

Analysis of Tax System Optimization from the Perspective of Tax Evasion Cases Involving Public Figures

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Abstract. Taxation constitutes a primary source of fiscal revenue for many countries. In recent years, there has been a surge in instances of celebrities engaging in tax evasion. The fundamental driver behind such behavior lies in the pursuit of personal interests. Despite hefty fines and the jeopardization of careers for some individuals, others continue to employ tactics such as signing "yin-yang contracts" to evade taxes. As public figures in the entertainment industry, their actions prompt societal reactions. This paper explores how a nation can navigate the taxation system to mitigate tax evasion among high-income groups in the entertainment industry. The aim is to leave them with no recourse, fostering a cleaner social atmosphere and enabling public figures like celebrities to play a leading role in society. Starting with the harmful effects of celebrity tax evasion, this paper delves into classic cases, analyzing the issues within China's taxation system and presenting relevant recommendations.

Keywords: Public Figures; Tax Evasion; Tax System.

1. Introduction

In recent years, the continuous development of China's economic and social spheres, coupled with the populace's pursuit of an improved quality of life, has led to increased demands beyond basic necessities. The rapid development of the entertainment industry, driven by the wave of Internet and financial industry growth, is a response to these evolving societal needs. However, concurrently, there has been a recurring issue of practitioners within the industry resorting to various means to evade taxes, with each instance involving substantial amounts. Despite the National Taxation Bureau's issuance of a series of policy documents for tax management in the entertainment industry, achieving effective control over tax evasion in this high-income sector remains an ongoing challenge. Therefore, the study of tax evasion in the entertainment industry and the proposal of optimized management strategies hold both theoretical and practical significance.

2. Relevant Concepts and Methods of Tax Evasion

2.1. Concept of Tax Evasion

Tax evasion refers to the deliberate violation of tax laws and regulations by taxpayers, engaging in illegal activities to evade taxes through deception and misleading means. This includes underreporting or non-payment of due taxes, intentional concealment or misrepresentation of taxable items, sales revenue, and business profits. It also involves deliberately inflating costs, misallocating expenses, reducing taxable income, as well as the transfer of property, income, and profits. Tax evasion undermines national interests, violates national laws, and, if severe, constitutes a crime punishable by law as it disrupts the socialist economic order. Individuals found guilty of tax evasion are subject to legal penalties.

Closely related to tax evasion is the concept of "tax leakage." Tax leakage refers to unintentional underpayment or underreporting of taxes by taxpayers. This may occur due to a lack of understanding or familiarity with tax laws and financial regulations, work negligence, misuse of tax rates, omission of taxable items, underreporting of taxable amounts, sales, and business profits, among other factors. While tax leakage is unintentional, it still constitutes a violation. According to the "Interim

Regulations on Tax Collection and Management," tax authorities are required to restrict individuals evading taxes from paying overdue taxes after the specified deadline, with late fees accruing daily.

There is a qualitative distinction between tax evasion and tax leakage, with the key determinant being intent. Consequently, their treatment differs, but tax evasion is considered a more serious offense. In essence, taxation involves the compulsory and uncompensated appropriation of taxpayers' property by the state. Therefore, evading tax payments is a breach of duty. Some argue that labeling the offense as tax evasion is more humanizing, as "theft" implies the misappropriation of someone else's property.

2.2. Methods of Celebrity Tax Evasion

2.2.1. Signing "Yin-Yang Contracts"

The concept of "yin-yang contracts" originally stemmed from the real estate industry's "big-small contracts," involving two agreements between transacting parties. One contract with a lower amount is used for tax reporting and remittance to tax authorities. The other, the "yin contract," with a higher amount, represents the actual agreed-upon transaction price. This higher amount is obtained through cash transactions, familial receipts, or similar means, excluding it from personal income and avoiding substantial individual income tax payments. This method is covert, making it challenging for tax authorities to detect, resulting in revenue loss. Despite the shift to the film and television industry, the practice remains the same. With the rapid growth of domestic box office earnings and the increasing demand for various online soap operas, the income of film and television celebrities, especially those in the top tier, has surged. To capitalize on these profits, celebrities' resort to tax evasion through the simplicity of two contracts. Hence, many high-paid celebrities succumb to the temptation of financial gains, even in the face of exorbitant remuneration.

