

SOCIAL CONTRIBUTION COLLECTIONS: TOWARD A UNIFIED SYSTEM

VOLUME ON 2018 RESEARCH

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SOCIAL CONTRIBUTION COLLECTIONS: TOWARD A UNIFIED SYSTEM

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Social contribution collections: toward a unified system in China

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Executive Summary

Should the social insurance premiums be collected by tax departments or by social insurance agencies? There have been discussions in China for nearly 20 years. In practice, different provinces have adopted three types of social insurance premiums collection model: Social security agency full responsibility model, Tax agents authorized collection model and Tax authority full responsibility model. The *Social Insurance Law* promulgated and implemented in 2011 stipulates that social insurance premiums shall be levied uniformly, and the implementation steps and specific measures shall be formulated by the State Council. Finally, *The Deepening Reform of the Party and State Institutions Plan* announced in early 2018 clarifies the reform direction, which resolves the disputes over the division of social insurance premiums collection and management power between the tax authorities and social security agencies over the past 20 years.

This report reviews the development of China's social contribution collections and compares the power division between tax departments and social security agencies in social insurance premiums collection process under the different collection models. The report combs the selection of tax collection and management institutions in different provinces according to social insurance items and points out the reform direction that China should promote Tax authority full responsibility model based on relevant literature and case analysis of the gap between income and expenditure of basic endowment insurance fund for urban residents. The report points out that the promotion can not only realize the "co-collection and co-management" of taxes and premiums, take advantages of strong information processing ability of tax authorities, improve the efficiency and reduce the cost of collection and management, but also lay the foundation for promoting the reform of the social insurance system and the modernization of social insurance fund management system.

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Social contribution collections: toward a unified system in China

Social contribution collections is the cornerstone of the sustainable operation of social insurance funds. The so-called social contribution collections system mainly refers to which department is responsible for the collection of social insurance premiums. In China, it refers to the social security agencies, or the tax authorities. Under the influence of complicated historical background, whether the social insurance premiums should be levied by the tax authorities or by the social security agencies has always been a controversial issue. At present, there are three models in the collection of social insurance premiums in China's provinces, those are, Social security agencies full responsibility model, Tax agents authorized collection model and Tax authority's full responsibility model. *The Social Insurance Law* promulgated and implemented in 2011 stipulates that social insurance premiums shall be levied uniformly, and the implementation steps and specific measures shall be formulated by the State Council. In early 2018, the Central Committee of the Communist Party of China issued *The deepening reform of the party and state institutions plan* points out that in order to improve the efficiency of collection and management of social insurance fund, the basic endowment insurance premiums, basic medical insurance premiums, unemployment insurance premiums and other social insurance premiums will be levied uniformly by Tax authorities.¹This marks the final answer to the controversy over China's social contribution collections system for almost two decades. China's social contribution collections have been moved towards tax authorities levying uniformly.

This report focuses on the reform of China's social contribution collections system, which is, whether tax departments or social security agencies should collect social insurance premiums. The report first briefly combs the development process of China's social contribution collection system, then summarizes the current social insurance collection model in different regions of China, finally based on literature and data analyzes the advantages and disadvantages of different social contribution collection model. Considering that China has made it clear that social insurance premiums should be levied by tax authorities, this report will focus on the last section. It will discuss why China should put Tax authority's full responsibility model into force and how to promote the reform.

1. The developing process of Chinese social contribution collections

Before 1978, China implemented a planned economy. After the promulgation of the Labor Insurance Regulations of the People's Republic of China in 1951, until the late 1970s, China mainly established a labor insurance system. Its main characteristics are that labor insurance and unit system are combined, which means labor insurance premium is responsible by the unit. The insurance pool is limited to various

¹ http://www.xinhuanet.com/politics/2018-03/21/c_1122570517.htm

enterprises and institutions. The premiums are mostly levied by the units, collected by the All-China Federation of Trade Unions designated banks.

After 1978, China began the transition from planned economy to market economy. In 1984, some parts of Wuxi, Jiangsu province began to establish social insurance system. At the beginning of the establishment of the system, the collection of social insurance premiums was generally undertaken by social security agencies which were subordinate to labor departments at different levels (and then to human resources and social security departments). But at that time, the reform of state-owned enterprises was deepening, the gap of social insurance fund payment was widening, and the staffing of social security agencies was limited and the levying power was insufficient. Under this background, some areas began to explore the mode of social insurance premiums levied by tax departments. Around 1995, in order to improve the efficiency of collection and management and ensure the safety of funds, Wuhan, Ningbo and other individual cities took the lead in the attempt to reform the contribution collections system, which is tax agents authorized collection.

Against this background, the Provisional Regulations on the Collection and Payment of Social Insurance Premiums issued in 1999 (Order No. 259 of the State Council) stipulate that "the collection institution of social insurance premiums shall be prescribed by the people's government of the province (autonomous region, municipality directly under the Central Government), which may be levied by the tax department or by the social security agency established in accordance with the requirements of the State Council." That is to say, the central authorities began to put the power of selecting levying agencies to provincial governments. Since then, different provinces have made different choices, and more and more provinces choose tax departments. However, the Provisional Regulations still stipulate that social security agencies are responsible for registration of insurance participation, verification of payment base, payment records, inspection and punishment, etc. Only in the collection process can provincial governments choose whether social security agencies or tax departments are responsible. But in the practice, some provinces are also exploring the Tax authority full responsibility model, which makes the tax department responsible for most links of the social insurance fees collecting.

As more and more provinces choose tax departments, there comes disunity of social contribution collections model in various provinces, and even different prefecture-level cities. It brings some conspicuous problems. First, it increases the cost of collection and reduces the efficiency. It brings inconvenience to enterprises and individuals. Second, there are different standards of enforcement between departments, such as tax departments and social security agencies. Even payment wage bases for cross-regional operation of the same enterprise approved by different social security agencies are not uniform, to a certain extent, resulting in the loss of premiums. Third, there are some transmission of documents and data between local tax departments and social security agencies is not smooth, causing some negative effect on transferring of funds, accounting, reconciliation and other sections. Fourth, in the areas where the Tax agents authorized collection model is chosen, the tax departments only have the power to collect, but no power to manage. It has reduced

the enthusiasm of the tax departments to a certain extent, and also caused the social security agencies and the tax departments to shuffle and wrangle.

Because non-uniform social contribution collections models bring about many problems in practice, Chinese academic world and relevant decision-making departments have been discussing how to achieve a unified collection model. The Social Insurance Law officially implemented in 2011 clarifies the reform direction of the unified levy of social insurance premiums. However, the law does not specify which department should levy the social insurance premiums, instead stipulates the implementation steps and specific measures to be determined by the State Council. Therefore, after the enforcement of the Social Insurance Law, the controversy over which department should levy social insurance premium uniformly has not subsided, and the objective of unifying levying model nationwide has not been achieved.

2. The overview of social contribution collections in different regions

2.1 Three models of social contribution collections

The collection of social insurance premiums can be divided into registration, payment base verification, collection, payment record, confirmation, audit, payment, etc. Social contribution collections system refers to that which one is the subject of social insurance premium collection, taxation department or social security agency, and how their respective powers and responsibilities are divided in each link of social insurance premium collection. After 1999, different regions of China chose different collection systems. According to the different roles of tax departments and social security agencies in the process of collecting social insurance premiums, it can be divided into three models: Social security agency full responsibility model, Tax agents authorized collection model and Tax authority full responsibility model.

Social security agencies full responsibility model refers the social insurance agencies (generally administrative centers of social security) as the main body. They are in charge of preparation of social insurance premium collection budget and issue of collection plan. They are responsible for social insurance registration, declaration, verification, collection, handing-in, pressing for payment afterwards, auditing and other links. In addition, they record the payment of fees and individual interests and the whole process of calculating and issuing social insurance benefits. The tax departments do not participate in the collection of social insurance premiums. The advantages of social security agency full responsibility model are that it guarantees the integrity of the whole process management of the collection and payment of social insurance, avoids the conflict of interest and information loss in the process of coordination between the social security agencies and the local taxation authorities, and reduces the information lag and mistake in the process of information transmission between departments. However, the information construction of social security departments lags behind, and the ability of information processing and collection is relatively weak, which is also its disadvantages.

Tax authorities full responsibility model refers to that the tax departments are responsible for the verification and collection of the social insurance payment base. The tax departments are fully in charge of the registration, declaration, verification, collection, auditing, handing-in and transferring the collection data to the social security agencies accurately and timely so as to keep accounts. Institutional bookkeeping. In this pattern, social security agencies are responsible for accounting and treatment management.

Tax agents authorized collection model, also known as Two department collection model, refers to that social security agencies entrust local taxation authorities to collect social insurance premiums. The two departments jointly participate in social insurance premium collection work and local taxation authorities have less power to collect. In this model, the two departments have their own functions and powers. In general, social security agencies formulate and approve tax collection plans, check and ratify the payment base of units and individuals, and transmit the gathered data to local taxation authorities. local taxation authorities collect according to the data and is partly responsible for pressing for payment afterwards, investigate and treat and payment. Then the social security agencies will keep accounts according to the amount collected and issue the treatment. This model requires close cooperation between tax authorities and social security agencies.

2.2 Regional differences of Social contribution collections

The social insurance project of China can be divided into two kinds, one is the five big insurance that urban employees participate in by the unit, namely endowment insurance, medical insurance, industrial injury insurance, employment injury insurance and maternity insurance, the payment of social insurance is divided into two parts: individual payment and enterprise and public institution payment; The other is the two kinds of insurance that Urban and rural residents participate in, namely resident endowment insurance and resident medical insurance, paid by individual only, the finance shall provide part of the fixed premium subsidy in proportion. Ambiguities in the national system leads to regional differences of Social contribution collections. The differences are not only reflected in the differences between regions, but also in the differences between different social insurance programs in the same region.

As shown in table 1, in China's 31 provinces, the payment of social insurance projects in 13 provinces, including Beijing, Shanghai, Shandong and Tibet, is collected by social insurance agencies. All kinds of social insurance projects in Hubei, Henan, Inner Mongolia and Hainan are collected by the tax departments. Five social insurance premiums for urban employees in eight provinces, including Liaoning, Zhejiang, Anhui, Fujian, Guangdong (excluding Shenzhen), Yunnan, Chongqing and Ningxia, are collected by the tax departments, while two types of social insurance premiums for residents are collected by the the social security agency. In the other six provinces, only part of the social insurance for urban employees is collected by the tax department. Observing the selection of different social insurance institutions in different provinces,

we can find that basic endowment insurance for urban employees and unemployment insurance are more likely to be collected by tax departments. The reason is that these two kinds of insurance premiums are more difficult to collect. And endowment insurance for urban and rural residents, medical insurance are more likely to be collected by the social security agency, the reason is that these two kinds of insurance have large financial subsidies, it is relatively less difficult to collect the insurance premium.

In the areas where the tax departments collect social insurance premium, there are differences between the “tax authorities full responsibility model ” and the “ tax agents authorized collection model ”. Liaoning, Zhejiang, Fujian, Guangdong (excluding Shenzhen) and other places have implemented the “tax authorities full responsibility model”. The actual work is more complex, for example, in Zhejiang and Fujian, the verification of the payment base of basic endowment insurance for urban employees is the responsibility of the tax department, and the payment base of other social insurance such as basic medical insurance for urban employees are still verified by the agency. That is to say, basic endowment insurance for urban employees is in the “Tax authority full responsibility model”, while basic medical insurance for urban employees is in the “Tax agents authorized collection model”.

Table 1: The situation of collection agencies of all kinds of social insurance premium of China's provinces

Provinces	The basic endowment insurance		The basic medical insurance		Unemployment insurance	Employment injury insurance	maternity insurance
	urban employees	urban and rural residents	urban employees	urban and rural residents			
Beijing	Social	Social	Social	Social	Social	Social	Social
Tianjin	Social	Social	Social	Social	Social	Social	Social
Shanghai	Social	Social	Social	Social	Social	Social	Social
Jilin	Social	Social	Social	Social	Social	Social	Social
Shandong	Social	Social	Social	Social	Social	Social	Social
Shanxi	Social	Social	Social	Social	Social	Social	Social
Hunan	Social	Social	Social	Social	Social	Social	Social
Jiangxi	Social	Social	Social	Social	Social	Social	Social
Guangxi	Social	Social	Social	Social	Social	Social	Social
Sichuan	Social	Social	Social	Social	Social	Social	Social

Guizhou	Social						
Xinjiang	Social						
Tibet	Social						
Hebei	Tax	Social	Social	Social	Tax	Social	Social
Heilongjiang	Tax	Social	Social	Social	Tax	Social	Social
Qinghai	Tax	Social	Social	Social	Tax	Social	Social
Shaanxi	Tax	Social	Social	Social	Tax	Social	Social
Fujian	Tax	Social	Social	Social	Tax	Tax	Tax
Jiangsu	Tax	Social	Tax	Social	Tax	Tax	Tax
Guangdong	Tax	Social	Tax	Social	Tax	Tax	Tax
Zhejiang	Tax	Social	Tax	Social	Tax	Tax	Tax
Yunnan	Tax	Social	Tax	Social	Tax	Tax	Tax
Chongqing	Tax	Social	Tax	Social	Tax	Tax	Tax
Ningxia	Tax	Social	Tax	Social	Tax	Tax	Tax
Anhui	Tax	Social	Tax	Social	Tax	Tax	Tax
Liaoning	Tax	Social	Tax	Social	Tax	Tax	Tax
Gansu	Tax	Social	Tax	Social	Tax	Tax	Tax
Hubei	Tax						
Henan	Tax						
Inner Mongolia	Tax						
Hainan	Tax						
Administrative centres of social security full responsibility	13	27	18	27	13	17	17
collected by the tax department	18	4	13	4	18	14	14

(including full responsibility and authorized collection)							
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Sources of information: “Research report on Social contribution collections” (November 2016) provided by the Institute of social security, ministry of human resources and social security. Henan province has been collecting all kinds of social insurance premiums by tax departments since 2017, and relevant information is added by the author.

