

A Study on the Application of Legal Interpretation Methods in Tax Law Interpretation

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Abstract: The method of legal interpretation refers to the specific rules and principles recognized by the legal professional community that legal professionals must follow when interpreting laws. Tax law interpretation refers to the understanding and explanation of the meaning of tax laws and regulations by a certain entity in the specific process of legal application. This article explains the specific principles that should be followed in tax law interpretation including the principle of literal interpretation, the principle of systematic interpretation, the principle of legislative purpose, the principle of legality and reasonableness, the principle of economic substance, and the principle of good faith. Combining three specific tax-related cases, this article explains the specific applications of these interpretation methods in tax law interpretation and explores the sequential order of literal interpretation, systematic interpretation, and purposive interpretation that should be followed in the process of tax law interpretation, in order to obtain more fair, scientific, and reasonable interpretation conclusions.

Keywords: Application; Legal Interpretation Methods; Tax Law Interpretation

1. Legal Interpretation

Legal interpretation is the explanation of normative legal documents with legal effect. Legal interpretation answers and explains the content, meaning, concepts, terminology, and legal norms expressed in legal provisions, in order to enable people to more accurately understand and apply the law more accurately. The object of interpretation is not limited to narrow laws, but also includes all normative legal documents such as constitutions, laws,

and regulations. The methods of legal interpretation mainly include literal interpretation, systematic interpretation, teleological interpretation, historical interpretation, comparative interpretation, etc. Different legal interpretation methods have their own focuses and different basic values to be achieved. At present, there are no clear provisions in relevant laws and regulations on the applicable principles of legal interpretation methods, and the application order of various legal interpretation methods. There is also no unified view in the academic and practical circles. However, most legal scholars currently recognize the following order: semantic interpretation, systematic interpretation, legislative purpose interpretation, historical interpretation, comparative interpretation, and objective purpose interpretation [1].

2. Interpretation of Tax Laws

The interpretation of tax laws, a legal norm that confirms and adjusts the rights and obligations between the state and taxpayers in tax collection and management activities, should also follow the principles of legal interpretation. At the same time, based on the particularity of tax law norms, the specific principles that tax law interpretation should follow include: the principle of literal interpretation, the principle of systematic interpretation, the principle of legislative purpose, the principle of legality and reasonableness, the principle of economic substance, and the principle of good faith.

2.1 The Principle of Literal Interpretation

Due to the fact that taxation is a gratuitous and compulsory deprivation of people's property rights, the requirements for the clarity and stability of tax laws are more stringent, and the interpretation of tax laws inevitably requires the principle of literal interpretation as the primary principle. The term "literal meaning"

generally refers to the understood meaning of the term or usage in general language habits, emphasizing the original meaning of the code entry. Thus, the interpreter should use the literal meaning of the text as the starting point for legal interpretation, and determine the meaning of tax laws through textual and grammatical analysis, without considering the intention of the legislator or other requirements beyond the legal provisions. However, the principle of literal interpretation is not mechanically or simply based on the boundaries of the text. Beyond the text, the principle of literal interpretation allows for the interpretation of tax laws based on other principles and methods of tax law interpretation, without exceeding the scope of the text or damaging the core of the text, when the extension of the legal provisions is unclear, or when two or more solutions may arise based on the literal meaning, or leading to absurd results [2].

2.2 The Principle of Systematic Interpretation

The principle of systematic interpretation refers to the interpretation method of understanding the meaning of law from the entire legal system or the relationship between preceding and following legal provisions when the principle of literal interpretation cannot provide a correct and complete understanding and explanation of tax law provisions. It first requires the interpreter to clarify the context of the legal provisions, carefully consider the relationship between the preceding and following provisions, and not take any out of context; Secondly, the interpreter is required to consider the consistency between various provisions within the law, as well as the external order of the law and its underlying conceptual system. In other words, the interpretation of each legal normative term and provision must take into account the entire legal system. The understanding of a legal provision in tax law must be placed within the entire legal system to ensure consistency in interpretation and unity of the legal system.