2.2.2. Transforming Personal Income into Business Income

Another common tax evasion method employed by individuals in the entertainment industry is establishing individual businesses such as sole proprietorships or partnerships in tax havens. This involves falsely converting personal income, including wages for personal services, into business income. By utilizing the preferential tax policies of tax havens, these individuals can reduce the tax burden from the standard approximately 45% to below 5%. This method is particularly suitable for high-income taxpayers, a category to which most entertainment industry professionals belong. Consequently, many celebrities adopt this approach as a means of tax evasion, achieving their goals through business taxation.

2.2.3. Altering Payment Methods

Celebrities receive income through various channels, including fixed wages and stock incentives from companies, studio income, investment returns, as well as fees for performances, advertising endorsements, and spokesperson roles, all of which possess high liquidity and discretion. This diversity and discretion contribute to the multiple and covert methods celebrities employ to evade taxes. Adjusting the payment methods for compensation is one such method commonly chosen by celebrities. Options include post-tax payments, establishing trusts, nominal apportionment, and staggered payments.

For example, nominal apportionment involves splitting contracts into various components, such as acting, screenwriting, and planning, to evade taxes. Staggered payments allow for concealing taxable income by reducing the base and tax rate for each installment.

Professionals assert that, despite precedents, individuals continue to navigate towards the proverbial "muzzle." Tax-related issues, including "yin-yang contracts," persist widely in the film and television industry among enterprises and practitioners. This not only hampers the healthy development of the industry but also has adverse effects on various aspects, including the national economic order and societal values. There is an urgent need to intensify efforts to combat these practices.

3. Introduction and Analysis of Cases

In 2018, Fan Bingbing was reported for tax-related issues concerning "yin-yang contracts." Following a lawful investigation by the State Administration of Taxation, Fan Bingbing was ordered to pay over 880 million yuan in taxes, late fees, and fines, with a fine of 596 million yuan. In a certain film project, Fan Bingbing earned an actual remuneration of 30 million yuan. Through the method of splitting contracts, she evaded 6.18 million yuan in personal income tax and underreported business tax and additional taxes by 1.12 million yuan, totaling 7.3 million yuan. Additionally, it was discovered that Fan Bingbing and her enterprises, where she served as the legal representative, underreported taxes by 248 million yuan, including evading taxes of 134 million yuan.

The Jiangsu Provincial Tax Bureau, under the designated jurisdiction of the State Administration of Taxation, pursued the recovery of taxes amounting to 2.55 billion yuan from Fan Bingbing and her enterprises, imposing an additional 33 million yuan in late fees. For Fan Bingbing's use of nominal apportionment to conceal true income and evade taxes, a fourfold fine was applied, totaling 2.4 billion yuan. Another threefold fine was imposed for her utilization of studio accounts to hide personal compensation, amounting to 2.39 billion yuan. Furthermore, a onefold fine of 946,000 yuan was levied for the underreported income by her enterprise where she served as the legal representative. Two enterprises under her legal representation were fined 0.5 times for failure to withhold and remit personal income tax and for unlawfully providing assistance in tax evasion, resulting in fines of 5.1 billion yuan and 6.5 billion yuan, respectively. The cumulative amount, including tax evasion of 1.41-billion-yuan, late fees of 330 million yuan, and fines of 5.96 billion yuan, reached a total of 8.84 billion yuan.