3. Comparative analysis of different social contribution collections.

3.1 Literature review.

Which of the three models should be chosen? This requires a comparative analysis of the three models. Chinese academia has long debated this issue, but there is no consensus. Zheng bingwen and Fang lianquan (2007), by combing international experience, they believe that considering the long-term and hardship of expanding the coverage of China's social insurance system, the social security department should be responsible for the collection of social insurance premiums. According to Zhang bin and Liu baihui (2017), as a specialized collection agency, tax authorities have advantages in organization, information, service and law enforcement. By collecting social insurance premium with full responsibility, tax authorities can reduce administrative costs and compliance costs while improving the leviable rate. In 2017, the state council commissioned the Chinese academy of social sciences, Peking University, Renmin university of China and Tsinghua university to form a third-party assessment team to conduct a special assessment on the reform of social contribution collections in order to resolve the dispute that has lasted for 20 years. “China social security system development report (2018) : Reform of social contribution collections” (Edited by Wang Yanzhong, 2018) , comprehensively summarizes the findings of the evaluation team, and argues that China should pursue a " Tax authority full responsibility model " of social insurance premium. Wang dehua (2018), based on the findings of the project research he participated in, pointed out several reasons for carrying out the " Tax authority full responsibility model " of social insurance premium.

Some scholars also adopted econometric analysis to control all kinds of possible interference factors, and used provincial data to compare the collection costs and effects of different modes. But there is also a lack of consensus. Zheng chunrong and Wang cong (2014) found in an empirical study based on the provincial panel data that social insurance premiums collected by the tax authorities did not significantly increase their administrative costs, moreover, the scale effect of the tax authorities' collection has achieved a significant reduction in the rate of tax costs and a significant increase in the leviable rate. Zhang lei (2010)

found in his research that in provinces that collected by tax authorities, the premium has lower collection rates, so he suggested that social security agencies should collect social insurance premiums. Based on the analysis of provincial panel data, Liu junqiang (2011) found that the collection of social insurance premiums by local tax authorities is more conducive to expanding the coverage of social insurance and promoting the growth of social insurance fund income. Peng xuemei et al. (2015) also based on the analysis of provincial panel data, and found that the collection by social security agencies was generally better than that by tax authorities. The cost of collection and management and the effect of collection and management are important criteria for selecting the model of collection and management of social insurance. However, the research methods adopted in these papers are basically the same, while the basic conclusion is the opposite.

In general, due to the influence of two tracks coexisting for the collection agency in practice, there are many discussions on the reform of Social contribution collections in Chinese academia. However, there was no consensus. In terms of qualitative discussion, relevant literatures, starting from different perspectives, respectively put forward the reasons why social insurance should be collected by social security agencies or tax departments. Some literatures made empirical analysis based on provincial data, but the conclusions and policy recommendations are on the contrary. This shows that the problem of social contribution collections, is mainly a policy topic and needs to be selected according to actual conditions.

3.2 Comparative analysis of collection utility based on provincial data.

The cost of collection and management and the effect of collection and management are important criteria for selecting the mode of collection and management of social insurance. This requires comparative analysis based on some data. However, considering the numerous factors affecting the development of social insurance projects, data analysis can only be used as a reference. Some of the literature cited above has adopted measurement methods based on provincial data to compare the advantages and disadvantages of collection by tax department and collection by social security agency from different perspectives. This section focuses on comparative analysis from the perspective of the impact of the collection and management model on the fund gap. As indicated above, basic endowment insurance for urban employees in most provinces is collected by tax department, the reason is that the effect of collection and management has a greater impact on its good operation. This section also selects the income and expenditure situation of basic endowment insurance fund for urban employees for comparative analysis.

Table 2 lists the income and expenditure and gap of basic endowment insurance fund for urban employees in various provinces of China in 2015, citing data of Wang Yanzhong (2018). It can be seen from the table that the gap in the income and expenditure of China's basic endowment insurance fund for urban employees has been very serious. In 2015, the payment income was already lower than the pension expenditure by about 480 billion yuan. Only a large amount of financial subsidies can guarantee the surplus

in that year. We can also see that in 2015, all the provinces except Guangdong, Beijing, Zhejiang and Tibet had a payment gap. Most provinces rely on fiscal subsidies to achieve a slight surplus in income and expenditure that year. This further shows that the rapid improvement of the collection and management of basic endowment insurance for urban employees has been imminent.

Table 2: Basic endowment insurance fund income and expenditure and gap of different province

(Year 2015)

Provinces	Fund income (1)	Fund payment income (2)	Fund expenditure (3)	Income gap (1) - (3)	Payment gap (2) - (3)
Nationwide	29331.70	21014.89	25804.79	3526.91	-4789.9
Liaoning	1630.19	971.55	1743.24	-113.05	-771.7
Heilongjiang	1030.73	577.70	1223.16	-192.43	-645.5
Hebei	1073.94	601.79	1136.96	-63.02	-535.2
Shanghai	2226.14	1650.92	2035.16	190.98	-384.2
Sichuan	1680.65	1149.92	1527.58	153.07	-377.7
Hubei	1132.41	736.52	1103.57	28.84	-367.1
Shandong	2105.57	1491.62	1845.16	260.41	-353.5
Hunan	910.11	523.84	849.42	60.69	-325.6
Henan	1027.07	643.78	961.01	66.06	-317.2
Jilin	569.16	370.53	609.94	-40.78	-239.4
Shanxi	688.59	433.77	656.97	31.62	-223.2
Xinjiang	607.00	288.51	490.38	116.62	-201.9
Shaanxi	604.92	413.60	612.97	-8.05	-199.4
Inner Mongolia	567.65	391.55	565.04	2.61	-173.5
Chongqing	758.06	500.08	664.62	93.44	-164.5
Guangxi	479.12	334.13	470.89	8.23	-136.8

Tianjin	594.26	423.79	559.51	34.75	-135.7
Jiangxi	605.58	417.12	537.09	68.49	-120.0
Gansu	312.23	226.86	307.61	4.62	-80.8
Hainan	167.95	83.81	157.45	10.50	-73.6
Fujian	519.95	372.47	433.96	85.99	-61.5
Anhui	765.88	554.37	605.50	160.38	-51.1
Yunnan	406.48	284.45	329.02	77.46	-44.6
Qinghai	103.30	75.15	111.19	-7.89	-36.0
Ningxia	143.93	110.03	137.08	6.85	-27.1
Jiangsu	2153.91	1819.85	1844.69	309.22	-24.8
Guizhou	315.38	241.22	242.16	73.22	-0.9
Tibet	28.16	22.48	18.79	9.37	3.7
Zhejiang	1958.54	1648.89	1583.73	374.81	65.2
Beijing	1601.21	1478.77	965.46	635.75	513.3
Guangdong	2563.63	2175.82	1475.48	1088.15	700.3
Average fund gap in provinces of Tax authority full responsibility model					382.75
Average fund gap in provinces collected by social security agency					-135.55
Average fund gap in provinces of tax agents authorized collection model					-217.09

Sources of information: “China social security system development report (2018) : Reform of social contribution collections”, Edited by Wang Yanzhong, Social Sciences Academic Press, 2018.

At the end of table 2, the average gap of basic endowment insurance for urban employees was calculated in three models of collection and management. It can be seen from the table that in the province where the tax authorities are fully responsible, the payment income is larger than the pension expenditure, and there is a balance. However, in the provinces where the social security agency is fully responsible or tax agents authorized, the payment income is lower than the pension expenditure and there is a payment fund gap. Among them, average fund gap in provinces of tax agents authorized collection model is bigger. To some extent, this shows that the collection and management effect of Tax authority full responsibility model is more effective, while the effect of social security agency full responsibility model and tax agents

authorized collection model cannot meet the needs of fund expenditure. Of course, the difference between different provinces, such as industrial structure, employment structure, participant structure, etc., and more importantly, social security insurance policies, such as payment rate and minimum payment base, etc., are very large. The result of the above simple comparison of the gap of basic endowment insurance fund for urban employees in three models is not steady. To compare the cost and effect of different models of collection and management, we should make more analysis based on field research, and make comparative analysis of the internal mechanism of the collection of social insurance premiums in different departments.

4. The reform direction of China's social contribution collections: Tax authority full responsibility model

The Deepening Reform of the Party and State Institutions Plan released in 2018 clearly pointed it out that “in order to improve the efficiency of social insurance funds collection and management, various social insurance premiums such as basic endowment insurance, basic medical insurance, and unemployment insurance premiums would be uniformly collected by the tax authorities.” The plan has been approved by the National People's Congress of China and has legal effect. *The Deepening Reform of the Party and State Institutions Plan* also required that the separate national and local taxation systems by integrating their offices should be realized in 2018. Therefore, in 2018, the Chinese tax departments faced two major institutional reform tasks. First, the merger of the separate national and local taxation systems at all levels to form a new tax authority; Second, the tax departments should undertake the task of uniformly collecting social insurance premiums in most regions. The recently released the “*National and Local tax Collection System Reform Plan*” clarified the order of key reform tasks: Firstly, the new tax institutions were listed, followed by the “three decisions” plan for the new tax authorities. Thirdly, develop the transfer of social security premiums and non-tax revenues collections. Fourthly, promote the integration and optimization of tax and fee business as well as information system, and the fifth is to strengthen the funds safeguard and asset management, and revise relevant laws and regulations. The above analysis provides preliminary evidence for this. However, the reform plan does not clearly adopt the mode of “Tax agents authorized collection model” or “Tax authority full responsibility model”. In practice, neither social security agencies nor tax departments approved “Tax agents authorized collection model” in current some areas. We believe that, based on the goal of improving the efficiency of collection and management and promoting the social insurance systems reform, China should promote the “Tax authority full responsibility model”.

4.1 Tax departments have superior collection and management conditions and strong information processing ability. The “co-collection and co-management” of taxes and premiums is conducive to the “collect the tax in full according to law” of enterprises payment.

After years of vigorous investment, the core elements of collection and management, such as team building and information system construction of China’s tax departments have obvious advantages. Taxes and premiums can be “co-collection and co-management”. Like personal income tax, the payment base of social insurance premiums is the wages of employees in institutions and enterprises, and it is an important regulatory object of the tax administration system for natural persons. Enterprise income tax collection and management, and personal income tax full declaration can grasp the salary information of employees comprehensively, this system can lay the foundation for collecting and processing the core information of social insurance premiums. The information construction and the establishment of internal institutions of tax departments have laid a good foundation for collecting, pushing, processing, screening and checking the information afterwards. In a word, compared with social security agencies, tax departments have obvious advantages in realizing the stipulation of “employing units should declare themselves and pay social insurance premiums in full on time” in *Social Insurance Premiums* in terms of technical means, institutional support and managerial experience.

Specifically, tax departments have more professional advantages in verifying the basic data such as the number of payers and the base of social security premiums, which can effectively solve the problems that some enterprises evade payment and conceal the payment base, reduce the loss of social insurance premiums and increase the collection rate of social insurance premiums. Some data in the surveys also support this view. The city of Guangzhou carried out Tax authority full responsibility model, at the end of 2016, the number of Taxation registered enterprises was 1.71 million, and the number of enterprises registered in social insurance units was 1.062 million, accounting for 90.7%. By contrast, Beijing is social security full responsibility model currently. At the end of 2015, the number of Taxation registered enterprises in the city was 979,000, and the number of enterprises registered in social insurance units was only about 420,000, accounting for only 42.9%.²

Tax authority full responsibility model can improve the collection effect, but it does not mean that it increases the burden on enterprises. With the increase of the levy rate, we can start the reform of reducing enterprises’ nominal social insurance premiums, which will create the foundation and conditions for reducing the false high social insurance premiums rate.

² <http://www.chinatax.gov.cn/n810219/n810724/c3675977/content.html>

4.2 The tax authorities' information system is easy to manage, the core modules are consistent throughout the country, and the tax authority full responsibility model can provide convenient services for the insured.