2.3 The Principle of Legislative Purpose

Legislation is a purposeful act, and the understanding and explanation of the meaning of legal provisions should also be governed by the law of purpose. Legal interpretation,

whether through literal meaning or other auxiliary materials, should explore the legislative purpose and become a purposeful act. The legislative purpose refers to the purpose or effect that legislators aim to achieve in society when formulating laws. The establishment of the principle of legislative purpose is based on the consideration that legal interpretation is based on a comprehensive reflection of legislative intent, and it does not have the effect of creating or changing the law itself. When it is difficult to determine the specific meaning of the law solely from the text of the legal provisions, or when applying the law based on this meaning will lead to absurd results, interpreters are allowed to understand the legislative background through the analysis of relevant information in the legislative process. Under this premise, they determine the purpose, reasons, and original intention of the legislator, and based on this, they draw an explanatory conclusion [3]. The principle of legislative purpose avoids the limitation of the principle of literal interpretation to external forms reflected in objective language. From an internal perspective, it includes the pursuit of legal legitimacy and the embodiment of legal value. However, the principle of legislative purpose still needs to be based on the meaning of the text, and is based on the premise of providing a correct or legitimate interpretation of the meaning of the legal text. If there are no unclear legal provisions, the literal interpretation should still be the main principle without further exploration of legislative purpose.

2.4 The Principle of Legality and Reasonableness

From a legal perspective, legality is a standard for measuring a rule of law state. The principle of legality is an important principle in legal interpretation and also a principle that should be followed in tax law interpretation. The principle of legality requires the qualifications of the subject of tax law interpretation, the authority of tax law interpretation, and the procedures of tax law interpretation [4]. Specifically, it includes the following aspects: first, the legality of the subject is required. The subject with the right to interpret tax laws is clearly defined by the law, and the interpretation of tax laws by other subjects will

be classified as arbitrary and have no legal effect. Different countries have different standards regarding the legality of the interpretive subject. In common law countries, the legal interpretive subject usually refers to the judge who applies the legal provisions to specific cases, while in China's current tax law interpretation system, the interpretive subject includes multiple departments such as legislation, judiciary, and administration, thus presenting a diversified feature. Secondly, the legality of permissions is required. The law should clearly define the interpretation authority of various interpretive subjects, and interpretive subjects must also act according to their authority. Interpretations beyond their authority do not have legal effect. Thirdly, the legality of the program is required. The interpretation activity must follow certain interpretation methods and procedures. The overall requirement is that the interpretation of low-level legal provisions must not conflict with high-level legal provisions, and the interpretation of tax rules and concepts must be consistent with tax principles. At the same time, the interpretation of tax laws should not exceed the scope of written laws, nor deviate from the basic value and purpose of tax law.

At the same time, the interpretation of tax laws should also follow the principle of reasonableness. Only by combining the principle of legality with the principle of reasonableness can the orderly and rational interpretation of tax laws be ensured, and the overall harmony and unity of the tax law system be ensured. The principle of reasonableness requires that, firstly, in addition to the legality of the interpretive subject, the power of tax law interpretation should also be reasonably allocated, and the relationship between legislative power, judicial power, and administrative power should be handled reasonably; Secondly, design a reasonable interpretation procedure to ensure that the interpretation activity conforms to the basic values of the law, social reality and social justice, respects public order and good customs, and conforms to objective laws and social development trends; Thirdly, follow rational interpretation methods, respect science, establish and implement standardized interpretation techniques, and pay attention to the unity of history and reality.

