

# Comparative Analysis of the Tax Burden Level of RCEP Countries

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**Abstract:** *The tax burden level of the host country is an important factor influencing the location of foreign investment. The successful signing of the Regional Comprehensive Economic Partnership Agreement is of great significance to RCEP countries. It is of great significance to promote the negotiation of regional multilateral tax treaties. Therefore, it is necessary to actively promote the negotiation of tax treaties between China and other RCEP countries, form a regional tax coordination mechanism, and create a transparent and stable environment for Chinese enterprises' foreign direct investment to achieve low-cost and high-efficiency regional trade. At the same time, it is necessary to speed up the establishment of a tax preferential policy system for China's foreign direct investment, reduce the tax cost of enterprises' foreign direct investment, and effectively reduce the tax burden of multinational investment enterprises.*

**Keywords:** *Regional Comprehensive Economic Partnership, Tax Burden Level, Foreign Direct Investment*

## 1. Introduction

On November 15, 2020, the 4th Regional Comprehensive Economic Partnership (RCEP) Leaders' Meeting was held in video mode. After the meeting, the 15 Asia-Pacific countries including China, Japan, South Korea, Australia, New Zealand and 10 ASEAN countries formally signed "Regional Comprehensive Economic Partnership Agreement." The "Regional Comprehensive Economic Partnership Agreement" (RCEP) was initiated by ASEAN in 2012 and was successfully signed over eight years. The agreement was drawn up by 15 members including China, Japan, South Korea, Australia, New Zealand and the ten ASEAN countries. The achievement of RCEP will provide a huge opportunity for Chinese companies to explore the global market. As the world's largest free trade zone, RCEP provides sufficient market capacity for Chinese companies.

To study the taxation level of RCEP countries, the first thing to analyze is the tax burden level of each RCEP member country. The tax burden level of the host country is an important factor in the choice of foreign investment location, because the tax burden level directly reflects the economic costs that multinational companies should bear. The host country's high level of tax burden will increase the operating costs of multinational investment companies, reduce investment profits, and reduce the inflow of foreign capital. The low level of tax burden in the host country will bring tax benefits to multinational investment companies, and low operating costs will increase investment income and encourage foreign businessmen to make profit reinvestment decisions. Therefore, the author believes that the tax rate, the ratio of tax revenue to GDP, and the ratio of income tax and profit tax to commercial profits are key factors to measure the level of a country's tax burden.

## 2. Analysis of the Total Tax Rate of Rcep Countries

The article adopts the percentage of the total tax paid by enterprises in various countries to their commercial profits as the total tax rate indicator calculated by the World Bank. Generally speaking, the lower the tax rate, the stronger the attraction of foreign direct investment; the higher the tax rate, the weaker the attraction of foreign direct investment.

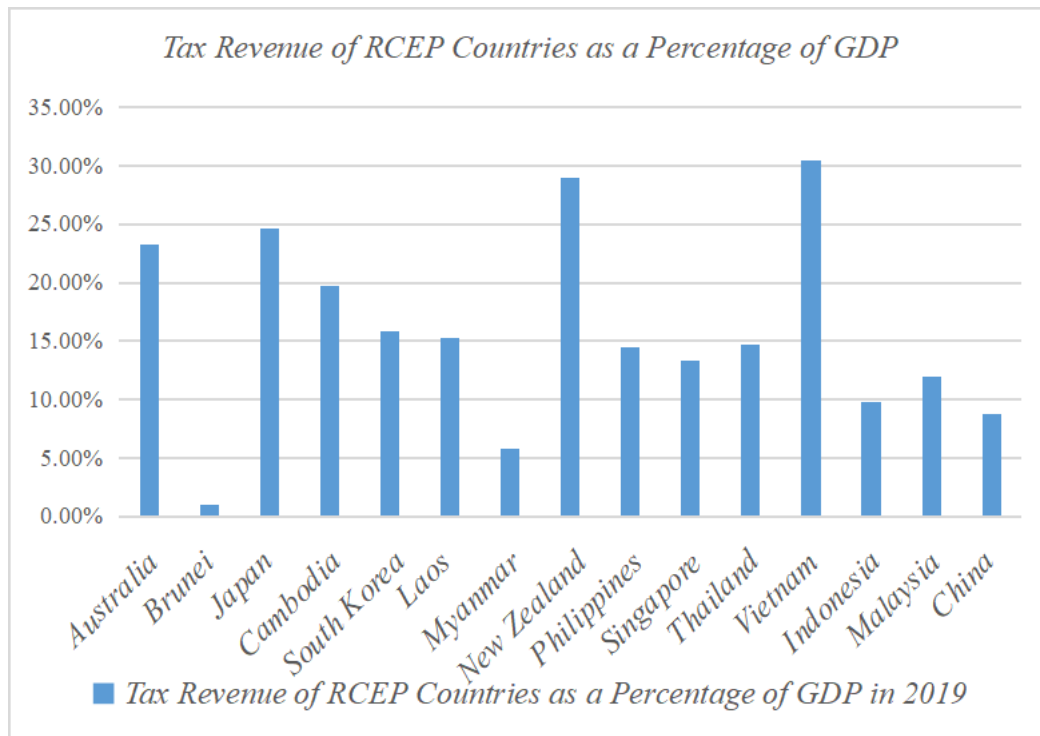


Figure 1: Comparison chart of the total tax rate of RCEP countries in 2019

Data Sources: <http://data.worldbank.org/indicator/IC.TAX.TOTL.CP.ZS?> View=chart