The information construction of the tax departments has started since the mid-1990s. At present, a way of collecting taxes and premiums based on the network and supplemented by the physical hall has been formed. Many businesses can be handled online. Especially since 2016, the core collection and management system of “Golden Tax-III” has been officially launched nationwide. The collection and management system include the social security premium collection module from registration, declaration, base approval to collection, which can realize real-time synchronization with the data of social security and the Ministry of finance and other departments. The taxpayer or the payer can pay the fees incidentally while handling the tax payment business. The “Golden Tax-III” also has the characteristics of national consistency of basic modules and strong extensibility of specific business modules. It not only lays the foundation for the national networking of social security payment information and adapts to the requirements of national budget management, but also allows local governments to access the operating system with local characteristics.

Strong information system, professional collection agencies and manpower security, together with tax service standardized reform promoted by the tax departments in recent years, can provide more convenient services for the insured. Taking Guangdong as an example, except for a few key information changes, services such as payment registration, increase and decrease of staff, the declaration of payment can be handled online with the support of information system. In particular, the current various residents endowment insurance and residents medical insurance do not involve the requirement of income information screening. And the participation mainly depends on the policy attraction and the service ability of collection agencies. In this respect, the information systems of tax departments can also provide convenient services for the insured. In terms of organization, publicity and promotion, tax departments can also learn the current practice from social security departments and promote it by establishing a platform for cooperation with grass-roots governments.

4.3 Tax authority full responsibility collection model has an advantage in marginal costs of collection and administration.

It is an important basis for decision-making to choose whether tax authority full responsibility collection or social security agency direct collection, which will affect the costs of government management or collection costs. For the record, it is of little significance to directly calculate and compare social insurance premiums collection costs from different models. From the perspective of decision-making, what

needs to be compared is the costs of conversion or the marginal costs of collection and administration. That is to say, it is necessary to compare: how much cost is required to be converted from tax collection to social security collection, and how much cost is required to be converted from social security collection to tax collection. Research shows that tax authority full responsibility collection model has obvious advantages in marginal costs of collection and administration.

Firstly, in the case of enterprises participating in insurance, the conversion from the social security agency full responsibility model or tax agents authorized collection model into tax authority full responsibility model has no need to increase the hardware costs such as staffing, personnel and information construction, the conversion costs (marginal costs of collection and management) is low. Because social insurance premiums collection in insured enterprises is consistent with the core elements of personal income tax collection. For example, both of them are based on wage income, tax departments can implement integrated management of tax and premiums. Tax and premiums promote mutually, tax departments undertake tax authority full responsibility collection without additional costs. In contrast, under the current background that social security management business is heavy, if the areas where social security premiums are collected by tax authorities is converted into social security agencies, it is bound to increase personnel, staffing, and information construction also requires additional expenses.

Secondly, tax collection can reduce the compliance costs of most insured enterprises. For insured enterprises, under the background that taxes and premiums implemented “co-collection and co-management” in tax departments, only one copy of tax and fee declaration data needs to be prepared, which can reduce their compliance costs effectively. As SMEs generally do not have a human resource department alone, reducing compliance costs is particularly evident for SMEs.

Finally, under the background of the replacement business tax with value-added tax and the increasingly heavy social security treatment management businesses, the feasibility and motivation that tax authorities undertake social insurance premiums collection is strong. In the context of the replacement business tax with value-added tax, local tax authorities’ businesses have been slightly reduced, it is more helpful for them to bear the responsibility of social insurance premiums collection and management. From another aspect, tax authorities now collect social insurance premiums covering more provinces, it is more difficult for tax authorities to withdraw in the background of the business tax to VAT transformation reform. Under the background of heavy social security payment management businesses, the conversion from social security collection into tax authority collection can make most of the original staff added to the social security management businesses. Therefore, it is a reform of human resources optimization allocation of government departments.

4.4 It is conducive to the further reform of social insurance system

A prominent feature and drawback of China's social insurance system is the “fragmentation” phenomenon. Including employee endowment insurance, the overall planning level of most types of insurance is only at the county level or at the prefecture level. In some provinces, although it has been said that employee endowment insurance has achieved provincial-level co-ordination but is only achieved through a very low proportion adjustment system, and actual powers and responsibilities are still borne by the prefecture county level. This situation is not only harmful to the development of a national unified fair market, but also seriously undermines the sustainability of the social insurance system. Since the actual co-ordination area is at the county level, especially the levying power is directly controlled by the local government, some areas even attract investment by lowering the payment base or rate, resulting in the loss of the premium in the system. This is not only not conducive to the development of the national unified fair market, but also seriously undermines the sustainable development of the social insurance system.

It can be considered that overcoming the “fragmentation” problem of the social insurance system and upgrading the overall planning level of the social insurance system is the primary direction of the reform of China's social insurance system. However, the promotion of the overall planning level of various social insurance projects requires a high level of cooperation of the lower government and various departments. With all kinds of information are under the control of the lower government, the promotion of reforms may face a difficult situation where the situation is unclear, and the subordinates do not cooperate.

From this point of view, Tax authority full responsibility model is conducive to the further reform of the social insurance system, especially the promotion of the overall planning level reform. The social security agency is responsible for the collection, which itself is a part of fragmentation. In contrast, the local taxation departments are directly under the provincial level; “The Deepening Reform of the Party and State Institutions Plan” has made it clear that the state and local taxation institutions will merge and implement a dual leadership system dominated by the State Administration of Taxation. In essence, the national direct subordination color is very strong. Therefore, the tax department is fully responsible for collecting social insurance premiums, which has achieved at least provincial-level pooling in the two-key links of income collection and insurance information acquisition. With the promotion of reform, it will achieve national pooling. This will lay a foundation for the next step to promote the reform of the social insurance system at the overall level, promote the construction of a unified fair market, and also help to improve the sustainability of the social insurance system. In the long run, this has also laid a system guarantee for the unified overall planning account payment rate, the unified treatment system, and the establishment of the national basic endowment system (rather than the co-ordination area).

4.5 It is conducive to promoting the modernization of the social insurance funds governance system and the government administration system

First of all, it is helpful to establish a social insurance fund decentralization check and balance governance model of “tax collection, fiscal planning, social security expenditure, public supervision”. Tax authorities collect social insurance premiums, which is conducive to establishing the working mechanism of social insurance fund. This mechanism checks and balances each other in terms of income, expenditure, management and work, and it also cooperates with each other. That is, the human and social departments are responsible for the formulation of social insurance policies and systems; the agencies are mainly responsible for social insurance management services such as the record of individual accounts, the transfer of social insurance relations, the qualification examination for social benefits, and the payment of social insurance benefits; the tax department is responsible for registering the insured, formulating the collection plan, accepting payment declaration, verifying the base of payment, collecting premiums, implementing penalty and other social insurance work; the fiscal department is responsible for the encouragement of the social insurance fund and the accounting for the income and expenditure of the financial account; the audit and other departments are responsible for the supervision of the use of the social insurance fund. This management system is conducive to strengthening and standardizing the management of social insurance funds and ensuring the safety of funds.

Secondly, it is beneficial to strengthen the expenditure management of social security institutions and improve the social service level of social insurance. At present, in addition to levying and paying fees according to the law, the payment management of social insurance benefits is also a great challenge to the development of social insurance industry. For example, the management of medical insurance payment lags behind, and there are many disputes on the payment of industrial injury insurance benefits. On the one hand, these problems affect the service to the insured. On the other hand, they also deeply affect the security of the fund. To do well in the payment of social insurance benefits, we also need to invest more in manpower and material resources. The collection function of social insurance premium is transferred to the tax department from the social insurance agency, can make social insurance agency free from the heavy fund collection work, concentrate on the management and service of social insurance treatment and raise the level of social insurance service.

Finally, this is also the inevitable requirement that establishes modern fiscal system. The establishment and improvement of modern fiscal system is the foundation and important guarantee for the modernization of national governance system and capacity. Wang shaoguang (2006), on the basis of studying the historical evolution of fiscal systems in the United States, the United Kingdom, France and other countries, pointed out that government revenue is collected by a single department and to achieve “fiscal unification” is the core

requirement of national fiscal management, is an important symbol of modern country. Government revenue is collected by a single department in a unified way, which facilitates the comprehensive grasp of government revenue information to provide service for macroeconomic decision-making, facilitates the modernization of budget management system, and facilitates the promotion of tax reduction and premium reduction under the background of Supply-side Structural Reform. From this point of view, hand over the social insurance premium to the tax authorities to collect in full charge is consistent with the requirements of “financial unification” and is also an inevitable requirement for the establishment of a modern fiscal system.

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**Social contribution collections: toward a unified system, experiences
from the EU**

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Abbreviations

ACOSS	Agence centrale des organismes de sécurité sociale [Central agency of social security organisations, France]
ESSPROS	European System of Integrated Social Protection Statistics
EU	European Union
IMF	International Monetary Fund
ISSA	International Social Security Association
MISSOC	Mutual Information System on Social Protection
NPC	National People's Congress (China)
OECD	Organisation for Economic Co-operation and Development
SOCX	Social expenditure database
SPC	Social Protection Committee (EU)
SSA	Social security agency

Introduction

This report forms part of 2.1.5 *Social contribution collections: toward a unified system, experiences from the EU*.

As set out in the terms of reference, the report is addressed to the issue the effectiveness and efficiency of contributions collection which deeply affects the financial sustainability of pension funds and is therefore a key aspect of all pension systems. A pension system must be based on a reliable revenue collection that establishes a strong financial base. The issue has been crucial to many countries, especially those in a transition phase, which have been struggling to reach an effective strategy of contributions collection in line with the characteristics of their pension system. In addition, an effective system of collection is important to the legitimacy of a national social protection system while, conversely, an inequitable or ineffective system can tend to undermine legitimacy if contributors feel that others do not pay their fair share.

The main challenges to implement a more integrated and efficient approach include the overall administrative structure of the pensions and revenue institutions; more specifically, a pivotal role is played by the coordination among different institutions in charge of contributions collection.

According to IMF (Barrand et al., 2004) three broad approaches can be outlined:

- Full-service pension institutions that handle all major functions, including collection;
- Arrangements involving closer coordination between tax administration and pension institutions, including data sharing and joint audit operations;
- Collection responsibility is concentrated in a single administration.

EU countries have been facing the problem of contribution collection for long time and can provide valuable insights for the Chinese context. The methodologies of contribution collection usually depend on the historical circumstances of a specific country. In some European countries, such as France and Germany, a parallel collection system emerged, while in the countries in which social insurance institutions developed later, such as in Australia and in the United States, an integrated collection system prevails. To achieve greater efficiency, some countries, like Ireland, the UK, and Sweden have converted parallel systems into an integrated collection system. However, many countries still adopt mixed systems which are a combination of different collection mechanisms, involving fund managers, government, etc.

In China, the situation of contributions collection is scattered among provinces where different agencies oversee the collection of social contributions. In some provinces, the agencies are administrative centres of social security, while in others the agencies are tax authorities. In some provinces, the two agencies are responsible for different sorts of contributions. Therefore, as highlighted by the Social Security Department of the Chinese Ministry of Finance, the current collection regime is affected by problems related mainly to effective coverage and adequacy of benefits; more specifically:

- the collection method has confused the rights and obligations of the employer;
- the contributory base is not realistic, limiting the growth of the contribution fund;

- the nominal contribution is high, which impacts on the compliance of employers;
- the coverage of social security schemes is not sufficient to protect the rights of insured employees;
- the advantages of the tax authorities in collecting contribution cannot be fully applied.

Moreover, the 2010 Social Insurance Law of the PRC states that “The people’s governments at and above the county level shall strengthen the collection of social insurance premium” and “Social insurance premiums shall be uniformly collected, and the implementation steps and specific measures shall be formulated by the State Council”.

In early 2018, the CPC Central Committee has issued an Institutional Reform Plan which proposed that in order to increase the efficiency of social insurance fund collection and administration, all social insurance premiums such as basic old-age insurance premiums, basic medical insurance premiums, and unemployment insurance premiums shall be levied by the tax department. This plan has been adopted by the National People's Congress. This means that a decision has been taken that the tax department should be responsible for the collection of social insurance premiums at provincial level. The main starting point is to improve the efficiency of social insurance fund collection and management.

This EU Best Practice report (section 1) identifies the main collection models existing in Europe, outlines their historical origin and provide a comparative analysis of their relative advantages and disadvantages for the Chinese context.

Section 2 looks at approaches to the integration of social insurance contributions, including a number of detailed country studies.

Section 3 outlines key factors in successful social insurance contribution collection, drawing on international and EU best practice.

Collection of social contributions in the EU and OECD

In this section we outline details about the approach to contribution collection adopted in EU and other countries.

EU countries

In the EU, studies show that countries are divided between those which adopt an integrated approach and those where the social security administration is responsible for the main aspects of collection.