Similar cases abound in the entertainment industry, with figures such as Zhao Wei being penalized for acquiring a listed company worth tens of billions with a registered empty shell company of only a few tens of millions, receiving a ban on stock and securities market participation for five years. Wang Zhonglei spent 377 million yuan on artwork and faced consequences as well. Analyzing the cited case of Fan Bingbing, it is evident that the entertainment industry has witnessed frequent occurrences of tax evasion over the years, with several key reasons:

(1) Profit Motivation as the Fundamental Cause of Tax Evasion. Modern society places a premium on cost-effectiveness, whether for businesses or individuals, prioritizing profit maximization above all else. The compulsory and uncompensated nature of taxation results in a direct reduction of disposable income for taxpayers, conflicting with their economic objectives. Every taxpayer is a rational actor, and when faced with involuntary expenses like taxes, there is a natural inclination to resist.

At the beginning of 2019, the State Administration of Radio and Television introduced new regulations on actor compensation, capping total actor remuneration at 40% of the production cost for the entire film or television project and limiting lead actors to 70% of the total remuneration. However, as evidenced in the first section, tax evasion methods within the entertainment industry persist, demonstrating a continuous defiance of policies. Faced with the temptation of exorbitant fees, individuals are willing to take illegal risks to safeguard their interests.

(2) Presence of a Gambler's Mentality. According to reports, tax authorities follow a "five-step working method" of "prompting reminders, urging rectification, summoning for interviews, initiating investigations, and public exposure" to handle individuals suspected of tax evasion. Despite these measures, cases similar to those mentioned earlier continue to surface. Many experts attribute this persistence to the overwhelming allure of high remuneration, leading entertainment celebrities to develop a gambler's mentality. There is a sense of optimism, a belief that their luck will not run out. Driven by this psychological factor, celebrities tend to take risks, even at the cost of violating the law, especially after successfully evading taxes for the first time, motivating them to engage in more audacious tax evasion activities.

(3) **Weak Taxpayer Awareness and Lack of Moral Integrity.** In everyday life, a majority of people lack awareness of taxation and social responsibility, failing to realize that each individual is a beneficiary of public expenditures. Particularly, some wealthy individuals perceive taxation as unjustly redistributing wealth, fostering a mindset of unfairness. Wang Huayu, Vice Director of the Financial and Tax Law Research Center at Shanghai Jiao Tong University, notes that the entertainment industry has a large number of practitioners, and there has been a prevalence of irregular "tax planning" and tax violations among some entertainment professionals. This is partly due to the low awareness of tax law compliance among individuals in the entertainment industry. It is well-known that without the fiscal support of the state and the robust development of the macroeconomy, the wealthy cannot thrive.

4. Strategies for Preventing Tax Evasion by Celebrities

4.1. Enhance Punitive Measures by Tax Authorities

Taxpayers, as rational "brokers," are inclined to seek profit maximization. The decision to engage in tax evasion is made after weighing the expectations of spending less to gain more income. Leveraging this psychology, intensifying punitive measures and increasing the illegal cost of tax evasion will naturally instill fear and panic in taxpayers seeking higher income, reducing their chances of tax evasion.

Therefore, tax authorities should escalate penalty severity, making tax evasion more costly and reducing the frequency of tax evasion within the industry. Firstly, for instances of the first occurrence of a significant amount of tax evasion, whether due to work negligence, inadequate understanding of tax policies, or intentional planning, corresponding penalties should be applied to prevent taxpayers from harboring a sense of luck. Secondly, specific to the entertainment industry, standards should be elevated. Considering the industry's association with commerce and the heightened public scrutiny of public figures, tax evasion incidents should be graded based on severity, leading broadcasting authorities and industry associations to restrict their appearance rates across various media platforms. Additionally, considering the frequent travel of industry professionals, restrictions on different modes of transportation, particularly high-speed trains and airplanes, should be imposed based on tax evasion severity levels. Even if tax authorities do not disclose details, increased public visibility through certain transportation modes could trigger suspicion and public debate, impacting income and, consequently, lowering the probability of tax evasion.