It can be seen from Figure 1 that Brunei, Singapore, and Cambodia have relatively low total tax rates. These three countries have similar characteristics, that is, their land area is small, and their political situation is stable. The governments of these three countries also attach great importance to attracting foreign investment, which provides a certain guarantee for Chinese multinational investment enterprises in terms of taxation policies. It is worth mentioning that both Brunei and Cambodia attach great importance to attracting foreign investment through low tax rates. The Brunei government is trying to diversify its domestic industrial structure by attracting foreign investment to develop domestic innovative industries and high-tech industries. The Cambodian government hopes to gradually carry out its domestic infrastructure construction by attracting foreign investment, change poverty and backwardness, and improve the living standards of residents.

The Singapore government is committed to maintaining the competitiveness of corporate tax rates and assisting in attracting foreign investment. This is because Singapore's domestic market is limited and its economy is highly export-oriented. Therefore, Singapore's overall tax rate has been maintained at a relatively low level.

It is obvious that the total tax rates of Japan, Australia and China are relatively high. As we all know, Australia's social welfare is very high. The social welfare comes from state fiscal expenditure, and most of the state fiscal revenue comes from tax revenue. Therefore, high welfare means high tax revenue. Australia's personal income tax is as high as 45%, and corporate income tax has also reached 30%.

Japan is a country dominated by direct taxes, and the taxes imposed include corporate tax, income tax, consumption tax and alcohol tax, etc. Among them, consumption tax and income tax are the core taxes in Japan, and the consumption tax rate has been continuously increasing in recent years. As we all know, Japan has entered a society with an aging population. With the pressure of an aging population, Japan has also had to improve the social welfare of the elderly, resulting in a high total tax rate.

It can be seen intuitively from Figure 1 that China's total tax rate is the highest among the 15 RCEP member states. The two main categories of taxation in China are income tax and turnover tax. Income tax is divided into personal income tax and corporate income tax. Turnover tax is the tax paid during the circulation of goods, including value-added tax and consumption tax. In China, turnover tax is divided into various links such as commodity production, circulation and sales. It can be said that turnover tax runs through the daily life of Chinese residents and the daily business activities of Chinese enterprises. But in fact, since 2013, China's tax rate has been showing a downward trend. First, the value-added tax rate has been gradually reduced. The basic value-added tax rate has been reduced from

17% since 1994 to 13% in 2020. The second is to abolish the differential treatment of domestic and foreign corporate income tax, and reduce the statutory corporate income tax rate from 33% to 25%.

### 3. Tax Revenue as a Percentage of Gdp

The proportion of tax revenue to gross domestic product (GDP) can intuitively reflect the proportion of tax revenue in a country's GDP. Taxation is an important part of government revenue and expenditure. The higher the ratio of fiscal expenditure to GDP, it means that the government has a higher degree of control and the market plays a lower role. If the tax revenue of a country's government is too high and the country's government can use its fiscal revenue reasonably, it will bring about a greater improvement in the country's infrastructure construction and social welfare and people's livelihood. However, for multinational investment enterprises, taxation accounts for too high a proportion of GDP, which means that enterprises are levied too much tax. It is bound to dampen the production vitality and investment enthusiasm of enterprises. The company is likely to have insufficient stamina for development. Correspondingly, entrepreneurs will reduce the cost of R&D expenditures, which is not conducive to the long-term development of enterprises.

As can be seen from Figure 2, Brunei and Myanmar have relatively low tax revenues as a percentage of GDP. Brunei's economic pillar is the oil and gas industry, and the only taxes imposed are corporate income tax, oil profit tax and stamp duty, and the tax rate is very low, so tax revenue is naturally not much. From the perspective of Myanmar's GDP composition, agriculture is Myanmar's pillar industry and the foundation of Myanmar's national economy. Agriculture is related to the livelihood and welfare of a country. Therefore, most countries in the world do not levy excessive taxes on agriculture. And Myanmar's industry is still in the initial stage of focusing on light industry, and the tourism industry has yet to be developed. Therefore, Myanmar's economic activity is relatively low, which explains why Myanmar's tax revenues accounted for only 5.81% of GDP in 2019.