Integrated in tax agency	Social security/pension agency
New Member States – Bulgaria, Estonia, Hungary, Slovenia	Central European - Austria, Belgium, France, Germany, Italy
Nordic countries – Denmark, Norway, Sweden	New Member States – Czech Republic, Poland
Tax-based – Ireland, Netherlands, UK (also USA, Canada)	

The table above shows the approach adopted in some EU countries.³ Verbeke (2012) points out that the choice of collection method has been determined both by practical considerations and by the historical and political context.

As can be seen, Central European countries (such as Austria and Belgium) which have well-established social security institutions (often involving employers and trade unions in management) tend to have left responsibility for contribution collection with those institutions. In contrast, countries (such as Ireland and the UK) which rely more on general government contributions to fund social protection and where employers and trade unions are not directly involved in the management of social protection have opted for an integrated approach. Similarly, the Nordic countries have tended to adopt an integrated approach. In the case of the newer Member States, some countries (such as the Czech Republic and Poland) have opted for collection by the social security agency (SSA) while others (such as Bulgaria, Estonia, Hungary, and Slovenia) have gone for a unified approach. A number of these countries have moved from collection by SSA to an integrated approach (see Bakirtzi, 2011). In section 3 we look at the lessons from these transformations.

³ See Annex 1 for a more comprehensive list. The differences between social security contributions and taxes in EU Member States are discussed in Spiegel et al., 2015.

Indeed, it should be recalled that collection of social contributions involves a number of different and inter-related functions. These include a registration process; a process for determining the liability of insured persons and their employers, and what contributions are due; a validation process to ensure the correctness of the contributions paid; a process to collect these contributions; a process for recording contributions paid by a contributor over their lifetime, which can then be used by the benefit-paying authority to determine the amount of social security benefit due; an approach for monitoring compliance and controlling fraud within these processes; a debt management process for pursuing contributions where liabilities have not been met; and an enforcement process including law courts for collecting contributions due where the contributor or employer refuses to pay (ISSA, 2013a).

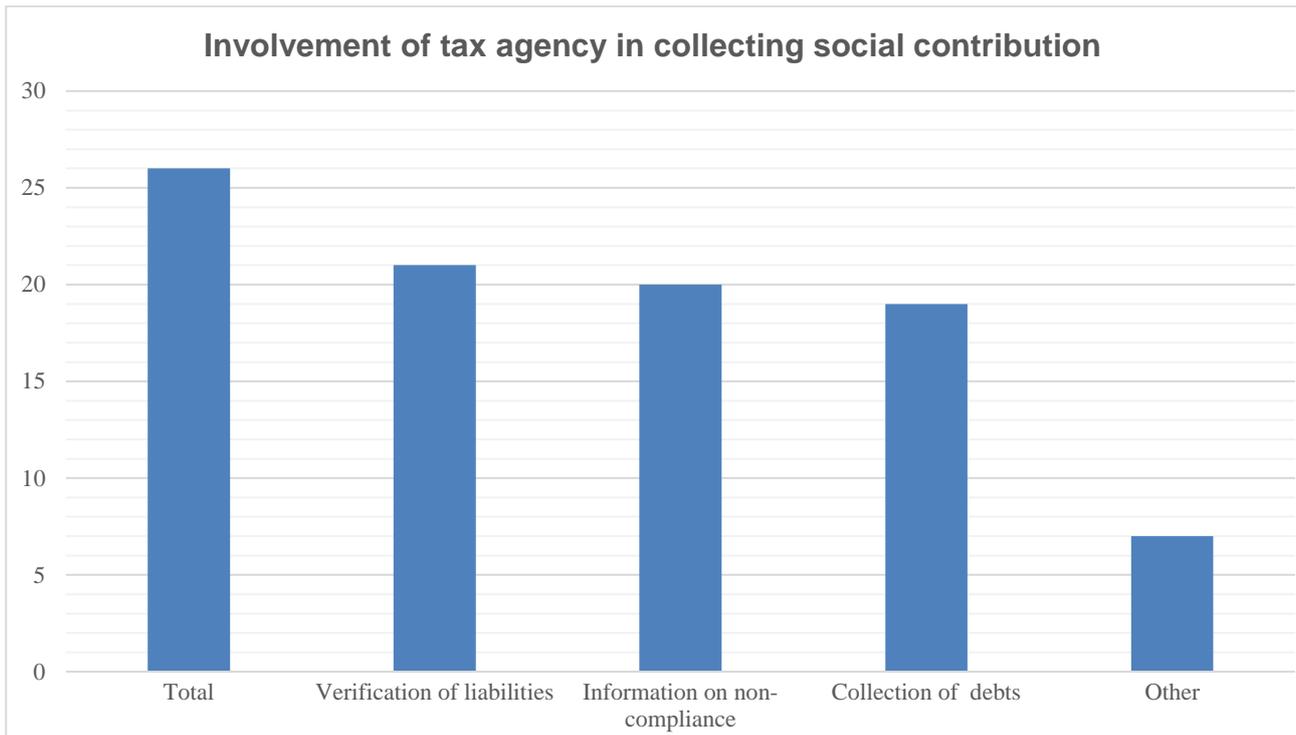
The division of countries into those which use SSAs or an integrated approach oversimplifies the picture to some extent because SSAs must remain linked to the collection of contributions and this occurs in different ways and to a greater or lesser extent in those countries which have opted for an integrated approach (see for example, Stanovnik et al., 2015 for a detailed discussion of how the process works in three Central and Eastern EU countries).

In general, there has been a trend over time towards a more integrated approach, particularly for the new Member States (Verbeke, 2012). An EU Commission study of social insurance collection in EU countries (Verbeke, 2012) found that all Member States are involved in contribution collection enhancing policies. Countries which have not opted for an integrated approach have taken steps to improve the effectiveness of contribution collection and, in many cases, to improve co-ordination between the tax and social security authorities, for example in Italy there has been limited co-ordination between social insurance and tax collection in that common forms and payment modalities are used and both social insurance and tax debts are collected by a separate agency (Equitalia).

It should be pointed out that it is *not* necessary to integrate social security contributions into the tax system in order for integration to work. Many countries which operate integrated systems have retained separate social security contributions.

OECD and other countries

The OECD (2017) has carried out a survey of tax administration in OECD and other countries which shows a broadly similar pattern. Of 55 countries included in the survey, in 26 tax administrations were involved in the collection of social contributions. The proportion was broadly similar in OECD member states where in 16 of the 35 OECD countries the tax administration is involved in collecting social contributions. The aspects in which the tax administrations were involved are set out in the table below.



Source: OECD, 2017.

Approaches to the integration of social contribution collection

A number of studies have argued that an integrated approach is the most effective and efficient approach to collecting social contributions. In this section we look at the rationale for such an approach, the issues and risks involved and key design features for making a successful transition from separate collection to an integrated approach.

Rationale for an integrated approach

The reasons for advocating this approach include

- ▶ Commonality of core processes
- ▶ Efficient use of resources/efficiency savings
- ▶ Compliance cost reduction – reduce burden on employers/self-employed
- ▶ Better compliance – reduced evasion.

First, the IMF (Barrand et al., 2004) has argued that one of the main arguments for unifying the collection of tax and social contribution collections is based on the commonality of the core processes involved in collection of both tax (especially income tax) and social contributions. Both processes involve the need to: (1) identify and register contributors and taxpayers using a unique registration number; (2) have systems to collect information in the form of returns from employers and the self-employed, usually based on similar definitions of income; (3) for employers, withhold tax and contributions from the income of their employees and pay this to the agencies (usually through the banking system); (4) have effective collection systems to follow up those employers who do not file, or do not account for payments; and (5) verify the accuracy of the information shown on returns using modern risk-based audit methods.

Second, studies indicate that the marginal costs of expanding systems used for tax administration to include social security contributions are relatively minor. Conversely, the integration of two existing systems can lead to efficiency savings. This can include fewer staff (so that existing staff can be reallocated to other work) and economies of scale in human resource management and training; lower infrastructure costs in office accommodation, telecommunications networks, and related functions; and the elimination of duplicated IT development costs and less risk in system development and maintenance.

Third, various studies of the integration of tax and social contribution collection have indicated that this can lead to a reduction in compliance costs and in the burden on employers and self-employed payers (see, e.g. Bakirtzi, 2011). This arises as a result of common forms and record-keeping systems, and a common audit program covering both taxes, and social contributions. The increasing use of internet based electronic filing

and payment systems within the tax administration also lowers taxpayer and contributor compliance costs. This simplification can also help improve the accuracy of the calculations made by employers, and therefore compliance levels.

Fourth, the integration can lead to reduced evasion of contribution payments and increased compliance.

It might be suggested that EU experience implies that countries which rely more heavily on social insurance do not adopt an integrated approach. A recent EU Commission study (Social Protection Committee, 2015) indicates that in 12 Member States (Austria, Belgium, Estonia, Croatia, Czech, France, Germany, Lithuania, Netherlands, Poland, Slovakia and Slovenia), more than 60% of all receipts came from social contributions (EU average = 56%). In fact, we can see (in Annex 1) that four of these countries *have* adopted an integrated approach. Conversely, several countries which rely on SSAs for collection (such as Italy and Spain) depend more heavily on general government contributions. The approach in EU countries appears to depend more on institutional politics whereby (Bismarckian) countries with long-established SSAs (often involving employers and trade unions representatives in management) have not adopted an integrated approach to date.

Objective

If it is decided to adopt a more integrated approach to contribution collection, it is important to be clear about the objectives of such a reform. It is proposed that the goal of integration should be *to achieve the best possible revenue collection performance*.

Issues and risks

Studies indicate that there are a range of issues and risks involved in such a reform (e.g. Barrand et al., 2004). These include

- ▶ Readiness of tax administration to implement – it is important that the tax administration should have the capacity to take on this new role in terms of organisational structure, IT capacity, etc.
- ▶ Need for political leadership – given that integration involves a number of different agencies across government and that there is likely to be some resistance to the change process, it is important to have strong political leadership throughout the change process.
- ▶ Need for clear understanding by all key partners – again given the complexity of the process, it is important that all the key agencies have a clear understanding of how the process will work and the end goals

- ▶ Plan and Implementation timetables – part of this involves having a clear plan and a timetable by which different stages in the process will be achieved., this will include identifying the information needs of the SSA
- ▶ Legal harmonisation – it may also be necessary to carry out legal changes in advance of or in parallel with the implementation, for example, it may be necessary to specific the new functions of the tax agency in relation to social contributions.⁴

Key design features

In order to address these issues, studies of existing reforms in EU countries indicate a number of key design factors. These include

- ▶ Cross government approach & political leadership - as above
- ▶ Clear plan with timelines – as above
- ▶ Clear delineation of roles – an important part of the plan will be to decide clearly on which tasks will be carried out by which agency in relation to registration, assessment of liability, validation, etc.
- ▶ Performance standards – standards should be agreed between the SSA and tax agency in relation to issues such as provision of information, transfer of resources, etc.
- ▶ Adequate resourcing – while the implementation of an integrated approach should provide administrative savings in the mid-term, it is essential to recognise that investment in human resources, IT, etc. will be needed in the short-term to allow for implementation of new responsibilities.
- ▶ Strong project management & interagency coordination – for example, it will normally be necessary to establish a working group to plan and implement the reform led by somebody at sufficiently senior level and including all key stakeholders.
- ▶ Common ID number – in many countries, a single ID number has been established for both tax and social insurance purposes to simplify exchange of data.

⁴ In some countries the opportunity has also been taken to make some harmonisation between definitions, time requirements for submitting reports and payments, etc. for tax and social security contributions.

Case studies

There have been a number of case studies of completed and ongoing integration of social contribution collection (Barrand et al., 2004; Bakirtzi, 2011). Here we provide an overview of the integration process in the Netherlands (drawing on Bakirtzi, 2011).

The social security system in the Netherlands is mainly financed by income-related social security contributions paid by the insured persons and the employers (66.5% in 2011). The Dutch tax authority (*Belastingdienst*) has been responsible for the collection of social security contribution since 2006. The merger of the administrations of social security contribution and tax collection began in 1990 and it was completed in 2006.⁵ Originally a range of different SSAs were responsible for collection but over time this was transferred to the tax authority. Staff were transferred from the SSA to the tax authority and overall staff numbers dealing with collection were reduced as part of the integration process.

More than 30,000 staff members of the Dutch tax authority are responsible for levying and collecting taxes and social security contributions. The tax administration processes the tax returns of 6 million private individuals and 1.1 million entrepreneurs as well as pays out provisional refunds and benefits that are available to households towards the costs of childcare, rent or health care.

Social security contributions in the Netherlands are calculated on the basis of income deriving from employment and home ownership and they are separate from personal or corporate income taxes. They are collected as a single sum with the wages tax. The identification of contributors is done through a unified personal identification number (*Burgerservicenummer*). The concept of wage in the law on social security has been harmonized with the definition of wage in the taxation law in order to facilitate the merged collection system.

