

Green Tax Environment Observation Report



5/2022

Introduction

Green taxation, as an economic instrument, is essentially the use of tax policy to “internalize” the negative environmental externalities caused by enterprise production. Green taxation plays a role in guiding behavior, which helps to win the battle of pollution prevention and control through two-way regulation. On the one hand, it guides enterprises to reduce pollution emissions and use tax preferential policies to encourage technological innovation and green transformation; on the other hand, it motivates enterprises to save resources, improve resource utilization and achieve a good ecological cycle. In conclusion, as an important instrument of modern national environmental regulation, green taxation has released a clear incentive signal to enterprises: by changing the price of products and raising the cost of production, enterprises need to take the initiative and autonomy to carry out technological innovation and reduce pollution as much as possible in order to develop in the long run. Compared with administrative means, green taxation has incomparable superiority.

SIP Lvse Jiangnan Public Environment Concerned Centre (hereinafter referred to as “PECC”) is an environmental public welfare organization. Since its establishment in 2012, it has always been based on the concept of green development, and is committed to nudging polluting enterprises for elevated pollution control. In 2020, PECC, as an unrelated third-party force, will start the green taxation work in an all-round way, try to use the leverage mechanism of taxation to leverage the energy conservation and emission reduction of enterprises, and improve the local ecology; we will form a strong supervision over the implementation of the green taxation system. Through close and friendly cooperation with tax authorities, PECC strengthens the intensity of regional green tax policies, punches out a combination of green tax, supervises enterprises to enjoy tax incentives in a reasonable and compliant manner, and guides enterprises to take the road of green, circular, sustainable and healthy development.

About Green Taxation

Green taxation, also known as environmental taxation, refers to the tax levied on polluting industries and pollutant emissions, or tax relief given to taxpayers who invest in the projects of pollution prevention and control. The general term for the tax types and tax policies for intensive utilization and promotion of green production and consumption,¹ including environmental protection tax, consumption tax, resource tax, vehicle and vessel tax, urban land use tax, urban maintenance and construction tax, cultivated land occupation tax, as well as tax incentives in corporate income tax and value-added tax to encourage enterprises to invest in

¹ Wu Jiaqiang: The Study on the Construction of Green Environmental Tax System

environmental protection.² On December 25th, 2016, China passed the *Environmental Protection Tax Law of the People's Republic of China* and introduced the environmental protection tax on January 1st, 2018, which means that China's tax system has taken a step towards "greening". The green taxation has formed a distinct policy guidance for enterprises to use the tax leverage to release more "green" energy.³

The Significance of Green Taxation

Green taxation promotes green development. Green taxation is conducive to local governments giving more support to industries and enterprises seeking to transform and upgrade, thus promoting green development of the economy.⁴

The establishment of the green taxation system is not only in line with China's basic national conditions and environmental policy goals, but also helps to fight the tough battle of pollution prevention and control, and guide enterprises to take the road of sustainable development. The precise implementation of the green taxation system, with more systematic measures and more flexible strategies, provides methodological guidance for pollution prevention and control, and provides an additional direction path, leveraging the tax lever to reduce the emission of the pollution and the carbon, and help the green transformation of enterprises and GDP.

Environment and Green Fiscal Taxation

PECC conducts in-depth research on green taxation and publishes multiple green taxation reports, and focuses on the impact of corporate environmental penalties on enterprises' enjoyment of value-added tax and environmental protection tax.

According to the *Notice of the Ministry of Finance and the State Administration of Taxation on the Issuance of the Preferential Catalogue of VAT on Products and Services for Comprehensive Utilization of Resources* (CS [2015] No. 78)⁵, enterprises with comprehensive utilization of resources must meet the following five conditions when enjoying the VAT refund policy:

² Wang Jinnan, Yang Jintian: A Reforming Design on New Pollution Charge Schedules in China, *Research of Environmental Sciences*, 1998(5).

³ Data source: Ministry of Finance of the People's Republic of China http://www.mof.gov.cn/zhengwuxinxi/caijingshidian/jjrb/201711/t20171129_2762360.htm, Date accessed 23rd Feb. 2022.