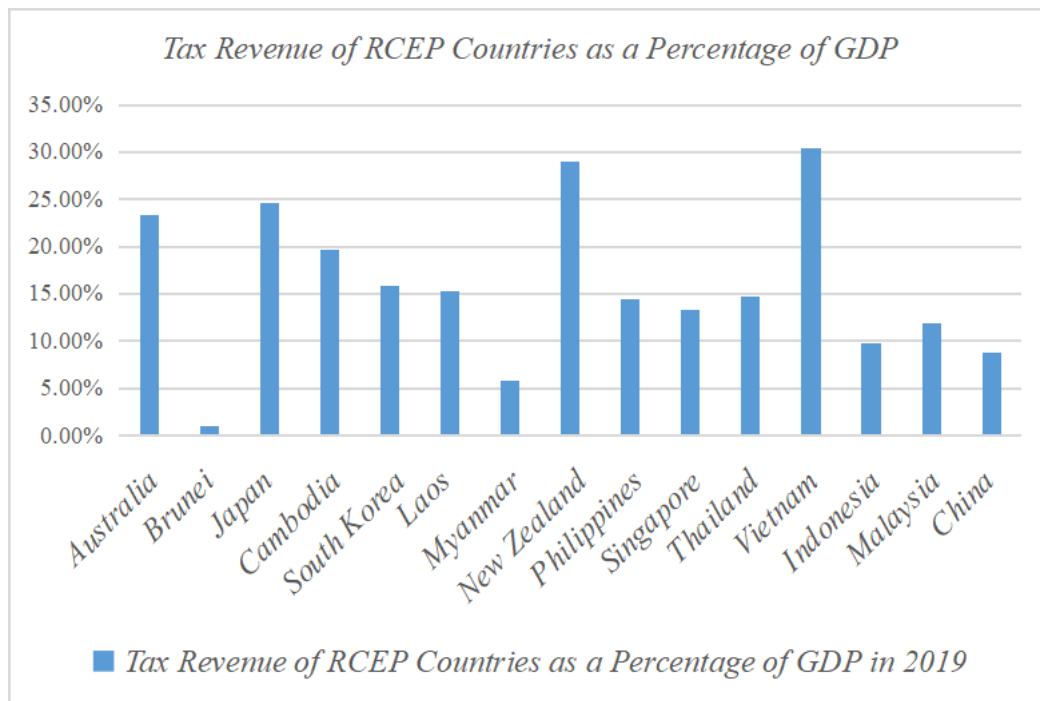


Figure 2: Tax revenue of RCEP countries as a percentage of GDP in 2019

Data Sources: <https://data.worldbank.org.cn/indicator/GC.TAX.TOTL.GD.ZS?view=chart>

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tourism industry has yet to be developed. Therefore, Myanmar's economic activity is relatively low, which explains why Myanmar's tax revenues accounted for only 5.81% of GDP in 2019.

The three countries, Japan, New Zealand and Vietnam, have relatively high tax revenues as a percentage of GDP. As we all know, New Zealand is also a country with high social welfare. In recent years, the New Zealand government has been plagued by fiscal deficits caused by high social welfare. Japan has entered a society with an aging population, and the pressure on social welfare such as old-age care is increasing. As a result, the tax revenues of New Zealand and Japan remain high as a percentage of GDP, and may even continue to rise.

In 2000, due to the low degree of economic development and fewer commercial activities and trade exchanges, Vietnam's tax revenue accounted for only about 10% of GDP. With the development of the economy, Vietnam's tax revenue as a percentage of GDP has reached 30.45% in 2019. Unlike New Zealand and Australia, Vietnam's increase in tax revenue as a percentage of GDP precisely reflects the rapid development of Vietnam's economy and the overall improvement of the economic and business environment.

#### 4. Profit Tax as a Percentage of Commercial Profits

The article adopts the World Bank statistics as a measure of the ratio of profit taxes paid by companies in various countries to commercial profits. Generally speaking, the lower the ratio of profit tax to commercial profits, the stronger the attractiveness of foreign direct investment. Conversely, the higher the ratio of profit tax to commercial profits, the lower the attractiveness of foreign direct investment.