4.2. Optimize Tax Credit Rating Systems

In the era of the internet, tax credit rating systems play a crucial role in enhancing tax source monitoring, taxation efficiency, and optimizing tax order. Though multiple regulations have been enacted to improve this system, there remain deficiencies such as one-sided approaches and limited avenues. To further enhance this system, consider establishing comprehensive credit profiles for every professional in the entertainment industry. Strengthen tax credit databases, collect data dynamically based on income categories, and implement real-time supervision. Upon discovering tax evasion, individuals would not only face personal tax credit repercussions but also rigorous monitoring by tax authorities. Their information should be entered into credit centers, and details should be made public, subjecting tax evaders, especially public figures in the entertainment industry, to a societal trust test. This results in losses exceeding the economic benefits gained from tax evasion.

Furthermore, modify the expression format of tax credit levels, using a percentage system to disclose taxpayers' credibility. Higher scores indicate better credibility, providing tax authorities with better oversight, guidance for high-scoring taxpayers, and more targeted reminders and supervision for lower-scoring taxpayers.

4.3. Establish a Tax Whistleblower System

The cases of celebrities like Fan and Zheng being exposed were only known to the public when reported by whistleblowers. Given the multitude of covert financial transactions and interests in the entertainment industry, tax authorities often find it challenging to detect varied tax evasion methods. Encouraging reporting of tax evasion and establishing a "whistleblower" system allows tax authorities to obtain critical case leads, contributing to controlling tax revenue losses.

To introduce a tax whistleblower system, it is necessary to gradually refine the "Reward Measures," specifying reward content and increasing reward amounts accordingly. Simultaneously, a secure reporting confidentiality system should be established to fully protect all whistleblowers, ensuring their personal and financial safety, thereby motivating whistleblowers actively. However, implementing corresponding penalty systems is essential to avoid malicious reporting, which could increase the workload for tax authorities and potentially entangle reported industry professionals in public controversies.

4.4. Further Strengthen Tax Big Data Analysis in Conjunction with Investigative Methods

It is essential to note that "tax big data" has become an effective tool in the comprehensive governance of taxation. "Further strengthening tax big data analysis and improving routine supervision mechanisms" is a developmental direction in tax governance. As Professor Zhai Jiguang emphasized, "Tax big data consolidates data from relevant departments such as taxation, customs, the People's Bank of China, market supervision, and foreign exchange management. Through comprehensive computer analysis, it can roughly calculate a taxpayer's total income over a specific period. By comparing total income with the declared tax amount, the overall tax burden can be estimated. If the tax burden is significantly low, there is suspicion of tax evasion." While tax big data is effective in targeting high-income groups, it is not practical for ordinary taxpayers alone. Therefore, it should be part of an integrated strategy alongside other investigative methods and systems to genuinely be effective.

4.5. Enhance Tax Awareness among Industry Practitioners

To genuinely reduce the rampant issue of tax evasion in the entertainment industry, it is essential to boost the tax enthusiasm of industry practitioners from the ground up. This necessitates constructing a positive tax environment within the industry. As per Secretary Wang Huayu, tax compliance in the entertainment industry should be a systematic endeavor, requiring the establishment of long-term mechanisms. Besides strengthening data supervision and joint law enforcement to combat tax violations, there should be continual efforts to reinforce tax compliance awareness among industry practitioners. This includes creating role models of integrity in tax-paying public figures and, based on industry demands, appropriately optimizing the tax management model and regulations in the entertainment industry.

5. Conclusion

This paper analyzed the issue of tax evasion in China's film and television industry, using the tax evasion case of celebrity F as a focal point. It discussed the methods, reasons, and existing loopholes in the current tax system, providing corresponding improvement suggestions.

Although China's attention to tax revenue loss in the entertainment industry has increased, with multiple policies in place and notable success, there is still a long way to go in governing an industry that is fast-growing and predominantly consists of high-income individuals. In 2022 alone, six cases of tax evasion by entertainment celebrities and online anchors were exposed, sending a strong signal that tax evasion will be severely punished. However, addressing tax evasion in the entertainment industry, with its unique challenges, remains an ongoing and evolving process.

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