The employer declares and pays each month to the tax authority the social security contributions which are directly withheld from the salary of the employee. Both the levies upon collection are kept together until the Ministry of Finance transfers them directly to the social security funds. The Dutch tax authority does not charge any kind of fee for the collection of the social security contributions.⁶

The data on the payments are interchanged freely between the tax and social security agencies. This includes information required for the determination of the right to benefits of the social insurance schemes. However, there is appropriate data protection as only authorised persons within the agencies can access and process this information. The control of the payments is performed by the tax authority with the cooperation of the Dutch Social Insurance Agency. All these agencies can declare a person liable for not paying his/her contributions.

⁵ An exception to this is that *voluntary* social security contributions are still collected by the Dutch Social Insurance Agency (*Sociale Verzekeringsbank*).

⁶ In other EU countries, e.g. Ireland, the tax agency is paid an agreed fee by the SSA for its collection services.

The only obstacles reported during and after the merger in the Netherlands were that some practices of the tax administration did not fully take into account the nature and purpose of the social security contributions collected.

Some disadvantages of the merged collection system in the Netherlands were:

- the vulnerability of the operation system due to the massive processes, the large flows of information, the transfer of data and the transfer of personnel, and
- data failures in the insurance file administration, such as lack of data or incorrect data.

Overall, the study concluded that the merger of social security contribution and tax collection resulted in a simplification of levying and collecting social security contributions, a reduction of the administrative burdens on employers, a reduction of the implementation cost for the government, a higher level of efficiency in the collection process, the harmonization to a certain extent of rules and the decrease of the contradictory decisions within the public administration. From a general point of view, the transition to the merged collection system was welcomed positively in the Netherlands. The taxation and social security rules were harmonized and the collection procedure became more efficient.

Summary of the merged administrative arrangements for social security contribution and tax collection in the Netherlands

Issue	Outcome
Collecting authority	The Dutch Tax and Customs Administration. Collection of voluntary social security contributions by the Social Insurance Agency
Collecting method	Social security contributions are collected as a single sum with the wage tax
Applicability of taxation rules	Yes
Relationship of social security contributions with taxes	Social security contributions are distinguished from personal or corporate income taxes
Declaration and payments of social security contributions and taxes	Performed by insured persons and their employers as well as self-employed persons
Records' maintenance	By the employer for each individual employee
Identification of insured persons for payment purposes	Via a personal identification number called <i>Burgerservicenummer</i>
Electronic declaration of	Use of e-forms

payments

Calculation basis for social security contributions

Taxable income deriving from employment and home ownership

Deductibility of contributions for corporate income purposes

Not reported

Transfer of funds collected

- Transfer of Exceptional Medical Expenses and health care contributions to the fund of the Health Insurance Board
- Transfer of employee insurance scheme contributions to the Employee Insurance Implementing Body
- Transfer of the national insurance scheme contributions to the Social Insurance Agency

Control and recovery of overdue payments

- General supervision of contributions by the Inspection Service for Work and Income
- Special supervision on social security fraud by the Social Intelligence and Investigation Service

Levels of record keeping

- Records kept by the employer for each individual employee
- Records maintained by the tax authority
- Records kept by the competent social security administrations

Data exchange between tax and social security administration

Free data exchange of social security contribution payment and information on the right to benefits, the duration and type of employment and wages

Obstacles during and after the merger

Performance practices of the tax administration did not take into account the nature and purpose of the social security contributions

Disadvantages of the merged collection

- Vulnerability of the operation system due to the massive processes, the large flows of information, the transfer of data and the transfer of personnel
- Data failures in the insurance file administration

Benefits of the merger

- Simplification of levying and collecting social security contributions
- Reduction of administrative burdens on employers
- Reduction of implementation costs for the government
- Higher level of efficiency in the collection process
- Harmonization of rules

- Decrease of contradictory decisions within the administrative bodies

Overview of integration

Based on a study of a number of EU countries⁷ which have carried out integration, the main administrative functions related to the collection procedure, and the benefits of the administrative practices adopted in a merged collection system of taxes and social security contributions are as follows (Bakirtzi, 2011):

⁷ This includes both countries which have long-term experience of integration such as the Netherlands and the UK and more recent experience in Estonia and Hungary,

Administrative functions of the collection system	Some practices adopted by the merged system	Some benefits of this merged approach
Registration of contributors	Creation of a unique identification system for social security and taxation (e.g. social-fiscal number)	<ul style="list-style-type: none"> • simplification and facilitation of the collection procedure • streamlined collection of social security contributions and taxes • discouragement of contribution evasion
Accounting and reporting	<ul style="list-style-type: none"> • administration of levies through one tax return (unified tax declarations) • harmonization of the concept of wage for taxation and social security contribution purposes • extensive use of IT systems and e-government practices 	<ul style="list-style-type: none"> • elimination of duplicate operations during the accounting and reporting procedure for taxes and social security contributions • avoidance of mistakes on the calculation of levies • minimizing the administrative burdens for payers • frequent up-dates and better keeping of the data records • more efficient control of the payments • creation of appropriate databases for certification of compliance and accrual of benefit rights
Collection	Unified payment form	<ul style="list-style-type: none"> • simplification of payment procedures • elimination of duplicate payment operations • better compliance with the social security contribution payment obligations • more rapid and safer collection and distribution of funds and data
Control	<ul style="list-style-type: none"> • cross checking data for consistency • incorporation of data in electronic databases • use of appropriate IT systems • enforcement powers granted to the collection agency 	<ul style="list-style-type: none"> • facilitation of identification or errors and misreporting • more effective enforcement procedures • increase of revenues due to higher compliance • combat of social security fraud
Transfer of the collected revenues	<ul style="list-style-type: none"> • frequent transfers of revenues • transfers via the national banks or state treasuries • compensation payments for delays in transfers by employers, banks or collection agencies (in case of liability for the delay) 	<ul style="list-style-type: none"> • increase of the speed of transfers of social security contributions and relevant data to the competent social security funds • timely transfer of funds

Based on the practical experience in these countries, the study concluded that

- the merging of the administration of social security contribution and taxation can be a cost-effective and efficient system,

- the administrative burdens on the administration and the employers or insured persons can be greatly reduced,
- the collection procedure can be facilitated by the use of new technologies, and
- the stricter control and enforcement procedures will result in higher contribution compliance which will safeguard the sustainability of the social security systems.

1. Key factors in successful contribution collection

As we have seen, a number of studies suggest that an integrated approach is the most effective approach for improving contribution collection. **However**, there is no single best way for all countries to achieve optimal contribution collection (ISSA, 2011; Verbeke, 2012). A range of factors relating to policies and measures in the collection process lead to country-specific systems. For example, the French agency ACOSS is recognised as providing an effective collection mechanism for social security contributions in that country.

Key factors

It is clear that, whether an SSA or integrated approach is chosen, there are a range of measures which will help to improve collection effectiveness and efficiency.⁸ These include

- ▶ IT, electronic data submission, electronic exchange of data/data matching, MIS, data mining, etc.
- ▶ Active policies to support compliance, e.g. offering client-oriented facilities through call-centres and help desks; electronic data submission; soft-measures, such as individualised follow-up,⁹ etc.
- ▶ Simplification of collection process, e.g. by offering e.g. electronic interactive record keeping and payment management.
- ▶ Risk-based enforcement
- ▶ Integration (as discussed in section 2) or convergence of process between SSA and tax agencies (e.g. common forms, payment process, etc.)

⁸ See further ISSA (20013a).

⁹ For example, establishing a direct contact with the contribution payer providing for prompt solutions to resolve payment problems where a deadline for payment has been missed.

Using IT to improve collection

In particular, developments in IT act as a motor for improved processes. Many countries provide for electronic data submission by the payer (mandatory in Ireland). IT systems also allow electronic exchange of data with other key stakeholders. This, for example, facilitates timely exchange of information between tax agency and SSA, e.g. in relation to contribution records. It also allows real-time exchange of data with key agencies to assist in control activities.

IT can also facilitate the use of management information systems (MIS) and business intelligence systems (BIS) which can improve the effectiveness and efficiency of collection processes. For example, we set out in an annex to this chapter an example of how an Italian SSA (INAIL) developed a BIS to help target its investigation resources at non-compliant employers thereby increasing coverage (by identifying uninsured businesses and individuals) and increasing contribution collection.

This is an example of risk-based enforcement which is now widely used in EU countries. This involves the use of automated detection tools that employ data matching and crosschecking of files. The data are obtained predominantly internal but agencies also exchange data with other key stakeholders. Integrated systems have an advantage here since they gather both tax and social contribution data. Risk analysis is also widely used as an instrument to guide audits and inspection activities. Risk analysis helps to identify high-risk sectors and activities so that investigation resources can be targeted at these areas.

Indeed it would appear that some Chinese tax authorities are already using technology to tackle tax evasion. For example, the tax authorities in Shenzhen are working with Tencent to develop an intelligent tax system which uses block-chain, cloud computing, artificial intelligence and big data to combat tax evasion.¹⁰

ISSA Guidelines

The ISSA (2013a) Guidelines on *Contribution Collection and Compliance* set out to provide a high-level reference point for the management of contribution collection and compliance activities.¹¹ These cover a range of topics relevant to the issue including

Governance - definition of the mandate, mission and organizational structure of the contribution collection and compliance system.

Strategy - defining aspects that are strategic for accomplishing the mission on contribution collection and compliance.

¹⁰ China Daily, June 15, 2018.

¹¹ Available at <https://www.issa.int/en/resources#oaguidelines>

Operational Processes - the specification and implementation of the key processes for implementing contribution collection and compliance functions.

Fraud Control – how to detect, prevent and fight against fraud.

Coordination with Outside Organizations - cooperating with and exchanging data with external organizations.

Fostering a Culture of Social Security and Compliance – generating among the population understanding of social security programmes and trust in the administration.

Permanent Evaluation and Adjustment – the specification of a permanent evaluation and improvement system and the continuing maturity of programme policies.

Annex: Developing a Business Intelligence System to reduce contribution evasion

The Italian Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro (INAIL) [National Employment Accident Insurance Institute] has taken steps to reduce contribution evasion and to improve inspection results in social security matters by computerizing the surveillance system and developing business intelligence activities. INAIL developed a Business Intelligence System to identify companies which evaded insurance contributions and premiums. Such cases were then verified by administrative and inspection officers (see ISSA, 2013b). The main objective was to increase the percentage of irregular companies checked and the amount of premiums coming from the fight against contribution evasion and tax avoidance.

To achieve these objectives, activities have been based on an optimum use of the human resources dedicated to inspections, even by the creation of a technological process (VI-Gea) which includes products coming from business intelligence activities. The increase in the percentage of irregular companies checked is also aimed at optimizing the use of financial resources, as there are no “useless” inspections for companies which observe labour and social security rules.

The key points of this approach are:

- the study and analysis of the economic sectors and of the actions of companies subject to INAIL insurance, which evade insurance contributions and premiums;
- a closer cooperation with other institutions which carry out inspection activities, in order to sign conventions for data exchange: this information will be cross-checked with INAIL databanks;
- a work-out of the information also considering the occurrences mentioned by mass-media;
- sharing of management activities of strategic/operative flows of central and local offices on a double level, first top-down and then bottom-up.

The innovative approach is based on:

- a new methodology which includes the best use of available information, inside and outside the operational office;
- a careful analysis of collected data and their processing, operated by qualified staff and using state-of-the-art information systems;
- an information system which, starting from the display of the processing results, enables the management of current cases and to check the activities of system users.

This approach has led to an extrapolation of results referring to inspection activity, with margins of error near to zero. The system has enabled thousands of individuals/companies unknown to INAIL to be identified and, as a consequence, from 2009 to 2012, about 20,000 new insurance relationships were established and the relevant unpaid premiums collected. The Business Intelligence System resulted in the increase in the

percentage of irregular companies inspected from 78% in 2009 to 87% in 2012 and the premiums assessed after inspections to increase by 8% in 2011 and 25% in 2012. These results show that, by using a selection of objective criteria and a massive collection of data, it is possible to carry out a new method to approaching companies' inspection. With this innovative system INAIL could achieve the objective of identifying irregular companies with high accuracy. It has also served as a deterrent for companies which do not observe labour and social security rules in order to evade insurance contributions and premiums.

Summary and Discussion

A number of studies suggest that an integrated approach is the most effective approach for improving contribution collection. **However**, there is no single best way for all countries to achieve optimal contribution collection. It is, therefore, for each country to assess the approach which is most suitable to it based on an analysis of its existing structures and policies.

As discussed in section 1, both in the EU and OECD, countries have split (roughly 50/50) between those which have opted for an integrated approach and those which continue to rely on SSAs to collect social contributions. However, there is a clear trend in the direction of greater integration, especially in the newer EU Member States.

The reasons put forward for an integrated approach include

- ▶ Commonality of core processes
- ▶ Efficient use of resources/efficiency savings
- ▶ Compliance cost reduction – reduce burden on employers/self-employed
- ▶ Better compliance – reduced evasion.

