

BRIGHTURE NEWSLETTER

Special Edition

September, 2025

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BRIGHTURE, 22 Years in financial and tax services

Mission Statement :

Add value to clients by professionalism, be a respected financial consultant

Vision :

Be a leader in financial service sector and a century business

Values :

Always focus on the clients and serve them with professionalism, integrity and efficiency

At present, China's tax governance is undergoing profound transformation—from “experience-based tax administration” to “invoice-based tax control,” and further toward “data-driven taxation” and “intelligent taxation.” The deep integration of technology and institutional reform is propelling tax collection and administration toward greater precision, intelligence, and rule of law. This process not only reshapes the domestic tax environment, but also raises new requirements for cross-border taxation practices. This newsletter focuses on the core recent changes in China's tax environment, with particular attention to how big-data-enabled intelligent taxation strengthens the supervision of preferential policies, and explores its implications for cross-border tax practice through practical scenarios.

1 Core trends in China's tax environment: governance modernization driven by technology

China's tax system continues to evolve along two central themes: “optimizing the business environment” and “ensuring tax fairness”. In recent years, a new tax administration system—“driven by tax big data and supported by smart taxation”—has been accelerating. Its core characteristics can be summarized in three aspects:

1.1 Data as a core resource of tax governance

China has built a comprehensive tax big data platform covering all tax categories, processes, and stages. It integrates internal tax data (such as VAT, corporate income tax, and individual income tax filings) with external data (from market supervision, customs, the foreign exchange bureau, real estate management, civil affairs, etc.), forming a data asset with “full coverage, real-time updates, and cross-validation.”

For example, the Golden Tax Phase IV system, built on cloud computing, big data, and artificial intelligence, achieves precise profiling through “One-Household 2.0” (a full life-cycle data portrait of enterprises) and “One-Person File” (a panoramic view of individual tax information).

1.2 Intelligent supervision shifting from “passive response” to “proactive warning”

The former tax administration relied solely on post-filing audits. At present, tax authorities use algorithmic models (such as related-party transaction analysis, abnormal indicator detection, and industry benchmark comparisons) to implement end-to-end management—“pre-filing alerts, in-process monitoring, and post-event tracing.”

For instance, when an enterprise shows abnormal profit fluctuations or cost ratios deviating from industry standards, the system automatically triggers a risk alert and pushes it to the competent tax authority for verification.

1.3 Implementation of preferential policies shifting from “broad-brush” to “targeted delivery”

In recent years, China has introduced a series of preferential tax policies to support small and micro enterprises, high-tech enterprises, and technology-based SMEs (e.g., preferential CIT rates for small and micro businesses, R&D expense super deduction, and environmental equipment investment credits). Whether these benefits are precisely delivered depends on balancing “full entitlement” with “fraud and abuse prevention.” Hence, tax authorities adopt “tag-based” management (assigning digital labels such as “small micro enterprise,” “high-tech enterprise,” “R&D enterprise”) and “intelligent matching” (automatically identifying whether enterprises meet policy conditions), thereby enabling “one-click verification” and “precise push” of preferential policies.

2. Intelligent oversight of preferential policies: three typical cases

The precise supervision of preferential policies is a key focus of China's intelligent tax transformation. Below, we analyze the regulatory logic and practical highlights of three representative preferential policies (small and micro enterprises, R&D super deduction, and bilateral tax treaty benefits).



2.1 Small and micro enterprises: from “manual judgment” to “automated data verification”

Small and micro enterprises are core beneficiaries of corporate income tax relief policies (from 2023–2027, the portion of taxable income up to RMB 3 million enjoys an effective tax burden reduced to 5%). The eligibility criteria involve three indicators: **Annual taxable income ≤ RMB 3 million, Number of employees ≤ 300, Total assets ≤ RMB 50 million**

Smart regulatory logic:

- 1) **Number of employees:** Automatically calculated via “cumulative reported employees” or “monthly average employees” from the individual tax system, cross-checked against CIT return data. Large discrepancies trigger warnings.
- 2) **Total assets:** Extracted automatically from financial statements, calculated quarterly averages, ensuring traceability.
- 3) **Taxable income:** Taken directly from annual CIT (Form A) filings, reconciled with quarterly prepayments.

If any indicator fails, the system **blocks policy** application at filing and notifies the enterprise. Near-threshold enterprises (e.g., profits over RMB 2.8 million, assets over RMB 45 million) are flagged as “key monitoring objects.”

Main policy basis:

- 1) Preferential Tax Policies for Small and Micro Enterprises and Individual Businesses (MOF & STA Announcement No. 6, 2023)
- 2) Implementation Issues of Inclusive Tax Reductions for Small and Micro Enterprises (STA Announcement No. 2, 2019)

2.2 R&D super deduction : from “record-filing” to “post-audit + dynamic monitoring”

The R&D super deduction is a core policy supporting technological innovation. Under the latest rules (since 2023), all industries except six (tobacco, accommodation & catering, wholesale & retail, real estate, leasing & business services, entertainment) may deduct 100% of actual R&D expenses in addition to regular deductions; if capitalized as intangibles, amortization is allowed at 200% of cost.