⁴ Data source: Ministry of Finance of the People's Republic of China http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/201607/t20160706_2345092.htm, Date accessed 23rd Feb. 2022

⁵ Data source: State Taxation Administration <http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c1519869/content.html>, Date accessed 15th Apr. 2022.

- (1) Belong to the general taxpayer of value-added tax.
- (2) The sale of comprehensive utilization products and services does not belong to the prohibited and restricted projects in the *Guidance Catalogue of Industrial Structure Adjustment* of the National Development and Reform Commission.
- (3) The sale of integrated utilization of products and services does not belong to the products or heavy pollution processes with “high pollution, high environmental risk” in the *Comprehensive Catalogue of Environmental Protection* of the Ministry of Environmental Protection.
- (4) If the comprehensively utilized resources belong to the hazardous wastes listed in the *List of National Hazardous Waste* of the Ministry of Environmental Protection, the *License of Hazardous Waste Business* issued by the environmental protection department at or above the provincial level shall be obtained, and the scope of the permitted business includes the use of hazardous wastes.
- (5) The rating of the tax credit is not C or D as assessed by the tax authorities.

In addition, CS [2015] No. 78 clearly stipulates that “taxpayers who have enjoyed the VAT refund policy stipulated in this notice shall be punished (except for a warning or a single fine of less than RMB 10,000) for violating laws and regulations on taxation and environmental protection shall not enjoy the immediate VAT refund policy in this notice for 36 months from the month following the issuance of the punishment decision policy.” Similar to the requirements of the CS [2015] No. 78 document, the document of CS [2015] No. 73⁶ also has similar requirements for enterprises enjoying tax incentives.

⁶ Data source: State Taxation Administration <http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c1521610/content.html>, Data accessed 15th Apr. 2022.



财政部 国家税务总局

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财税〔2015〕78号



财政部 国家税务总局

关于新型墙体材料增值税政策的通知

财税〔2015〕73号

Environmental Governance and Environmental Tax

On January 1st, 2018, the *Environmental Protection Tax Law of the People's Republic of China* came into effect. On the one hand, the levy of environmental protection tax increases the cost of pollutant discharge for enterprises, and on the other hand, enterprises can enjoy tax incentives for the reduction of the emission.

The environmental protection tax is calculated and levied according to the actual emission of pollutants, and a positive incentive mechanism of “more emissions, more payment, less emissions, less payment, no emissions, no payment” is established. Through communication with the tax department, we learned that most companies are actively paying environmental taxes.

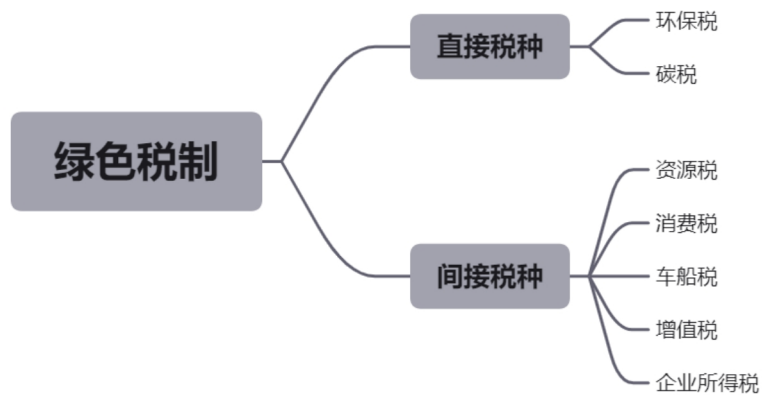
According to statistics, since the implementation of the *Environmental Protection Tax Law* in 2018 for three years, taxpayers have enjoyed a cumulative tax reduction of 10.26 billion yuan due to low emissions, a tax-free bonus of 15.22 billion yuan due to centralized sewage treatment, and a tax-free bonus of 3.89 billion yuan due to the comprehensive utilization of waste.⁷

Environmental protection tax plays an important green effect in promoting environmental governance, and guides enterprises to change from “passive emission reduction” to “active action”.

Other Green Taxes

Green taxes linked to environmental protection also include corporate income tax, resource tax, carbon tax, and export tax rebates. In order to give full play to the functional role of taxation in promoting the construction of ecological civilization, a green taxation system of “multi-policy combination” has been gradually formed, leading the green development of enterprises, promoting green consumption, and helping the ecological and environmental protection with the two-way adjustment.