Whichever option is chosen at national level, either an SSA or integrated approach, there are a range of measures which will help to improve collection effectiveness and efficiency. These include

- ▶ IT, electronic exchange of data/data matching, MIS, data mining, etc.
- ▶ Active policies to support compliance, e.g. offering client-oriented facilities through call-centres, help desks, soft measures such as individualised follow-up, etc.
- ▶ Simplification of collection process, e.g. by offering e.g. electronic interactive record keeping and payment management.
- ▶ Risk-based enforcement
- ▶ Integration (as discussed in section 2) or convergence of process between SSA and tax agencies (e.g. common forms, payment process, etc.).

We understand that the NPC has concluded that China should follow an integrated approach. The next key task for Chinese local governments which have not already adopted this approach would be, therefore, to develop detailed plans for the integration of their collection systems drawing on experience from other countries (including the EU) and, of course, on the experience of what has worked best in China.

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Annex 1: Approaches to contribution collection in EU countries

Table I. Overview countries by Main Type of Collection Agency	
Tax Collection Agencies	Social Security Organizations
Bulgaria	Austria
Croatia	Belgium
Denmark	Cyprus
Estonia	Czech Republic
Finland	France
Hungary	Germany
Iceland	Greece
Ireland	Italy
Latvia	Lithuania
Malta	Luxemburg
Netherlands	Poland
Norway	Portugal
Romania	Slovak Republic
Slovenia	Spain
Sweden	
United Kingdom	

Source: Verbeke (2012)

POLICY SUGGESTIONS - PART ONE

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Executive Summary

At present, China has made it clear that since 2019, the social security contributions should be collected by the tax authorities uniformly. In order to carry out the reform direction proposed in *The Deepening Reform of The Party and State Institutions Plan*, the report puts forward five suggestions that should be paid close attention to in the next step. Firstly, the transitional policy should be clarified, the duty of collecting social security contributions should be transferred steadily to the tax departments, so as to avoid excessively increasing the burden of social security contributions in the short term.

Secondly, we should confirm the order in which the reform is put into practice in each social insurance items and give priority to basic endowment insurance system reform for urban residents. Thirdly, we should establish a platform for information exchange and cooperation among social security, taxation and finance, solve the problem of coordination between tax departments and social security agencies, and promote the governance of "Tax collection, Fiscal co-ordination, Social security expenditure, Public supervision". Fourthly, we should strengthen the study and training of the tax departments on social security policies. Fifthly, we should make use of the favorable conditions created by the reform of tax collection and management system to start the reform of lowering social security contributions and raising the level of overall planning.

Keywords: social security contributions, a unified collection system by tax departments, small and medium-sized enterprises

The proposals on Promoting Social Contribution Collections toward a unified system in China

The Deepening Reform of the Party and State Institutions Plan released in 2018 clearly points out that “in order to improve the efficiency of social insurance funds collection and management, various social security contributions such as basic endowment insurance premiums, basic medical insurance premiums, and unemployment insurance premiums will be uniformly levied by tax departments.” This plan has been approved by the National People's Congress of China and has legal effect, which resolves a lasting dispute for nearly two decades that which would be better between tax authorities and social security agencies to collect social security premiums for the development of social insurance, the reform direction is toward a unified collection by the tax authorities.

The Deepening Party and State Institutional Reform Plan also required that the separate national and local taxation systems by integrating their offices should be realized in 2018. Therefore, in 2018, the Chinese tax departments faced two major institutional reform tasks. First, the merger of the separate national and local taxation systems at all levels to form a new tax authority; Second, the tax departments should undertake the task of uniformly collecting social security contributions in most regions.

The recently released *The National and Local tax Collection System Reform Plan* clarified the order of key reform tasks: Firstly, the new tax institutions were listed, followed by *The Three decisions plan* for the new tax authorities. Thirdly, develop the transfer of social security contributions and non-tax revenues collections. Fourthly, promote the integration and optimization of tax and fee business as well as information system, and the fifth is to strengthen the funds safeguard and asset management, and revise relevant laws and regulations, from which the integration of national and local tax offices and the implementation of the unified collection system are intertwined and need to be systematically promoted.

The reform plan requires that the social security contributions shall be collected uniformly by tax departments as of January 1st, 2019. The reform plan has aroused widespread attention from Chinese enterprises and the public, and even caused some panic concerns. Some people even believe that the unified collection of social security contributions will greatly increase the social security burden and labor costs of enterprises, which may lead to large-scale business failures and unemployment.

In response to the public concerns, the State Administration of Taxation and the State Council timely announced some policy considerations following the social security premiums collection system reform. In August 2018, Director Wang Jun of the State Administration of Taxation pointed out at the mobilization and deployment meeting of the transfer of social security contributions and non-tax revenue collection, set up social security contributions collection system with well-defined duties, smooth process flow, standardized administration, strong collaboration, convenient and efficient, which is helpful to lay a good foundation for raising overall plan level of social security contributions, promoting timely improvement of the payment rate and deepening “delegate power, improve regulation and optimize services” reform and further stimulating

the vitality of market mainstay.¹²In September 2018, the State Council executive meeting further clarified: We must promptly study and reduce the social security rate appropriately, ensure that enterprises' burden is not increased as a whole to invigorate the market and guide a good social expectation.¹³These information indicates that with the changes of the social security collection system, the social insurance related policies will also be adjusted.

On the views of recent advances, China's social security contributions collection with the existence of the double-track system will become a thing of the past and enter a new era of uniformly collected by the tax departments since 2019. However, there are still many problems to be studied in how to promote the reform of the unified collection of social security contributions by tax authorities and the subsequent adjustment of social insurance policies. First of all, as the public feared, the degree of tax administration of social security contributions may be increased drastically. How to balance the interests of enterprises and insurers in a short term and achieve a smooth transition? Secondly, the collection of social security contributions is relatively special. It is closely linked with the provision of social insurance benefits. For this reason, how do various social insurance projects promote reforms step by step? How to coordinate the division of responsibilities between the tax departments and social security agencies? Finally, China's social insurance system still has some problems of policy design such as "fragmentation" and "high rates". How to use favorable conditions of the tax authority full responsibility model to further promote social insurance system? This paper preliminarily analyzes of these problems and puts forward the following recommendations.

1. Clarify transitional policies and steadily transfer the responsibility for collecting social security contributions to tax authorities

Social security contributions will be uniformly collected by the tax departments in 2019, which lead to the enterprises' great concerns about the social contribution collections reform in China. The reason is that the current situation of social contribution collection is far from the ideal state of "Participate in social security according to law". The tax authorities' ability of collection and administration can quickly achieve "Participate in social security according to law". According to *The White Book Of China Enterprise Social Security System 2017*, The proportion of enterprises with social security payment base according to law continued to decline in 2017, and only 24.1% of enterprises were fully compliant. 75.9% of the enterprises fail to verify the payment base according to the actual wages of employees, of which 22.9% of the enterprises uniformly paid the minimum base.¹⁴The author's interviews with some entrepreneurs also found that many labor-intensive enterprises, the proportion of employees participating in social security according

¹² <http://www.chinatax.gov.cn/n810219/n810724/c3675977/content.html>.

¹³ http://www.gov.cn/premier/2018-09/06/content_5319849.htm.

¹⁴ The relevant data are from the information provided by Guangzhou and Beijing local taxation bureaus.

to regulations is only 20% to 30%, and some even only 5% to 10%. As the tax authorities have more sufficient information on the enterprises, they are qualified to require the enterprise to pay 100% for all employees who participate in social security according to law. It means that the enterprises with 100 employees, which used to have 20-30 employees participated in social security, now have to have 100 people insured, and 75.9% of the enterprises had inaccurate payment base originally, and now all have to make the payment base solid. Fully achieving 'Participate in social security according to law' will lead to an increase of the number of participants in social security and the payment base, a rough estimate of labor costs has risen by about 30%. Moreover, assuming that an enterprise's costs for labor account for 30% of the total cost, the total cost rises by about 10%. At present, the gross profit margin of entity enterprises is relatively small, so the rise of cost is naturally unbearable.

From the current situation that enterprises are not optimistic about participating in social security to the ideal state of "participating in insurance according to law", we should consider the endurance of enterprises and pay attention to the ways and means. When you come down to it, good operation of enterprises is the foundation for the sustainable development of social insurance and the improvement of the welfare benefits of the insured. But in recent years, entity enterprises are under various pressures. Externally, the growing trade war between China and the United States has brought more uncertainty and great pressure on the export and sales of enterprises. Internally, the improvement of environmental standards has also increased the operating costs of enterprises. To avoid greatly increasing the social security burden of non-compliant enterprises in the past due to tax authorities uniformly collected social security contributions has become the last straw to crush enterprises.

Therefore, we should follow the idea of 'making progress while remaining stability', define the transitional policies, and do a good job in the reform of social contribution collection.

Firstly, practical measures should be taken to avoid a sharp rise of enterprises' social security payment after collecting by tax authorities, and to stabilize the actual social security payment burden of enterprises. Relevant policies can be issued by the State Council, and a transitional period of 3-5 years can be set up, clarify the phased promotion target of enterprises' participation in social security after collecting by tax authorities. The principle stipulates that the annual growth rate of social security payment of every enterprise shall not exceed 15% during the transition period. Tax authorities at a higher level should avoid blind view of political achievements and put forward excessively high growth target when issuing the plan of social contribution collection.

Secondly, to stabilize the reform of social insurance payment policies by enterprises and realize the expectation that the efficiency of tax collection and management will not lead to the rapid rise of actual burden. It should be acknowledged that the setting of the statutory rate of social security contributions in China in the middle 1990s is characterized by "budget liberally and spend sparingly", which is relatively high from the international comparison. With the rapid improvement of the efficiency of collection and management, China has the conditions to change the policies of the base and the statutory rate of social

security contributions. The central government should release information on the implementation of relevant reforms as soon as possible to stabilize the expectation of enterprises on social security payment burden and avoid wrong decisions of enterprises.

Thirdly, we will steadily advance the element tasks, such as the reform of social contribution collection and the integration of information related to enterprise social security, making it a solid foundation for improving the efficiency of social security collection. Improving the efficiency of tax collection and management does not mean that the burden on enterprises must be increased. In the case that the target of social security collections is set, improving the efficiency of collection and management means the enterprise social security burden is lower and more fair.

2. Establishing the implementation of social security projects in accordance with Tax authorities full responsibility model

The tax departments will begin to levy social security contributions uniformly in 2019. However, given the uneven development of different regions in China, it may not be realistic to implement Tax authority full responsibility model for all social security projects at one go. To this end, we can consider promoting the transfer of duties according to the regulations, but we must clarify the sequence. Some of the business links can be entrusted to the social security agency by the tax departments, and finally realize all social security projects according to Tax authority full responsibility model.

Enterprises have statutory obligations to pay the premiums of the basic endowment insurance, basic medical insurance, unemployment insurance, employment injury insurance and maternity insurance of urban workers. The work of social security collection is characterized by income discrimination, that is, the actual income of the insured as the payment base, pay at a fixed rate. Starting from the goal of improving the efficiency of collection and management mentioned in the deepening reform of the party and state institutions plan, it is more urgent to implement the Tax authority full responsibility model in such social security projects for workers. Taking into account the pains and social risks that may be brought about by the promotion of reforms, the specific reform plan can be implemented step by step: the province as a unit, the areas implemented the tax agents authorized collection model at present should be fully realized the “Tax authorities full responsibility model” in the early 2019, the areas currently charged by the social security branch may be delayed appropriately and meet the requirement that implement Tax authority full responsibility model in 2019. The areas that have taken the Tax authority full responsibility model, whose relevant systems should be further improved, especially strengthen coordination with the social security departments. In areas where the different types of insurance are under the responsibility of the tax and social security agencies, the basic endowment insurance and basic medical insurance may be considered as the reference system. The two types of insurance that have been levied by tax authorities are deemed to they have been collected according to the Tax authority full responsibility model. Other types of insurance also changed to the Tax authority full responsibility model.

Social security projects that are voluntarily insured or do not involve income screening mainly refer to the the basic endowment insurance and basic medical insurance for the residents. The main features of these types of insurance or participation in social security is that meet the requirement of voluntarily participating in social security from the view of laws and rules, the amount of contributions paid by the insured is generally fixed, and no income screening is required. Therefore, whether people are willing to participate in social security depends mainly on policy designing, services and whether the policy is beneficial to their own judgment. The ability to income screening of the departments of social security collections has little effect on improving the efficiency of collection and management. As analyzed earlier, due to the strength of the tax department's information system, they can also provide convenient services for the insured voluntarily. In addition, the tax department is responsible for the social security collection, which can realize the integration of all types of insurance registration information and facilitate the information flow between the tax departments and the social security branches. Based on these considerations, the final reform direction of the residents' social insurance projects that are voluntarily insured should be levied by the Tax authority full responsibility model, but the transition period can be specified by the provinces.

3.Establish an information exchange and cooperation platform for social security, taxation and finance, and promote the governance model of “tax collection, fiscal pooling, social security expenditure and public scrutiny”.