Smart regulatory tools: primarily based on post-event sampling, risk modeling, and data cross-checking

- 1) **Industry benchmark model:** Built-in reference ratios for R&D intensity (R&D expenses vs. revenue). Significant deviations without justification trigger key audits.
- 2) **Linkage between R&D projects and outcomes:** Continuous high claims without patents, prototypes, or new products may suggest “pseudo-R&D.”
- 3) **Related-party transaction analysis:** For intra-group allocations of R&D expenses (such as a parent company charging service fees to its subsidiaries), the tax authorities will examine whether these transactions comply with the arm’s-length principle and whether there is any profit shifting through inflated pricing or artificial inflation of R&D costs.
- 4) **Special audits and spot checks:** Local tax authorities conduct annual “special audits on R&D super deduction claims”, verifying the authenticity of R&D activities through on-site inspections and reviews of timesheets, R&D logs, meeting minutes, and other records.

Main policy basis:

- 1) Further Improving R&D Expense Super Deduction Policy (MOF & STA Announcement No. 7, 2023)
- 2) Issues on R&D Expense Super Deduction Policy (STA Announcement No. 97, 2015)

2.3 Bilateral tax treaty benefits: from “record-filing” to “cross-border collaborative supervision”

China has signed DTAs with 114 countries and regions, covering nearly all major economies. Recently, tax authorities have shifted from “formal record-keeping” to “substantive compliance,” focusing on preventing treaty abuse (e.g., conduit companies exploiting low tax rates).

Smart regulatory tools:

1) Beneficial ownership identification: Based on STA Announcement No. 9, 2018, authorities analyze shareholding structures, actual controllers, and income nature to assess whether claimants are genuine “beneficial owners.” For example, dividend withholding tax is generally 10%, but some treaties reduce it to 5%. Authorities may require foreign enterprises applying for treaty benefits to provide organizational charts, articles, audit reports, lease contracts, etc., to prove eligibility.

For example, dividends are generally subject to a 10% withholding tax. However, under certain bilateral tax treaties signed by China, a lower rate—such as 5%—may apply. To verify eligibility for such treaty benefits, the Chinese tax authorities may require foreign enterprises claiming the reduced rate to provide documents such as shareholding structure charts, articles of association, audit reports, and lease agreements, in order to determine whether they qualify as the beneficial owner and are entitled to the preferential rate.

2) Deep application of CRS information exchange: Since 2018, China has participated in the Common Reporting Standard (CRS), enabling the automatic exchange of bank account tax information with 108 countries and regions. Through CRS, the tax authorities can obtain information on overseas accounts held by Chinese resident enterprises (such as deposits, investments, and insurance policies) and, by cross-checking with treaty benefit applications, verify whether there is any hidden offshore income or profit shifting.

3) Cross-border profit level monitoring: Leveraging the ‘Profit Level Monitoring System’ (a practice under the BEPS 2.0 framework), the tax authorities analyze transactions between enterprises and their related parties (such as transfer pricing and intangible asset pricing). If the pricing of related-party transactions is found to deviate from market levels—for example, where a Chinese subsidiary pays high royalties to an overseas affiliate despite having minimal R&D investment—the authorities may initiate a special tax adjustment.

Main policy basis:

- 1) Issues on Beneficial Ownership in Tax Treaties (STA Announcement No. 9, 2018)
- 2) Due Diligence on Non-Resident Financial Accounts (MOF, STA, PBOC, etc. Announcement No. 14, 2017)
- 3) Improving Related-Party Filing and Contemporaneous Documentation (STA Announcement No. 42, 2016)

3. Recommendations for Global Tax Professionals

The essence of China’s intelligent tax transformation is balancing “fairness” and “efficiency” through technological and institutional innovation. For cross-border tax professionals, the following trends require close attention and strategic adjustment:

- 1) Data compliance as core competitiveness:** Enterprises must establish full-process data management systems, ensuring consistency between tax filings, financial data, and operational data (e.g., retaining timesheets, equipment usage, procurement vouchers for R&D deductions) to avoid risk triggers caused by “data silos.”
- 2) Need for enhanced policy tracking:** China’s tax policies change frequently, and intelligent regulatory models (e.g., Golden Tax Phase IV algorithms) are continuously updated. Professionals shall obtain timely interpretations via official channels or specialized institutions.
- 3) Preparing for cross-border collaborative supervision:** For transactions under tax treaties, compliance considerations should be embedded at the design stage (e.g., preserving economic substance documentation, improving transfer pricing files) to reduce dispute risk.

Conclusion

China's tax governance is rapidly transforming from a "management-oriented" model to a "service-oriented" and "intelligent" one. Driven by big data and AI, tax administration is not only becoming more efficient but also enabling precise delivery of preferential policies, thereby creating a more transparent, fair, and predictable business environment.

For tax professionals, understanding the "technological logic" and "policy logic" behind this transformation is increasingly important. Only by keeping pace with these trends can professionals provide forward-looking compliance advice, effectively mitigate risks, and uncover new opportunities in cross-border tax services.

We remain committed to staying at the forefront of policy and technological developments—turning complexity into clarity, and challenges into support. If you would like to further discuss this topic or related issues, please feel free to contact us by email.

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Brighture was incorporated at the beginning of 2003 and has been committed to provide domestic and foreign enterprises with financial outsourcing, legal, audit and business services. Our mission is to provide clients with high quality tax services and tailored solutions to meet their different needs, while building trust and long-term partnership with them.

In 2015, Brighture became a member of Kreston Global, the 13th largest accounting network in the world. We not only provide services for domestic clients, but also provide resource docking and service assistance for other clients from all over the world based on our international vision and local resources.

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We provide domestic and foreign enterprises with financial, tax, legal, audit and business services leveraging our 22 year's experience. It is a prudent decision to cooperate with a time-honored consultant with international vision, local resources, one-stop solutions, a member of Kreston Global which is the 13th largest accounting network in the world.

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