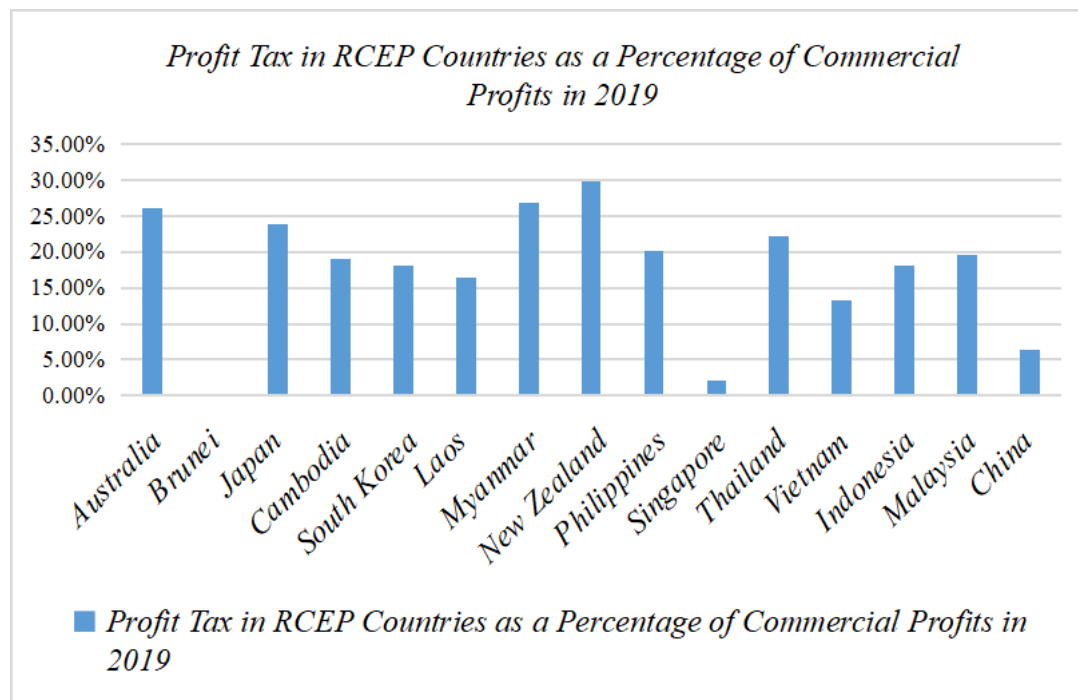


Figure 3: Profit Tax in RCEP Countries as a Percentage of Commercial Profits in 2019

Data Resources: <https://data.worldbank.org.cn/indicator/IC.TAX.PRFT.CP.ZS?view=chart>

As can be seen from Figure 3, Brunei and Singapore have a relatively low ratio of profit tax to commercial profits. Generally speaking, the lower the profit tax as a percentage of business profits, the more attractive it is for foreign direct investment. Obviously, Brunei and Singapore share the same characteristics, that is, the two countries have small territories, and their political situations are stable. Singapore's domestic market is limited and the economy is highly export-oriented, so there is not much taxation on profits. Brunei's domestic industry is relatively single, trying to attract foreign investment through low tax rates and develop domestic high-tech industries in order to achieve the goal of diversifying its domestic industrial structure.

The three countries, Australia, New Zealand and Myanmar, have relatively high percentages of

business profits in profit taxes. Both New Zealand and Australia are highly developed countries with abundant natural resources, complete infrastructure and a good business environment. The development of the commercial economy will surely bring about an increase in tax revenue. Thus, the tax revenues of New Zealand and Australia are more derived from profit tax.

However, Myanmar is a country dominated by agriculture, and its international business environment needs to be improved, and there is still a great possibility for economic development. The transportation infrastructure in Myanmar is relatively backward, and the transportation of goods mainly relies on road and inland water transportation. In addition, due to ethnic and religious conflicts, Myanmar's overall infrastructure construction is not sound enough. The underdeveloped commodity economy and insufficient national fiscal revenue will also result in high profit tax rates.

## 5. Conclusions

RCEP countries have a common feature, that is, the real economy occupies a dominant position in the economic system of these countries. The 15 member states include high-, medium-, and low-end industrial countries in the real economy, as well as resource-rich countries with abundant resources. The industrial chains of the member states are basically at a complementary level. According to the agreement, these 15 countries must fully open their markets to each other. In this way, RCEP countries constitute a huge and unified trade network. It unifies the mutually beneficial standards among member states and forms a solid multilateral trading system. This has made a significant contribution to promoting the negotiation of regional multilateral tax treaties. Therefore, it is necessary to actively promote the negotiation of tax treaties between China and other RCEP countries, form a regional tax coordination mechanism, and create a transparent and stable environment for Chinese enterprises' foreign direct investment to achieve low-cost and high-efficiency regional trade.

In the face of the COVID-19, the daily operating activities of Chinese multinational investment companies have been greatly affected. At the same time, it is necessary to speed up the establishment of a tax preferential policy system for China's foreign direct investment, reduce the tax cost of enterprises' foreign direct investment, and effectively reduce the tax burden of multinational investment enterprises. The tax systems of RCEP member states are very different. Therefore, it is necessary to encourage the establishment of tax consulting service agencies for multinational investment enterprises to provide enterprises with reasonable and legal tax planning plans, effectively prevent various tax risks of enterprises in foreign direct investment, and effectively reduce the level of tax burden of Chinese enterprises.

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