2.5 The Principle of Economic Substance

The so-called principle of economic substance refers to whether a tax law norm should be applicable to a specific situation in the process of tax law interpretation. In addition to considering whether the situation meets the tax requirements (formal taxation) stipulated in the tax law, it should also be based on the actual situation, especially combining the economic objectives and the essence of economic life, to determine whether the situation meets the tax requirements stipulated in the tax law and decide whether to tax (substantive taxation). The principle of economic substance is mainly an explanatory principle proposed to ensure fair, reasonable, and effective taxation in the context of diversified economic life and complex transaction methods. Due to the mandatory and gratuitous nature of taxation, taxpayers usually take various measures to avoid paying taxes or underpaying taxes, among which tax avoidance and tax savings are the most common. For example, for an economic purpose or a certain transaction, taxpayers can often complete it through various legal arrangements. In most cases, in order to reduce their tax burden, taxpayers will choose a more favorable legal framework for transactions or other economic arrangements. This is called tax planning, in other words, reasonable tax savings. However, tax saving and tax avoidance are sometimes just a wall apart. For example, in the transfer pricing of some affiliated enterprises, the name of tax saving often conceals the reality of tax avoidance. This requires a thorough analysis of the economic essence of specific transactions or arrangements when interpreting tax laws. If the specific object of tax is only nominally attributed to a certain entity but in fact belongs to other entities, the substantive attribution should be considered as the taxpayer. At the same time, the tax calculation standards should not be limited to the provisions of the tax law on the names or forms of various tax objects such as income, property, and earnings, but should be interpreted according to their substantive content. The principle of economic substance is conducive to filling the gap caused by the rigid understanding of the legal principle of taxation, thereby preventing the damage caused by the fixed and formal understanding of tax law to quantitative taxation, and promoting the realization of

fairness in tax law.

2.6 The Principle of Good Faith

Tax law belongs to the category of public law norms in the legal system, especially in China. For quite some time, it has been influenced by the “state will theory” during the planned economy period, and the nature of its public law has become even more obvious, to the extent that for a long time, tax law has been disconnected from the field of private law. But with the integration of the Chinese economy and the global economy, especially after China's accession to the WTO, the concept of market economy will completely break through the “tax power theory”, which focuses on the national will during the planned economy period. Some concepts, principles, and systems of private law will gradually be introduced into tax law, and tax law will become the legal department with the closest connection to private law in the entire public law field. The principle that has the greatest impact on tax law in the private law field is undoubtedly the principle of good faith. The so-called honesty and credit is a moral rule formed in market economic activities. It requires people to value credit, keep their promises, be honest and not deceive in market activities, and pursue their own interests without harming the interests of others and society. The principle of good faith sets a moral standard for all market participants as “honest merchants”, vaguely reflecting the requirements of the objective laws of the market economy [5].

In the process of tax collection and management, it is common to encounter the problem of tax authorities making a non-taxation declaration based on their own interpretation of the tax law for objects that should have been taxed according to the tax law. However, if the tax authorities discover that their interpretation of the tax law is incorrect, do they have the right to change their declaration of intention based on the provisions of the tax law and make a new decision on taxation? This issue of whether the principle of good faith should be applied in tax law interpretation has been a controversy in the theoretical community regarding this. Some scholars believe that starting from the principle of statutory taxation, tax authorities must strictly follow the provisions of tax laws to

levy taxes. Therefore, in the event of errors in the interpretation and application of tax laws by tax authorities, they should be required to correct their own mistakes. Otherwise, it is a violation of tax laws and regulations. At the same time, it is extremely unfair for taxpayers who pay taxes or receive tax penalties under the same conditions. However, another group of scholars believe that if tax authorities make processing decisions and taxpayers also make economic arrangements based on these decisions, allowing tax authorities to arbitrarily change based on the principle of tax legality would damage the stability of the law and be detrimental to protecting taxpayers' expectations and trust in tax collection activities. Therefore, starting from the protection of taxpayers' trust, the principles of good faith and the legal principle of estoppel should be applied. Tax authorities are not allowed to change their decisions that have already been made. The author agrees with the latter viewpoint and believes that with the increasingly close connection between tax law and private law, many systems in private law have gradually been introduced into tax law. Therefore, in order to maintain and stabilize the market economy order, protect the trust and interests of taxpayers, the interpretation of tax law should adhere to the principle of good faith. After the tax authority makes a decision on tax law interpretation, if there is inconsistency or contradiction between the inherent requirements of legality and the inherent requirements of the stability of the law in tax legalism, the interests of the two should be compared and measured, and the stability of the law should be given priority.