⁷ Data source: State Taxation Administration <http://www.chinatax.gov.cn/chinatax/n810219/n810780/c5168360/content.html>, Data accessed 15th Apr. 2022.



Promotion and Feedback

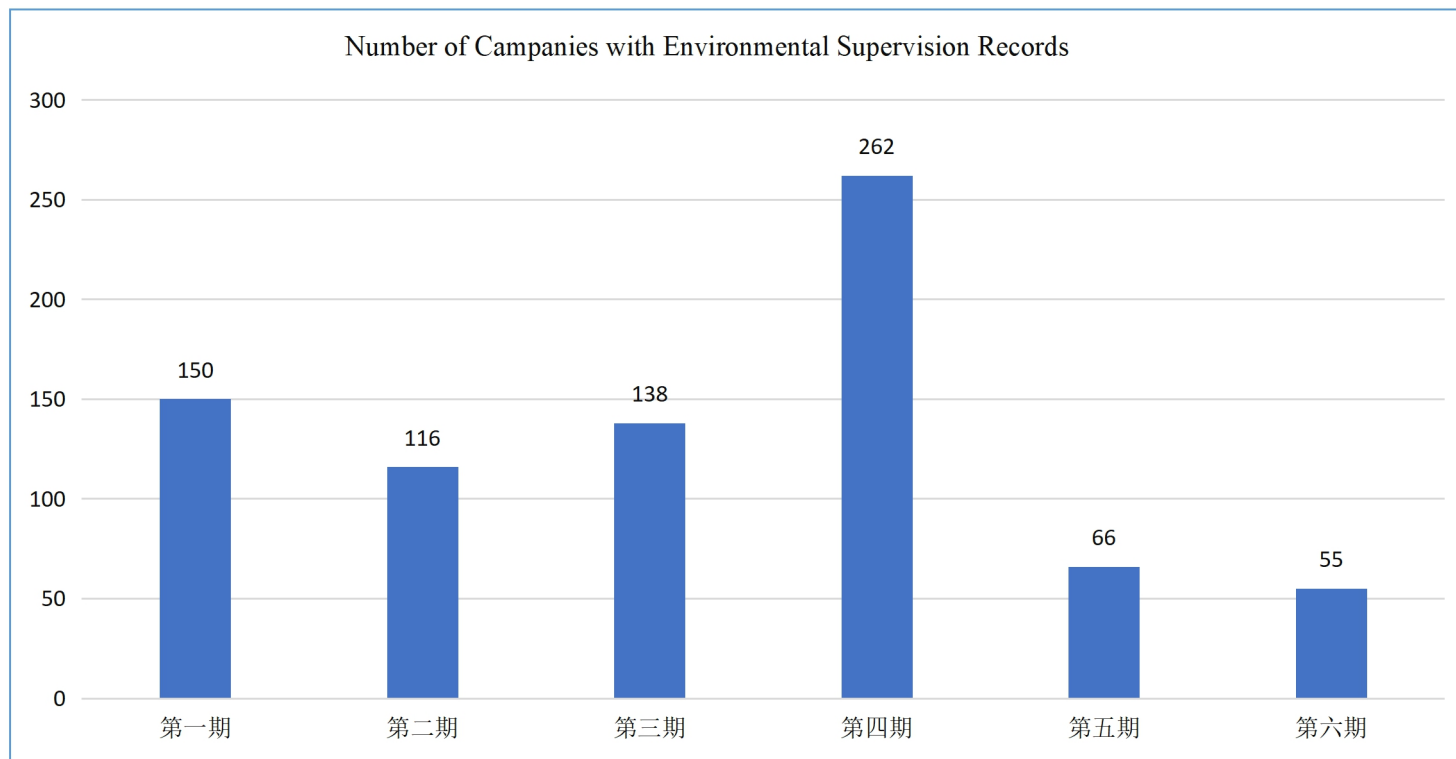
As an environmental public welfare organization, PECC, through sorting out environmental big data, finds that some enterprises still enjoy tax incentives despite being punished by environmental protection, which is not conducive to enterprises taking the initiative to assume social and environmental responsibilities, and is not conducive to the healthy development of the green taxation mechanism.

