

Fiscal and Tax Law Countermeasures for Building a Unified National Data Factor Market in China

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Abstract

The construction of a unified national data factor market is a cornerstone strategy for China's economic transformation. As a novel production factor with virtuality, non-rivalry, and high liquidity, data diverges fundamentally from tangible inputs and poses institutional challenges to China's fiscal and legal frameworks. Currently, China's data market suffers from regional segmentation, distorted tax bases, imbalanced revenue distribution, inadequate regulation, and fragmented incentives. This paper identifies core governance dilemmas, analyzes their institutional origins, and proposes a coherent framework encompassing legislative unification, tax redesign, digitalized administration, transfer payment optimization, and targeted incentives.

Keywords

Unified Data Factor Market; Fiscal and Tax Law; Regional Imbalance; Tax Base Distortion; Institutional Mismatch

1. Introduction

The global digital economy has become the primary engine of growth, with data evolving into the fifth production factor. In 2025, China's annual total data production reached 52.26 zettabytes (ZB), China's total data production accounted for approximately 27.44% of the global total. Yet China's data market remains fragmented along regional lines, characterized by market segmentation, unclear property rights, distorted tax allocation, and inefficient revenue distribution.

The root cause lies in systemic lag of fiscal and legal governance. Conventional institutions designed for tangible commodities are ill-suited to data's virtuality, anonymity, and non-rivalrous nature. Local governments adopt divergent fiscal policies and protectionist measures, creating regional "siphon effects" and widening digital divides. Data's virtual circulation decouples economic activity from geographic boundaries, causing persistent misalignment between tax sources and tax bases. This paper aims to identify governance challenges and propose a coherent fiscal and legal framework.

2. Core Governance Challenges

2.1. Fragmented Legal Framework and Inadequate Top-Level Institutional Design

China lacks unified fiscal and legal regimes tailored to data. Core statutes like the Tax Collection and Administration Law and Value-Added Tax Law were formulated for traditional commodities, failing to address data's virtuality and cross-border mobility. Critical issues—data property rights, transaction taxation, cross-jurisdictional allocation—remain unregulated nationally. This forces local governments to formulate divergent policies: eastern provinces offer tax incentives creating "tax havens," while central and western regions impose barriers to retain data assets. Without centralized coordination, local protectionism persists and the national market remains divided.

2.2. Distorted Tax Base and Imbalanced Interregional Tax Allocation

Data's virtuality and infinite replicability challenge fixed tax base concepts. Unlike tangible goods, data value is contextual and dynamic—a single dataset can be copied infinitely across regions, making taxable events difficult to define. Data transactions occur online with anonymous participants, lacking standardized documentation, causing tax base erosion and inconsistent valuation.

Eastern regions exhibit strong "siphon effects," absorbing raw data from central and western regions while processing and monetization occur in eastern jurisdictions. Data-originating regions bear collection costs but capture minimal fiscal returns, while consuming regions accrue benefits without proportional costs, exacerbating interregional fiscal inequity.

2.3. Inadequate Regulatory Capacity

Traditional tax administration is poorly adapted to virtual data transactions. Anonymous and encrypted transfers obscure taxable entities, creating regulatory gaps. China's tax administration lacks big data, blockchain, and AI integration; tax, market regulation, and banking systems operate in silos. Blockchain technology remains underutilized, and local officials lack expertise in data valuation and virtual transaction auditing, weakening enforcement efficiency.

2.4. Insufficient Transfer Payments

Existing transfer mechanisms inadequately offset fiscal losses from data outflows. General-purpose transfers dominate, while special grants for digital infrastructure and talent cultivation remain limited. No formal horizontal fiscal compensation exists between regions. Eastern data-abundant regions benefit from monetization but contribute minimally to supporting less developed areas, and vertical transfers alone cannot address structural imbalances.

2.5. Fragmented Incentive Regimes

Local incentives are inconsistent and redundant. Eastern jurisdictions offer overly generous incentives causing excessive industry concentration, while central and western regions lack sufficient strength, resulting in continued outflows. Incentives lack precision: public, enterprise, and personal data receive identical treatment despite distinct roles. Weak oversight allows policy arbitrage, limiting market ecosystem development.

3. Institutional and Economic Origins of Governance Dilemmas

3.1. Mismatch Between Institutions and Data Attributes

China's fiscal-legal system was constructed around tangible, geographically bounded commodities. Data's virtuality, non-rivalry, infinite replicability, and zero marginal cost render conventional logics obsolete. Data can be simultaneously used by multiple agents, severing the link between ownership and benefit. Its high liquidity enables value creation in disconnected jurisdictions, breaking spatial boundaries upon which tax jurisdiction and revenue allocation rules are built. Data's strong positive externalities imply social value exceeds private returns, creating systematic underinvestment when left to market forces.