The principle of good faith, as an important principle in private law, has been widely recognized in tax law theories and precedents in various countries, becoming an important principle in tax law interpretation and playing an important role in adjusting tax relations. Generally speaking, the application of the principle of good faith should at least meet the following requirements: 1. The tax authority, as the trusted object of the taxpayer, has made an expression of intention representing fair opinions to the taxpayer; 2. The taxpayer trusts this expression of intention and takes action accordingly; 3. If taxation is carried out in opposition to this expression, it will result in economic disadvantages for taxpayers; 4. The

taxpayer trusts this representation and takes action, so there is no reason to attribute responsibility to the taxpayer. Even if the tax authority changes a previously made erroneous decision and the change meets the requirements of tax law, even if the application requirements of the principle of good faith are met, its behavior is still considered an illegal act that violates the principle of good faith. However, in the future taxation process, if the tax authority corrects its erroneous interpretation without significantly damaging the taxpayer's trust and interests, the principle of good faith allows the tax authority to make corrections, which is also a necessary requirement of tax egalitarianism.

3. Tax Law Interpretation Methods and Their Application Sequence

In the actual process of tax law interpretation, in order to scientifically reveal the true content of legal norms, it is also necessary to seek specific interpretation methods under the guidance of principles. These interpretation rules and methods can also be called tax law interpretation techniques. In addition to providing specific examples of tax law interpretation methods, this article also explores the priority application relationship between various tax law interpretation methods from a practical application perspective, in order to make the methods more standardized and operable.

Based on the requirement of tax legalism, which is the cornerstone of modern tax law theory, the principle of literal interpretation should be the primary principle in the specific principles of tax law interpretation. It plays a major and fundamental role in the selection of tax law interpretation methods [6]. The principle of systematic interpretation requires that when interpreting tax law provisions, the interpreted provisions should be placed in the entire normative document and even the entire legal system, and the connection between this provision and other provisions should be continuously interpreted. The principle of legislative purpose is a measurable principle, and the selection and application of tax law interpretation principles can ultimately be based on the principle of legislative purpose, in order to determine which interpretation principle is the most appropriate. The principle of legality and reasonableness emphasizes the

design of the tax law interpretation system, and puts forward requirements for the subject, authority, procedure, and other aspects of tax law interpretation. The principle of economic substance plays an important role in the selection of interpretation methods. The principle of good faith is a universal rule in the market economy, which supplements the principles of literal interpretation, systematic interpretation, and legislative purpose [7].

The principles and methods of tax law interpretation are both rules that should be followed in the process of tax law interpretation, which exclude arbitrariness in the application of law and decision-making process while acknowledging the subjectivity of interpretation. They are two aspects of the same problem. Principles are general, universal and guiding, with a higher guiding role; and method is the embodiment of principles in specific application, and is the specific operational technique when interpreting tax laws. Under the guidance of the principles of tax law interpretation, different scholars mainly use the following methods of tax law interpretation: literal interpretation, systematic interpretation, purposive interpretation, etc.

The method of literal interpretation, also known as grammatical interpretation, or logical interpretation, refers to the interpreter revealing and explaining the meaning of a legal text or material based on the daily and technical meaning of the language used to express the law. The so-called daily meaning refers to the language and common usage of the law, or the dictionary meaning of the language, while technical meaning mainly refers to the specialized meaning of legal terminology or non-legal academic language [1]. Literal interpretation, literally means "picking words". Its characteristic is to interpret strictly according to the literal meaning of legal texts, regardless of whether the results of these interpretations are fair and reasonable.