In view of this, based on the list of enterprises enjoying tax incentives announced by provincial and municipal tax bureaus nationwide, PECC cooperates with the environmental database of the Blue Map established by the Institute of Public & Environmental Affairs (IPE)⁸, a domestic non-profit platform with authoritative

⁸ <http://www.ipe.org.cn/index.html>

environmental data, to retrieve corporate environmental regulatory records and actively play a role in improving environmental governance through the application of environmental big data.

PECC actively maintains communication with the taxation department for companies suspected of illegally enjoying tax incentives, hoping that the taxation department can find out the problem in a timely manner and provide tax guidance for relevant companies.



Since the launch of green taxation work, PECC has released several research reports on green taxation. It involved more than 750 enterprises across the country, of which more than 20 enterprises entered the risk response and tax recovery procedures; and maintained close communication with more than 180 tax bureaus across the country, helping tax departments to recover more than 40 million yuan in total.

Hunan, Guangxi, Henan, Beijing, Heilongjiang and other tax bureaus express their recognition and gratitude for the work of green tax researches of PECC; the tax bureaus of Guangdong Province, Hainan Chengmai County, and Liaoning Province express their willingness to use the big data of the blue map to improve the efficiency of taxation work ; Yunnan, Shaanxi and other tax bureaus state that they would further strengthen the information linkage with ecological environmental departments; Hebei Provincial Taxation Bureau states that due to the promotion of green taxation by PECC, it further strengthens taxation departments' publicity and guidance on corporate tax policies.

The Found Problems

As the specific implementer of green tax policy, tax authorities need to control various potential risks in many aspects. In the process of communicating with local tax authorities, PECC found that some tax bureaus did have objective deficiencies in the implementation of policies.

1) It is difficult for tax authorities to verify the environmental supervision records of companies

The staff of the Jiangxi Provincial Taxation Bureau revealed to PECC that the taxation department needs to check the official website of the environmental protection bureaus of the city and even the county to verify the enterprise and environmental supervision records, and these information are verified manually one by one, which is not only inefficient but also prone to omissions.

The Inner Mongolia Taxation Bureau said that it was already four months after an enterprise was found to have environmental protection penalties, and the Henan Provincial Taxation Bureau was carrying out the special work of “looking back on the implementation of preferential VAT policies for comprehensive utilization of resources” to stop the tax refund for taxpayers who were not eligible for tax benefits due to environmental protection penalties and recover the tax.

Some tax bureaus informed PECC that although information exchange mechanisms have been established with the ecological environmental departments, the long

exchange time, up to six months, can also lead to tax risks. In addition to this we learned that although environmental penalties for enterprises can affect the enjoyment of tax benefits, there are special circumstances.

2) Enterprises subject to environmental penalties, meeting the following three points (any one) does not affect the continued enjoyment of tax incentives.

- ① The amount of the environmental penalty is 10,000 yuan or less
- ② The filing time is after the environmental penalty
- ③ The environmental penalty is revoked

Previously, the taxation bureaus of Shaanxi, Xinjiang, Hunan, Chongqing and other places also stated in the process of communicating with PECC that as long as the filing time of the taxpayer enjoying the immediate withdrawal for the comprehensive utilization of resources is after the fine by the environmental protection department, it will not affect the value-added tax incentives. ; Similarly, during the period of enjoying tax incentives, there cannot be an environmental penalty of more than 10,000 yuan, otherwise, the tax incentive cannot continue to be enjoyed within 36 months from the month following the penalty.

3) There are also deficiencies in the declaration of tax incentives by enterprises:

- 1、 The corporate staff are unaware of environmental penalties.
- 2、 The staff are aware of the penalties, but do not take the initiative to inform the taxation department of the environmental penalties.

The current development of ecological and environmental big data platforms both in the official and third-party platforms have been relatively mature, and local departments at all levels should strengthen the application of environmental big data to improve the screening capabilities of the environmental safety and compliance. Likewise, enterprises should use the big data platform to pay attention to their environmental performance in real time and make timely explanations to avoid tax risks arising from environmental problems.