Social security business is a complete chain from the registration of insurance, the approval of payment base to the payment of treatment. Some people worry about handing over some of these links to the tax authorities cuts them apart and adds to the cost of the cost of co-ordination between departments. When both revenue and expenditure are handled by social security agencies, the internal incentive and restraint mechanisms will encourage social security departments to work harder to increase revenue and spend more prudently, while social security collection charged by tax authorities will weaken the incentive and restraint mechanisms. The author believes that the coordination costs between departments is inevitable for the public sectors, which should be mitigated by institution and technology. Internal incentive restraint mechanisms are important, while external regulatory constraints are more important. The solutions to these problems lie in establishing a platform for information exchange and cooperation among social security, taxation and finance, and promoting a governance model of ‘tax collection, fiscal pooling, social security expenditure and public scrutiny’.

First of all, a consultation mechanism (led by the government and have a leader in charge of it) for major decision-making should be established, a regular mechanism for department communication should be established, the policies of social security collection should be timely passed, joint meetings should be organized regularly to report the work progress, the difficulties of collection should be discussed together, and reasonable suggestions for improvement of collection should be proposed. Especially, the determination

of the payment base and other key parameters should be coordinated by social security, finance and taxation to establish the corresponding leadership system.

Second, we should strengthen the construction of informatization, learn from Guangdong province, rely on the core collection and management system of "Golden Tax-III" of tax departments, accelerate the promotion of provincial, municipal and county-level comprehensive treatment information platform, improve the data exchange rate, improve the abnormal information screening mechanism, and realize the reconciliation of three-party data of PICC, finance and local tax in real time.

Third, we should jointly formulate measures for collection, and clarify the payment period and types of tickets. After collection, we should push relevant information to the people's insurance departments in real time. For the application for refund of overpaid social security contributions, it shall be handled in accordance with the corresponding procedures for tax refund and promote the streamlined and standardized management of the social security collection business.

Fourth, establish the governance model of 'tax collection, fiscal pooling, social security expenditure and public scrutiny', supplemented by the support of modern information technology, which can achieve departmental communication and separation of powers based on information flow without technical barriers. In addition to the tax and social security departments, it is necessary to give full play to the role of fiscal pooling and the public supervision of auditing and other departments. Strengthening external supervision and restraint is beneficial for the tax departments to realize "full collection according to law", and the social security departments carefully manage the expenditure according to law. After promoting the Tax authority full responsibility model, the tax authorities are responsible for collection, the social security departments are responsible for expenditure management, and the division of responsibilities is relatively clear. Under the constraint of this decentralized system of checks and balances, it can not only ensure the security of funds, but also lay the institutional and technical foundation for good communication between departments.

4. Strengthen capacity building of the unified collection system

Social insurance business is an organic and unified whole, and the payment link is closely related to the insured's post-insurance payment. The payment link is closely related to treatment and payment of the insured after participating in social security. There is a significant difference between social security collection and the general tax collection. Therefore, the taxation departments should strengthen the learning and training of social security policies.

First of all, the tax system should establish a special collection agency for social security contributions, responsible for processing the social security policy information and insurance information and should be inclined to the social security profession in the recruitment of new personnel. Social security premiums collection takes the measure of "co-collection and co-management" of taxes and premiums. However, the collection of social security premiums involves too many social insurance policies, timely transmission and

check of insurance information, as well as the handling of abnormal situations, and so on. It is more policy-oriented and sensitive, so it needs special agencies and personnel responsible for management.

Secondly, the tax system should carry out special actions for social security policy learning and training, the participation of leaders, and collectively improve understanding of social security policies. The social security departments and the tax departments should pull together for mutual goal of doing a good job in social insurance business and provide convenience for the tax departments to study and promote social insurance policies. This not only conforms to the current direction of supply-side structural reform, but also can improve the compliance degree of insured persons. In fact, it is possible to increase the total amount of payment income, which is conducive to the sustainable development of social insurance industry.

5. Based on actuarialism, launch policies to reduce social security contributions and the enterprises' social security burden

In terms of international comparison, China's various social insurance premium rates are relatively high, and more are borne by enterprises. This is also the main reason why the World Bank's accounting for Chinese corporate tax burden is high in countries around the world. In practice, the current actual contribution rates vary widely across China; the determination of the lower limit of the contribution base depends on the actual social average wage, which is unreasonable. It can be expected that after the Tax authority full responsibility model, especially proceed with the expansion of the number of insurers and make the base of payment solid, which is helpful to effectively improve the actual collection effect. This will substantially increase the enterprises' burden, given the same rate and contribution base policy. The change of the collection system should be linked with the adjustment of the social insurance payment policies to balance the interests of the insured, the government's financial pressure and the corporate burden. It not only conforms to the direction of supply-side structural reform, but also improves the compliance of insurers, which actually can increase the total amount of payment income, thus contributing to the sustainable development of social insurance business.

First of all, after the reform of the collection system, the central government can enforce the executive ability, and the actual rates of different areas can be gradually converged and improved. On the basis of actuarial balance, the supporting system can reduce the statutory rate of social security contributions to ensure that the social insurance total payment income grows normally rather than excessively.

Secondly, the national social insurance contribution base policy can be gradually unified, and the lower limit of the payment base should be set to 60% of the social average wage including private sector. At present, the lower limit of the payment base set by different areas is generally based on the average salary of the employees on the job ruling out the private sector published by the Bureau of Statistics, so it was separated from the real social average wage.

Finally, in view of the low participation rate of SMEs and the fact that most of them are migrant workers, special policies can be considered to avoid overburdening the social security contributions of SMEs. For example, small and medium-sized enterprises may be allowed to employ urban migrant workers to choose to participate in resident endowment insurance or medical insurance. For those who choose to participate in residential social insurance, they get subsidies by the government and enterprises to actually improve their social insurance benefits.

6. Utilize the favorable conditions of unified tax collection to improve the social insurance overall planning level to break the "fragmentation" pattern

A prominent feature and drawback of China's social insurance system is "fragmentation". Including endowment insurance, the overall level of most types of insurance is only at the county level or at the prefecture level. This situation is not only not conducive to the development of a unified fair market across the country, but also seriously undermines the sustainability of the social insurance system. Breaking the "fragmentation" problem of the social insurance system and upgrading the overall level of the social insurance system is the primary direction for China's social insurance system reform. However, upgrading the overall level of various social insurance projects requires a high level of cooperation between lower levels of government and various departments. Under the circumstances that all kinds of information are under the control of lower-level governments, the promotion of reforms may face a situation where the number of bottoms is unclear and the lower levels do not cooperate.

From this perspective, the tax departments are fully responsible for collecting social security contributions, which is conducive to improving the overall level of the social insurance system. The tax departments are responsible for the full collection of social security contributions. It at least has been achieved the provincial pooling in two key links for the collection of income and insurance participation information. With the promotion of the combination reform of national and local tax systems, the national pooling will be realized. For this reason, if the Tax authority full responsibility model has the yielded results, it should promptly promote the unified collection policies across the country, including the payment rate and payment base policies and so on. Finally, we should seize the opportunity to promote basic pension insurance and worker injury insurance for employees on the national pooling and carry out medical insurance (including maternity insurance), unemployment insurance at the provincial or municipal level pooling.

POLICY SUGGESTIONS - PART TWO

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Abbreviations

ESSPROS	European System of Integrated Social Protection Statistics
EU	European Union
IMF	International Monetary Fund
ISSA	International Social Security Association
MISSOC	Mutual Information System on Social Protection
NPC	National People's Congress (China)
OECD	Organisation for Economic Co-operation and Development
SOCX	Social expenditure database
SPC	Social Protection Committee (EU)
SSA	Social security agency

Introduction

This report forms part of 2.1.5 *Social contribution collections: toward a unified system, experiences from the EU*.

As set out in the terms of reference, the report is to provide policy recommendation reports on the topic 2.1.5 based on the best practices from the EU and the Chinese background situation. This work draws on the workshop (and background reports) held in June 2018. As identified at that workshop, a pension system must be based on a reliable revenue collection that establishes a strong financial base. The issue has been crucial to many countries, especially those in a transition phase, which have been struggling to reach an effective strategy of contributions collection in line with the characteristics of their pension system. In addition, an effective system of collection is important to the legitimacy of a national social protection system while, conversely, an inequitable or ineffective system can tend to undermine legitimacy if contributors feel that others do not pay their fair share.

The main challenges to implement a more integrated and efficient approach include the overall administrative structure of the pensions and revenue institutions; more specifically, a pivotal role is played by the coordination among different institutions in charge of contributions collection.

According to IMF (Barrand et al., 2004) three broad approaches can be outlined:

- Full-service pension institutions that handle all major functions, including collection;
- Arrangements involving closer coordination between tax administration and pension institutions, including data sharing and joint audit operations;
- Collection responsibility is concentrated in a single administration.

It was noted in the background report on this topic (Cousins, 2018) that EU countries have been facing the problem of contribution collection for long time and can provide valuable insights for the Chinese context. The methodologies of contribution collection usually depend on the historical circumstances of a specific country. In some European countries, such as France and Germany, a parallel collection system emerged, while in the countries in which social insurance institutions developed later, such as in Australia and in the United States, an integrated collection system prevails. To achieve greater efficiency, some countries, like Ireland, the UK, and Sweden have converted parallel systems into an integrated collection system.

The table below shows the approach adopted in some EU countries. Verbeke (2012) points out that the choice of collection method has been determined both by practical considerations and by the historical and political context. A number of these countries have moved from collection by SSA to an integrated approach (see Bakirtzi, 2011). In section 2 we look at the lessons from these transformations.

Integrated in tax agency	Social security/pension agency
New Member States – Bulgaria, Estonia, Hungary, Slovenia Nordic countries – Denmark, Norway, Sweden Tax-based – Ireland, Netherlands, UK (also USA, Canada)	Central European - Austria, Belgium, France, Germany, Italy New Member States – Czech Republic, Poland

In China, the situation of contributions collection varies among provinces where different agencies oversee the collection of social contributions. In some provinces, the agencies are administrative centres of social security, while in others the agencies are tax authorities. In some provinces, the two agencies are responsible for different sorts of contributions. Therefore, as highlighted by the Social Security Department of the Chinese Ministry of Finance, the current collection regime is affected by problems related mainly to effective coverage and adequacy of benefits; more specifically:

- the collection method has confused the rights and obligations of the employer;
- the contributory base is not realistic, limiting the growth of the contribution fund;
- the nominal contribution is high, which impacts on the compliance of employers;
- the coverage of social security schemes is not sufficient to protect the rights of insured employees;
- the advantages of the tax authorities in collecting contribution cannot be fully applied.

However, the Chinese government has recently decided to adopt a fully integrated approach. In early 2018, the CPC Central Committee issued an Institutional Reform Plan which proposed that in order to increase the efficiency of social insurance fund collection and administration, all social insurance premiums such as basic old-age insurance premiums, basic medical insurance premiums, and unemployment insurance premiums shall be levied by the tax department. This plan has been adopted by the National People's Congress. This means that a decision has been taken that the tax department should be responsible for the collection of social insurance premiums at provincial level. Therefore this report focusses on EU experience insofar as it can assist in the transformation of collection from separate to fully integrated collection. The main starting point is to improve the efficiency of social insurance fund collection and management.

This report (section 1) identifies the main rationales for using an integrated approach.

Section 2 looks at the experience of EU countries in moving to an integrated approach drawing on a number of detailed country studies (see references).

Section 3 sets out a number of policy recommendations drawing on international and EU best practice.

Rationales for an integrated approach

In this section we outline the rationale for an integrated approach as adopted in some EU and other countries.

Functions involved in social contribution collection

Collection of social contributions involves a number of different and inter-related functions. These include

- a registration process;
- a process for determining the liability of insured persons and their employers, and what contributions are due;
- a validation process to ensure the correctness of the contributions paid;
- a process to collect these contributions;
- a process for recording contributions paid by a contributor over their lifetime, which can then be used by the benefit-paying authority to determine the amount of social security benefit due;
- an approach for monitoring compliance and controlling fraud within these processes;
- a debt management process for pursuing contributions where liabilities have not been met; and
- an enforcement process including law courts for collecting contributions due where the contributor or employer refuses to pay (ISSA, 2013a).

Rationale for an integrated approach

The reasons for adopting this approach include

- Commonality of core processes
- Efficient use of resources/efficiency savings
- Compliance cost reduction – reduce burden on employers/self-employed
- Better compliance – reduced evasion.

First, the IMF (Barrand et al., 2004) has argued that one of the main arguments for unifying the collection of tax and social contribution collections is based on the commonality of the core processes involved in collection of both tax (especially income tax) and social contributions. Both processes involve the need to: (1) identify and register contributors and taxpayers using a unique registration number; (2) have systems to collect information in the form of returns from employers and the self-employed, usually based on similar definitions of income; (3) for employers, withhold tax and contributions from the income of their employees and pay this to the agencies (usually through the banking system); (4) have effective collection systems to

follow up those employers who do not file, or do not account for payments; and (5) verify the accuracy of the information shown on returns using modern risk-based audit methods.