3.2. Interregional Interest Conflicts

Eastern coastal provinces dominate data accumulation and value capture, deriving substantial fiscal gains and resisting redistribution. Central and western regions, despite hosting raw data sources, face persistent outflows and fiscal erosion. They adopt protectionist measures including restrictive circulation rules and higher fees, while eastern regions pursue aggressive absorption. This two-way conflict reinforces regional segmentation. These conflicts are entrenched in China's decentralized fiscal system where local governments prioritize own-source revenues over national integration.

3.3. Imbalance Between Market and State

Local governments excessively intervene through administrative orders and discriminatory incentives, distorting market signals. Meanwhile, central oversight remains inadequate to address data's positive externalities, natural monopoly tendencies, and information asymmetry. The absence of unified national policies results in regulatory arbitrage and insufficient market failure correction. This dual imbalance creates a regulatory vacuum perpetuating governance failure.

3.4. Underdeveloped Digital Governance Capacity

Traditional systems rely on manual verification and physical documentation, ill-suited for dynamic virtual transactions. Tax administration lacks integrated

real-time monitoring. Agency data systems remain siloed, preventing coordinated oversight. Blockchain, big data analytics, and AI are insufficiently deployed. A severe shortage of specialized talent in digital governance, data valuation, and cross-jurisdictional coordination creates a critical governance bottleneck.

4. Systematic Fiscal and Legal Governance Countermeasures

4.1. Unify Fiscal Legislation

China should enact a Data Factor Fiscal Law as the foundational statute governing data-related fiscal activities. This law must define data classification (public, enterprise, personal, derived), delineate property rights, establish tax base determination principles, and create interregional apportionment rules. It should adopt the "value creation, contribution, and benefit" principle for tax allocation and establish standardized valuation methodologies. Concurrently, amend existing statutes like the Tax Collection and Administration Law to incorporate virtual transaction provisions. A national fiscal coordination committee should abolish discriminatory local policies and ensure consistent enforcement.

4.2. Optimize Tax System

Replace physical-based taxation with a value-oriented regime. Establish a national unified data valuation system integrating market prices, cost inputs, and economic contribution metrics. Introduce tiered taxation: exempt public data to encourage open access; apply 9% VAT to commercial enterprise data; tax data value addition at 15%; exempt R&D value addition; and impose a 3% digital service tax on large platforms.

For interregional decoupling, establish formal tax-sharing: 30% to supply regions, 30% to processing regions, and 40% to usage regions. Create a national horizontal fiscal compensation fund requiring eastern regions to contribute 5-10% of digital tax revenues annually to compensate central and western regions.

4.3. Innovate Digital Tax Administration

Develop a national unified digital tax platform integrating big data, blockchain, and AI for end-to-end real-time monitoring, value traceability, automated valuation, and instant tax calculation. Integrate data from tax authorities, exchanges, regulators, and financial institutions to eliminate silos. Leverage blockchain for immutable transaction records and AI for risk assessment and anomaly detection. Establish cross-regional coordination mechanisms. Invest heavily in training specialized auditors, data valuers, and regulatory officials with expertise in virtual transactions and blockchain technology.

4.4. Optimize Transfer Payments

Establish a dedicated data development special transfer fund targeting central and

western regions experiencing severe data outflows, calibrated by outflow volume and infrastructure gaps. Rebalance toward special-purpose grants focusing on: digital infrastructure (5G, data centers), talent cultivation, data industry development, and public data protection. Link transfers to performance evaluation assessing data opening, digital growth, and cross-regional cooperation. Complement with the horizontal compensation fund to reverse siphon effects.

4.5. Implement Targeted Incentives

Design differentiated incentives by data type and stage. Exempt public data and subsidize platform construction. Provide 100% R&D expense deductions and reduced VAT for innovative enterprise data. Offer personal income tax relief for high-end digital talents. Target data exchanges with property tax exemptions and operational subsidies; exempt data service providers engaged in cleaning and labeling from VAT; and grant SMEs "three exemptions and three reductions" corporate income tax treatment. Accompany incentives with strict oversight, public disclosure, and dynamic adjustment to prevent arbitrage.

5. Conclusion

Constructing a unified national data factor market requires addressing legal fragmentation, distorted taxation, inadequate regulation, regional imbalance, and fragmented incentives. These challenges stem from institutional mismatches between traditional frameworks and data's unique attributes, compounded by interregional conflicts and underdeveloped digital governance. A multi-dimensional framework—legislative unification, value-based taxation, digital tax platforms, optimized transfers, and precision incentives—can dismantle regional barriers, rebalance interests, standardize transactions, and unlock data value. Future research should focus on empirical policy evaluation and cross-border data tax coordination to further refine governance and support China's transition toward a unified, efficient, and equitable national data factor market.

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