Due to the fact that the principle of statutory taxation is the most fundamental and highest principle in the administrative interpretation of tax law, and the interpretation of the text is the most specific and direct embodiment of this principle [8], the application of this method in interpreting tax law can avoid the infringement of taxpayer rights caused by the dominant administrative organizations arbitrarily

choosing different interpretation methods or arbitrarily expanding or reducing interpretations, and can maintain the certainty and stability of tax law to the greatest extent. Therefore, the principle of literal interpretation is the most fundamental principle in tax law interpretation, and should have priority in the specific application of tax law interpretation methods. Properly applying this method to interpret the vast majority of tax laws and regulations is generally sufficient to solve the problem. Only when this method cannot achieve the purpose of tax law enforcement can other interpretation methods be considered. Systematic interpretation method, also known as system interpretation method, is an interpretation method that clarifies the normative intent of legal provisions based on their status in the legal system, their related positions, or the legal meaning of relevant provisions. There are two reasons for using this method for interpretation: first, when the intention of a legal provision cannot be correctly understood at literal level, the provision should be "restored" to its context, and through careful consideration of the relationship between the preceding and following provisions, the relevance of the norm or concept in the entire legal system should be explored to avoid "contextual" contradictions; Second, the legal system is an organic whole with inherent rigorous logical connections, and the meaning of a certain legal term must be understood within the entire legal system. Without special instructions, the same concept expression appearing in different laws or clauses should not have different meanings, otherwise it poses a threat to the systematicity and stability of the overall legal normative system.

The purpose interpretation method refers to the purpose or effect that legislators intend to achieve in society when formulating laws [9]. Legislative activity is a purposeful act, and the understanding and explanation of the meaning of legal provisions should also be governed by the "purpose law". Article 104 of the Legislative Law clearly requires that when applying legal interpretation, "it should mainly focus on specific legal provisions and comply with the purpose, principles, and original intention of legislation." By exploring the legislative purpose, the interpretation and implementation of law can become a

purposeful act. The principle of legislative purpose is more prevalent in the precedents of the English and American legal systems, Lord Denning, the British Chancellor of Justice, once wrote brilliantly in his judgment: When interpreting the law, we adopt a method that will 'promote the overall purpose of legislation', which forms the basis of the legal provisions. Judges no longer need to wriggle their fingers and say, 'We have nothing to do about this.' No matter when strict interpretation of the law causes absurd and unfair situations, judges can and should compensate for it with their good faith, and if necessary, add a fair explanation in the text of law, do what Congress would have done and think about the situation they were supposed to think about [10].

The principle of legislative purpose can pursue the legality and value of the law from an internal perspective, avoiding the limitation of the principle of textual interpretation to external formal descriptions of objective words and falling into out of context or formalism. However, the principle of legislative purpose still needs to be based on the meaning of the text and interpreted under the normative intention of the legislator. In practical application, it cannot be rigid and absolute, otherwise it may give the interpreter too much discretion, making the interpretation result too uncertain and infringing on the legitimate rights and interests of the counterpart.

4. A Case of Application of Legal Interpretation Methods in Tax Law Interpretation

We will give an example to introduce the specific applications of literal interpretation, systematic interpretation, and purposive interpretation in the interpretation and application of tax laws.

4.1 The Application of the Method of Literal Interpretation

The Notice of the Ministry of Finance and the State Administration of Taxation on Fully Promoting the Pilot Program of Replacing Business Tax with Value added Tax (Finance and Taxation [2016] No. 36) stipulates that: General taxpayers among pilot taxpayers approved by the People's Bank of China, the China Banking Regulatory Commission, or the Ministry of Commerce to engage in financing leasing business, who provide tangible

movable property financing leasing services and tangible movable property financing after-sales and leaseback services, shall implement a value-added tax immediate collection and refund policy for the portion of their actual value-added tax burden exceeding 3%. For those general taxpayers among the pilot taxpayers of leaseback business, approved by provincial commerce authorities authorized by the Ministry of Commerce and the National Economic and Technological Development Zone to engage in financing leasing business and financing sales, if their paid in capital reaches 170 million yuan after May 1, 2016, the above regulations shall be implemented from the month when the standard is met; If the paid in capital does not reach 170 million yuan but the registered capital reaches 170 million yuan after May 1, 2016, the above-mentioned provisions can still be implemented before July 31, 2016. Tangible movable property financing leasing business and Tangible movable property financing after-sales leaseback business conducted after August 1, 2016 shall not be executed in accordance with the above provisions

Pay attention to the punctuation mark "colon" in this stipulation, and we will know that the specific subjects have been treated differently according to two situations: after the time point of "replacing business tax with value-added tax" on May 1, 2016, 1) the immediate tax refund policy is applicable to the situations when the paid in capital meets the standard; 2) This policy is applicable to taxpayers whose paid in capital does not meet the standard but whose registered capital meets the standard before July 31st, but not from August 1st.