Second, studies indicate that the marginal costs of expanding systems used for tax administration to include social security contributions are relatively minor. Conversely, the integration of two existing systems can lead to efficiency savings. This can include fewer staff (so that existing staff can be reallocated to other work) and economies of scale in human resource management and training; lower infrastructure costs in office accommodation, telecommunications networks, and related functions; and the elimination of duplicated IT development costs and less risk in system development and maintenance.

Third, various studies of the integration of tax and social contribution collection have indicated that this can lead to a reduction in compliance costs and in the burden on employers and self-employed payers (see, e.g. Bakirtzi, 2011). This arises as a result of common forms and record-keeping systems, and a common audit program covering both taxes, and social contributions. The increasing use of internet based electronic filing and payment systems within the tax administration also lowers taxpayer and contributor compliance costs. This simplification can also help improve the accuracy of the calculations made by employers, and therefore compliance levels.

Fourth, the integration can lead to reduced evasion of contribution payments and increased compliance.

It might be suggested that EU experience implies that countries which rely more heavily on social insurance do not adopt an integrated approach. A recent EU Commission study (Social Protection Committee, 2015) indicates that in 12 Member States (Austria, Belgium, Estonia, Croatia, Czech, France, Germany, Lithuania, Netherlands, Poland, Slovakia and Slovenia), more than 60% of all receipts came from social contributions (EU average = 56%). In fact, four of these countries *have* adopted an integrated approach. Conversely, several countries which rely on SSAs for collection (such as Italy and Spain) depend more heavily on general government contributions. The approach in EU countries appears to depend more on institutional politics whereby (Bismarckian) countries with long-established SSAs (often involving employers and trade unions representatives in management) have not adopted an integrated approach to date.

2. Experience of integration in EU countries

This section looks at the experience of integration in a number of EU countries

Issues and risks involved

Studies indicate that there are a range of issues and risks involved in such a reform (e.g. Barrand et al., 2004).

These include

- ▶ Readiness of tax administration to implement – it is important that the tax administration should have the capacity to take on this new role in terms of organisational structure, IT capacity, etc.
- ▶ Need for political leadership – given that integration involves a number of different agencies across government and that there is likely to be some resistance to the change process, it is important to have strong political leadership throughout the change process.
- ▶ Need for clear understanding by all key partners – again given the complexity of the process, it is important that all the key agencies have a clear understanding of how the process will work and the end goals
- ▶ Plan and Implementation timetables – part of this involves having a clear plan and a timetable by which different stages in the process will be achieved., this will include identifying the information needs of the SSA
- ▶ Legal harmonisation – it may also be necessary to carry out legal changes in advance of or in parallel with the implementation, for example, it may be necessary to specific the new functions of the tax agency in relation to social contributions.¹⁵

Key design features

In order to address these issues, studies of existing reforms in EU countries indicate a number of key design factors. These include

- ▶ Cross government approach & political leadership - as above
- ▶ Clear plan with timelines – as above

¹⁵ In some countries the opportunity has also been taken to make some harmonisation between definitions, time requirements for submitting reports and payments, etc. for tax and social security contributions.

- ▶ Clear delineation of roles – an important part of the plan will be to decide clearly on which tasks will be carried out by which agency in relation to registration, assessment of liability, validation, etc.
- ▶ Performance standards – standards should be agreed between the SSA and tax agency in relation to issues such as provision of information, transfer of resources, etc.
- ▶ Adequate resourcing – while the implementation of an integrated approach should provide administrative savings in the mid-term, it is essential to recognise that investment in human resources, IT, etc. will be needed in the short-term to allow for implementation of new responsibilities.
- ▶ Strong project management & interagency coordination – for example, it will normally be necessary to establish a working group to plan and implement the reform led by somebody at sufficiently senior level and including all key stakeholders.
- ▶ Common ID number – in many countries, a single ID number has been established for both tax and social insurance purposes to simplify exchange of data.

Although it has been suggested that the Chinese authorities should reduce the headline level of social insurance contribution as part of the integration of social insurance contribution collection, it does not appear from the studies reviewed in the background report (Cousins, 2018) that this approach was adopted in EU countries.

Case studies

There have been a number of case studies of completed and ongoing integration of social contribution collection (Barrand et al., 2004; Bakirtzi, 2011). Here we provide an overview of the integration process in the Netherlands (drawing on Bakirtzi, 2011).

The social security system in the Netherlands is mainly financed by income-related social security contributions paid by the insured persons and the employers (66.5% in 2011). The Dutch tax authority (*Belastingdienst*) has been responsible for the collection of social security contribution since 2006. The merger of the administrations of social security contribution and tax collection began in 1990 and it was completed in 2006.¹⁶ Originally a range of different SSAs were responsible for collection but over time this was transferred to the tax authority. Staff were transferred from the SSA to the tax authority and overall staff numbers dealing with collection were reduced as part of the integration process.

More than 30,000 staff members of the Dutch tax authority are responsible for levying and collecting taxes and social security contributions. The tax administration processes the tax returns of 6 million private

¹⁶ An exception to this is that *voluntary* social security contributions are still collected by the Dutch Social Insurance Agency (*Sociale Verzekeringsbank*).

individuals and 1.1 million entrepreneurs as well as pays out provisional refunds and benefits that are available to households towards the costs of childcare, rent or health care.

Social security contributions in the Netherlands are calculated on the basis of income deriving from employment and home ownership and they are separate from personal or corporate income taxes. They are collected as a single sum with the wages tax. The identification of contributors is done through a unified personal identification number (*Burgerservicenummer*). The concept of wage in the law on social security has been harmonized with the definition of wage in the taxation law in order to facilitate the merged collection system.

The employer declares and pays each month to the tax authority the social security contributions which are directly withheld from the salary of the employee. Both the levies upon collection are kept together until the Ministry of Finance transfers them directly to the social security funds. The Dutch tax authority does not charge any kind of fee for the collection of the social security contributions.¹⁷

The data on the payments are interchanged freely between the tax and social security agencies. This includes information required for the determination of the right to benefits of the social insurance schemes. However, there is appropriate data protection as only authorised persons within the agencies can access and process this information. The control of the payments is performed by the tax authority with the cooperation of the Dutch Social Insurance Agency. All these agencies can declare a person liable for not paying his/her contributions.

The only obstacles reported during and after the merger in the Netherlands were that some practices of the tax administration did not fully take into account the nature and purpose of the social security contributions collected.

Some disadvantages of the merged collection system in the Netherlands were:

- the vulnerability of the operation system due to the massive processes, the large flows of information, the transfer of data and the transfer of personnel, and
- data failures in the insurance file administration, such as lack of data or incorrect data.

Overall, the study concluded that the merger of social security contribution and tax collection resulted in a simplification of levying and collecting social security contributions, a reduction of the administrative burdens on employers, a reduction of the implementation cost for the government, a higher level of efficiency in the collection process, the harmonization to a certain extent of rules and the decrease of the contradictory decisions within the public administration. From a general point of view, the transition to the merged collection system was welcomed positively in the Netherlands. The taxation and social security rules were harmonized and the collection procedure became more efficient.

¹⁷ In other EU countries, e.g. Ireland, the tax agency is paid an agreed fee by the SSA for its collection services.

Summary of the merged administrative arrangements for social security contribution and tax collection in the Netherlands

Issue	Outcome
Collecting authority	The Dutch Tax and Customs Administration. Collection of voluntary social security contributions by the Social Insurance Agency
Collecting method	Social security contributions are collected as a single sum with the wage tax
Applicability of taxation rules	Yes
Relationship of social security contributions with taxes	Social security contributions are distinguished from personal or corporate income taxes
Declaration and payments of social security contributions and taxes	Performed by insured persons and their employers as well as self-employed persons
Records' maintenance	By the employer for each individual employee
Identification of insured persons for payment purposes	Via a personal identification number called <i>Burgerservicenummer</i>
Electronic declaration of payments	Use of e-forms
Calculation basis for social security contributions	Taxable income deriving from employment and home ownership
Deductibility of contributions for corporate income purposes	Not reported
Transfer of funds collected	<ul style="list-style-type: none"> • Transfer of Exceptional Medical Expenses and health care contributions to the fund of the Health Insurance Board • Transfer of employee insurance scheme contributions to the Employee Insurance Implementing Body • Transfer of the national insurance scheme contributions to the Social Insurance Agency
Control and recovery of overdue payments	<ul style="list-style-type: none"> • General supervision of contributions by the Inspection Service for Work and Income • Special supervision on social security fraud by the Social Intelligence and Investigation Service
Levels of record keeping	<ul style="list-style-type: none"> • Records kept by the employer for each individual employee • Records maintained by the tax authority • Records kept by the competent social security administrations
Data exchange between tax and social security administration	Free data exchange of social security contribution payment and information on the right to benefits, the duration and type of employment and wages
Obstacles during and after the merger	Performance practices of the tax administration did not take into account the nature and purpose of the social security contributions
Disadvantages of the merged collection	<ul style="list-style-type: none"> • Vulnerability of the operation system due to the massive processes, the large flows of information, the transfer of data and the transfer of personnel • Data failures in the insurance file administration
Benefits of the merger	<ul style="list-style-type: none"> • Simplification of levying and collecting social security contributions • Reduction of administrative burdens on employers • Reduction of implementation costs for the government • Higher level of efficiency in the collection process • Harmonization of rules

- | | |
|--|--|
| | <ul style="list-style-type: none">• Decrease of contradictory decisions within the administrative bodies |
|--|--|

Overview of integration

Bakirtzi (2011) carried out a study of a number of EU countries¹⁸ which have carried out integration. Based on the practical experience in these countries, the study concluded that

- the merging of the administration of social security contribution and taxation can be a cost-effective and efficient system,
- the administrative burdens on the administration and the employers or insured persons can be greatly reduced,
- the collection procedure can be facilitated by the use of new technologies, and
- the stricter control and enforcement procedures will result in higher contribution compliance which will safeguard the sustainability of the social security systems.

¹⁸ This includes both countries which have long-term experience of integration such as the Netherlands and the UK and more recent experience in Estonia and Hungary,

3. Policy recommendations

This section sets out a number of policy recommendations for the Chinese authorities, drawing on the EU experience.

Policy recommendation 1

The Chinese authorities at national level should **set a clear timetable** for the move to full integration of social insurance contribution collection at provincial level. This should be realistic taking account of the issues involved in such as transition and the other challenges facing tax agencies (e.g. merger of national and provincial tax agencies). As part of this assessment, the national authorities should **assess if any legal changes are required to national social security and/or tax law** and should make the necessary changes in order to facilitate integration.

Policy recommendation 2

Working mechanisms (e.g. project team) should be established at provincial level involving all the key stakeholders (in particular the social security and tax agencies) in order to plan and implement the integration.

Policy recommendation 3

A **strategic implementation plan** should be developed at provincial level setting out a detailed plan for the implementation of the integration of social insurance collection. This should specify the actions required, agencies responsible, timing, resources required (including human resources and IT, future co-ordination mechanisms between key agencies, etc.

Policy recommendation 4

As part of the strategic implementation plan, the future **IT platform should be identified and developed** (drawing insofar as possible on existing systems such as Golden Tax Phase III). As we discussed IT can act as a motor for improved processes. Many countries provide for electronic data submission by the payer. IT systems also allow electronic exchange of data with other key stakeholders. This, for example, facilitates timely exchange of information between tax agency and SSA, e.g. in relation to contribution records. It also allows real-time exchange of data with key agencies to assist in control activities. IT can also facilitate the use of management information systems (MIS) and business intelligence systems (BIS) which can improve the effectiveness and efficiency of collection processes (see ISSA, 2013b).

Policy recommendation 5

The strategic implementation plan, should provide for active policies to support compliance, e.g. offering client-oriented facilities through call-centres and help desks; electronic data submission; soft-measures, such as individualised follow-up,¹⁹ etc. It should also provide for simplification of collection process, e.g. by offering e.g. electronic interactive record keeping and payment management.

Policy recommendation 6

In the future collection of social insurance contributions, **a risk-based approach should be adopted**. This involves the use of automated detection tools that employ data matching and crosschecking of files. The data are obtained predominantly internal but agencies also exchange data with other key stakeholders. Integrated systems have an advantage here since they gather both tax and social contribution data. Risk analysis is also widely used as an instrument to guide audits and inspection activities. Risk analysis helps to identify high-risk sectors and activities so that investigation resources can be targeted at these areas. Some Chinese tax authorities are already using technology to tackle tax evasion. For example, the tax authorities in Shenzhen are working with Tencent to develop an intelligent tax system which uses block-chain, cloud computing, artificial intelligence and big data to combat tax evasion.²⁰

Policy recommendation 7

The implementation plan should include a **communications plan** which would keep key stakeholders (including employers and employees) informed as to planned and actual progress on implementation and the implications for the different stakeholders and any mitigation measures being planned to offset the perceived impact of higher actual payment of contributions.

¹⁹ For example, establishing a direct contact with the contribution payer providing for prompt solutions to resolve payment problems where a deadline for payment has been missed.

²⁰ China Daily, June 15, 2018.

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