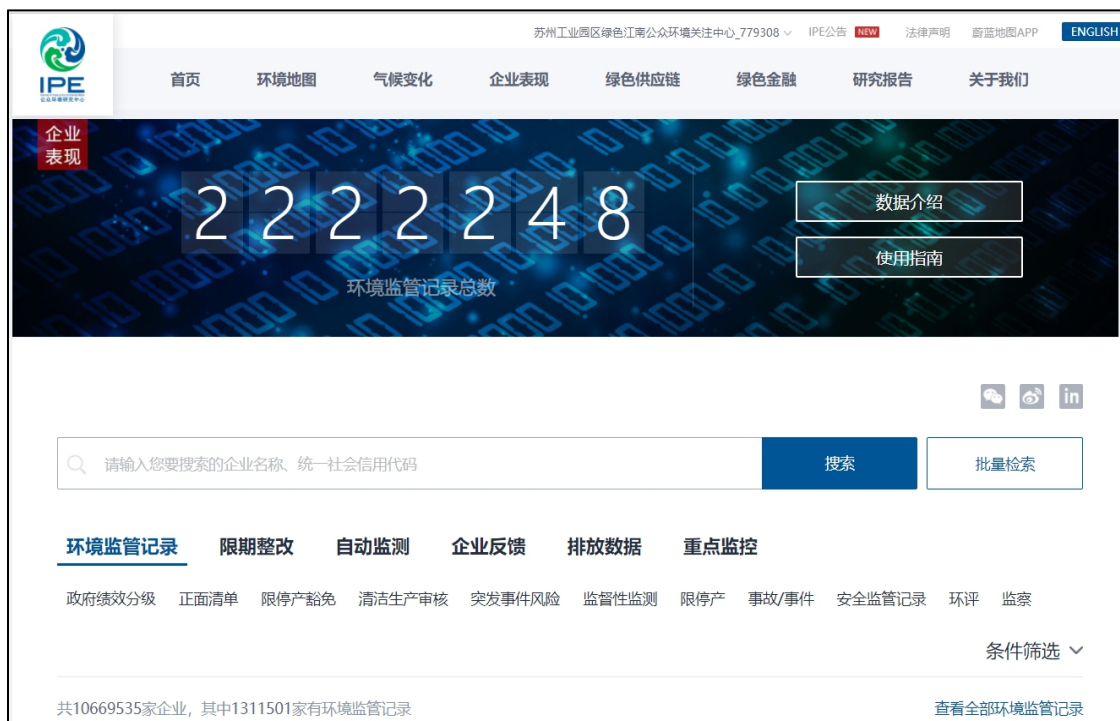
In addition, for some enterprises with good environmental performance fail to enjoy tax benefits in time due to factors such as inadequate policy publicity. The state encourages environment-friendly enterprises to go to the taxation department for filing in time to enjoy the national tax incentives legally and compliantly and promote the healthier development of the national green taxation system.

Suggestions

1) Strengthen the application of environmental big data platform

The environmental violation records in the Green Tax Reports come from the Blue Map Environmental Database established by the Institute of Public & Environmental Affairs (IPE), a domestic authoritative public interest platform for environmental data. The database collects, organizes and analyzes public environmental information from government and enterprises, and serves the fields of green procurement, green finance and government environmental policy-making.

Whether it is a government, an enterprise, a social organization or an individual, the development and application of environmental big data has important social practical significance. A number of taxation departments said in their communication with PECC that at present, the taxation department still relies on the ecological environment department to provide the environmental data information of enterprises, and it is still relatively lacking in independent verification.



2) Increase the disclosure of environmental information

By comparing the list of tax incentives published on the official websites of provincial and municipal tax bureaus across the country, PECC finds that the information disclosure of some tax departments needs to be strengthened.

Item 6 of CS [2015] No. 78 clearly stipulates that “the tax authorities of all provinces, autonomous regions, municipalities directly under the central government, and cities under separate state planning shall, on their websites before the end of February each year, report all the value-added tax in the region that enjoyed the

provisions of this notice in the previous year. Taxpayers who are subject to the tax refund policy shall be publicized according to the following items: taxpayer name, taxpayer identification number, name and quantity of comprehensively utilized resources, and names of comprehensively utilized products and labor services.” However, when PECC inquired about the data, some tax bureaus did not release the list of taxpayers in time.