If the "colon" is replaced by a "comma", the meaning may change, and there will be three situations: 1) The policy is applicable to the situations when the paid in capital meets the standard after the business tax reform and value-added tax, 2) This policy is still applicable to taxpayers whose paid in capital does not meet the standard but whose registered capital meets the standard before July 31, 3) from August 1, this policy of immediate collection and refund is not applicable to neither of these two types of businesses

From this, it can be seen that even a punctuation mark can cause a significant change in its meaning.

4.2 The Application of Systematic Interpretation Method

Is the interest income obtained from investing in structured deposits within the scope of exemption from value-added tax, or is it a financial product that should be subject to a value-added tax rate of 6% for "loan services" based on the provisions of "principal guaranteed" or "non-principal guaranteed" in the investment agreement?

The paragraph (2) of Article 1 of the "Provisions on the Pilot Project of Replacing Business Tax with Value Added Tax" (Attachment of Finance and Taxation [2016] No. 36) provides a positive list of items that are not subject to value-added tax, including deposit interest. However, there is currently no special provision in the tax law on how to determine the scope of "deposits" in the interest on deposits that are not subject to value-added tax.

The China Banking and Insurance Regulatory Commission (CBIRC) has clarified in the "Notice on Further Regulating the Structured Deposit Business of Commercial Banks" ([2019] No. 204) that structured deposits refer to deposits embedded in financial derivative products absorbed by commercial banks, which are linked to fluctuations in interest rates, exchange rates, indices, or the credit situation of a certain entity, allowing depositors to obtain corresponding returns on the basis of bearing certain risks.

At the same time, the People's Bank of China has also defined structured deposits in policy documents: "Notice of the People's Bank of China on Issuing the Standard for Statistical Classification and Coding of Deposits (Trial)" (Yin Fa [2010] No. 240) stipulates that structured deposits refer to deposits embedded in financial derivative instruments absorbed by financial institutions, which are linked to fluctuations in interest rates, exchange rates, indices, etc. or to the credit situation of a certain entity, A business product that enables depositors to obtain higher returns while assuming certain risks.

Therefore, the tax law does not make special provisions on "deposits", nor does it make provisions on whether "structured deposits" belong to "deposits", and the concept of "structured deposits" has been defined in the policy norms of the China Banking and

Insurance Regulatory Commission and the People's Bank of China. From the regulations of the China Banking and Insurance Regulatory Commission and the People's Bank of China, it can be concluded that structured deposits are issued by commercial banks with the qualification to attract deposits and have the obligation to repay principal. The legal relationship between investors and commercial banks constitutes a deposit legal relationship. The interpretation of tax laws can and should be defined based on the policy documents of industry regulatory authorities, namely the China Banking and Insurance Regulatory Commission and the People's Bank of China, that is, "structured deposits" are a type of "deposit" to maintain the systematicity and stability of the overall legal system. So, when investors purchase structured deposits, the income they receive from commercial banks is based on the legal relationship of deposits and belongs to the category of deposit interest income. Regardless of whether this income is guaranteed or floating, according to the provisions of the Finance and Taxation [2016] No. 36 document, since it is deposit interest income, value-added tax is not levied.

In summary, if there is no specific regulation on the definition of "deposit" in the tax law documents, according to the legal system interpretation method and the current tax law regulations, the interest income obtained by investors investing in structured deposits of commercial banks should be interpreted as deposit interest, and thus it can be concluded that it is not subject to value-added tax.

