cost to tax authorities.

### 3.4 Unclear Supervision Subjects

The convenience of network makes the P2P transaction

free of regional restrictions. Borrowers and lenders are all over the country and even around the world. The funds are generally transferred by third-party payment. The borrower and lender may come from different regions, which leads to a cross-region transaction, making it difficult for tax authorities to determine the place where the taxable behavior occurs and which tax authority exercises the tax jurisdiction.

### **3.5 Irregular Accounting**

The P2P platform accounting is complicated, and there are not clear accounting standards. According to the financial auditing reports disclosed by the P2P online loan platforms, there are differences in accounting standards of different platforms. When accounting online transactions, some platforms will reflect them in accounts. Due to the small amounts and frequent transactions, this method will be more cumbersome. While some platforms only consider service fees and other expenses when accounting because they don't handle the loan transaction funds.

## **4. COUNTERMEASURES AND RECOMMENDATIONS**

### **4.1 Establishing and Improving the Real Name System and Registration System for Transactions**

Every P2P Online Loan Platform must report its web address, server address and legal entity's real information to the tax authorities before conducting the business. Tax authorities identify the taxpayer's qualification, so as to clarify the platform's tax status and place, and overcome the problem of its tax territorial management. In view of the common problem of tax collection and management in Internet finance - transaction concealment, so the real name system is indispensable. When a transaction occurs, the platform must strictly review the real identity information of both borrower and lender, monitor the capital flow, and record the transaction data in the tax authority. In order to ensure efficiency and security of data transmission, the tax authorities should strengthen the construction of software and hardware of network information system, maintain and update the system timely as well.

### **4.2 Establish Information Sharing Mechanism With Financial Regulators and Credit Agencies**

The application of the Internet emerging technology brings challenges to tax collection and management as well as opportunities. The application of big data makes financial regulators and credit agencies have a strong ability of data collection and analysis. Tax authorities should seize the technology dividend, and establish information sharing mechanism with financial regulators and credit agencies to grasp the data changes, operation trends and other relevant information of the P2P industry comprehensively and accurately, so as to timely improve the matching legal

system of tax collection and management, and weaken the problem that laws and regulations lag behind the economic development.

### **4.3 Clear and Define the P2P Online Loan Platform as Withholding Agent of Personal Income Tax**

In the P2P loan transactions, most of the borrowers and lenders are individuals or individual businesses. If the borrower withholds and pays the individual income tax corresponding to the interest income of the lender, one is that the borrower is lack of ability or enthusiasm, the other is that the borrower is geographically dispersed, which will lead to high tax cost. At this time, the P2P loan platform should be defined as individual income tax withholding agent. First of all, the platform has participated in every loan transaction and has comprehensive transaction data. The flow of funds must pass through this platform, so it has the ability to bear the withholding responsibility. Secondly, the platform information is put on record by the tax authorities, so it can reduce the tax cost and facilitate the tax management by acting as the withholding agent.

### **4.4 Standardize the Accounting of Platform Transaction Funds**

According to the *Guidance*, the third-party custody system shall be implemented for customer funds. Therefore, the P2P online loan platform does not need to reflect the capital transactions between the borrower and the lender in the accounting accounts, but only needs to account for the brokerage fees, such as charges, service fees, etc. This approach is in line with the definition of relevant accounting elements in the accounting standards for business enterprises, which will not make the financial statements misleading data, and the accounting processing steps are simpler and more feasible, so as to make the accounting system in P2P online loan industries reasonable and unified, and facilitate the tax collection and management.

### **4.5 Apply Blockchain Technology to Electronic Invoice Management**

The emergence of e-invoice plays a positive role in promoting "tax control by invoice", and the application of blockchain technology in e-invoice management is equivalent with the icing on the cake. The features of blockchain technology, such as decentralization, collective maintenance and information transparency, can solve the problems of repeated reimbursements and false entry of electronic invoices, and ensure that the data of electronic invoices cannot be tampered with. For every transaction, the electronic invoices issued by the taxpayer on the blockchain records the transaction information data. Information such as invoice issuing, deduction and entry can be stored on the chain and queried in its whole life cycle. The application of blockchain technology in electronic invoices management can enable tax authorities

to obtain tax related information efficiently, solve the problem of information asymmetry between tax collectors and payers, and reduce the tax handling costs of tax collectors and payers. This will greatly promote the tax collection and management of the P2P loan industry and even the whole Internet finance industries.

## CONCLUSION

The popularity of P2P online loans will not decline under the background of strong support from the state for Internet Finance and the financing difficulties of small and medium-sized enterprises. In addition, with the introduction of management measures on P2P online loan platforms, the P2P online loans have entered a period of small quantity but high quality. But in the aspect of tax collection and management, there are still many challenges, such as the opaque information and unclear laws. If we overcome these problems, it will help to standardize the P2P industry. The development of tax collection and management will be promoted by the promulgation of laws and regulations, the improvement of credit mechanism, the application of blockchain technology and so on. Therefore, improving the tax collection and management system of the P2P online loan needs the joint efforts of the government, P2P online loan industries and more scholars.

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