Secondly, for companies that have not enjoyed the full annual tax incentives and companies that enjoy tax incentives for the first time, information remarks should be made to let the public know; especially for companies that enjoy tax incentives for the first time, enterprises that have declared tax incentives for the first time are not affected by the previous environmental penalties.

Finally, for the enterprises enjoying tax incentives in violation of the law, the taxation department should promptly publish the enterprise information to improve the warning effect and further maintain a good tax incentive environment

3) Information disclosure facilitates the enjoyment of tax incentives

Due to lack of understanding of tax policies, some enterprises (staff) do not actively disclose to the tax authorities or conceal the information on environmental penalties when applying for preferential tax policy. This requires enterprise declarers to further strengthen the study of green tax policies; secondly, tax authorities should provide tax guidance to enterprises from time to time to help enterprises understand preferential tax policies, standardize the disclosure of environmental information by enterprises, and better enjoy tax incentives .

In the previous communication with PECC, the Guangxi Taxation Bureau states that due to the lack of a thorough understanding of the fiscal and taxation policies of the enterprises under its jurisdiction, the enterprises still go to the taxation department to apply for tax incentives even when there are environmental penalties. Due to the friendly reminder from PECC, the taxation department finds the problem in time and asked for the tax refund; at the same time, the relevant personnel of the enterprise will be given the counseling of the tax payment in order to standardize and legally enjoy preferential tax policies.

4) Actively accept public supervision

Since the start of the green taxation work, most tax bureaus have officially responded to the questions raised by PECC; however, some tax bureaus still have a

negative attitude and refuse to communicate; PECC hopes that the tax authorities can actively respond to the concerns of the public; and give positive responses to the issues mentioned by the public.

The healthy development of green taxation requires the joint participation of many parties in society. The taxation department should accept the supervision of the public with a more open working attitude, and jointly promote the orderly development of taxation work.

5) Companies do their own environmental management and establish communication mechanisms

The state encourages environment-friendly enterprises to actively enjoy tax incentives. Enterprises should improve their awareness of the environmental protection, increase the investment in the environmental protection, and reduce pollution emissions; secondly, they should strengthen the construction of the talent teams of environmental protection, comprehensively control environmental risks, and minimize the losses.

In addition, a good long-term communication mechanism should be established between various departments, and information related to environmental penalties should be disclosed in a timely manner to avoid the risk of tax collection.

Enterprises cannot do well in the environmental management without the coordination and cooperation of multiple departments and actively undertake social responsibilities. Only then can they enjoy the double dividends brought by the green taxation, and further promote enterprises' green development.

Conclusion

On December 30th, 2021, the Ministry of Finance and the State Administration of Taxation issued the *Announcement on Improving the Value-Added Tax Policy for Comprehensive Utilization of Resources* (Ministry of Finance and State Administration of Taxation Announcement No. 40 [2021]), which will be implemented on March 1st, 2022.⁹ By interpreting the new policy, we found that China is vigorously encouraging enterprises to comprehensively utilize resources, and has taken various measures to promote enterprises to enjoy tax dividends.

⁹ Data source: State Taxation Administration <http://www.chinatax.gov.cn/chinatax/n359/c5171843/content.html>, Data accessed 13rd Apr. 2022.



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财政部 税务总局关于完善资源综合利用增值税政策的公告

财政部 税务总局公告2021年第40号

全文有效 成文日期:2021-12-30

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The healthy development of the green tax system is inseparable from the joint participation of many parties. First, the enterprise itself must do a good job in the management of the environmental risk and must deeply realize that once the environmental protection penalty is not only as simple as paying the fine, it may cause a series of domino effects; secondly, the tax department should play the role of gatekeeper, and the information linkage between multiple departments should be strengthened to fully highlight the fiscal and taxation policies; effectively exert the supervision power of social organizations, and gradually form a good social development mechanism.

The “14th Five-Year Plan” is a critical period for achieving the peak of carbon emissions in China, and a critical period for promoting high-quality economic development and continuous improvement of ecological and environmental quality; the role of green taxation in regulating environmental issues is gradually becoming apparent, and the precise implementation of green taxation is conducive to the formation of the greater leveraging power of the taxation.