4.3 The Application of Purposive Interpretation Method

There is controversy in practice over whether small loan companies (hereinafter referred to as "small loan companies") are recognized as financial institutions in tax law interpretation. Those who are against this believe that financial institutions must obtain financial institution licenses issued by relevant national regulatory authorities. Small loan companies do not have financial licenses issued by the China Banking and Insurance Regulatory Commission, so they are not financial institutions. The reason is that the "Management Measures for Financial Licenses" issued by the China Banking

Regulatory Commission in 2007, explicitly stated that "The financial license is applicable to financial institutions supervised by the China Banking Regulatory Commission and approved to operate financial businesses." Plus, according to Article 3 of the "Regulations on the Classification Standards for Financial Industry Enterprises", small loan companies belong to non-monetary banking service financial industry enterprises, not financial institutions. On the contrary, those who support this hold that although small loan companies do not have financial licenses issued by the China Banking and Insurance Regulatory Commission, they are classified as financial institutions in the statistical standards of the Bureau of Statistics, relevant documents of the People's Bank of China, and the approval of the Supreme Court. Therefore, it is concluded that small loan companies are also financial institutions.

Both of the above viewpoints believe that since tax regulations do not define specific standards for financial institutions, defining financial institutions is not the responsibility of tax authorities, but should be judged according to the recognition standards of relevant financial regulatory agencies. However, in the practical application of tax laws, when conflicting conclusions arise when directly referring to the definitions of these terms in other laws, regulations, or departments, how should one choose to apply them? At this point, we encounter situations where we cannot apply the previous textual or systematic explanations, or when we cannot obtain a reasonable interpretation even after applying them, we need to explore the purpose of formulating laws or regulations. If the purpose of tax law is consistent with the purpose of other laws, regulations or departmental rules, then we can directly cite the interpretation of other laws, regulations or rules; On the contrary, if the purpose of defining financial institutions in tax law is different from that of the China Banking Regulatory Commission and the People's Bank of China, it is necessary to consider whether to establish an interpretation of this term or concept within the tax law system.

Although small loan companies, as institutions that do not accept deposits and mainly issue loans with their own funds, have certain

financial attributes in their business, due to the State Council's adherence to the principle of "whoever approves the establishment of institutions is responsible for risk disposal" in financial supervision, small loan companies have significant differences in management systems, transaction rules, financial risk prevention and control compared to traditional financial institutions such as banks, securities, and insurance supervised by the China Banking and Insurance Regulatory Commission. Therefore, based on its own regulatory responsibilities, the China Banking and Insurance Regulatory Commission does not include small loan companies in its regulatory scope and does not grant them financial licenses. The purpose of the China Banking Regulatory Commission's issuance of financial licenses is based on its own regulatory requirements, rather than defining who is a financial institution through the issuance of financial licenses.

The classification of small loan companies as financial institutions by the National Bureau of Statistics and the People's Bank of China is based on the need to calculate their own loan scale. Because small loan companies engage in lending business, including them in financial institutions can comprehensively calculate the scale of social loans. The approval of the Supreme Court is aimed at resolving the issue of whether to apply the judicial interpretation of private lending when disputes arise in the financial business of small loan companies.

In tax law, it is necessary to define whether small loan companies are financial institutions for two main purposes: 1. Can the interest rate provided by small loan companies serve as a reference for other enterprises to borrow from non-financial institutions? Because the Implementation Regulations of the Enterprise Income Tax Law stipulate that the interest rate for borrowing from non-financial institutions by enterprises can be deducted before tax, provided that it does not exceed the same period loan interest rate of financial institutions. Because unapproved reserve expenditures are not allowed to be deducted before tax, financial enterprises have made provisions and accounting for bad debts in accordance with the standards and accounting standards of the China Banking Regulatory Commission. Tax law provides certain encouragement to them: bad debt provisions

provisioned according to the prescribed proportion are allowed to be deducted before tax.

Based on the analysis of the tax laws and the classification of small loan companies by the China Banking and Insurance Regulatory Commission, the following judgments can be made according to the principle of purpose interpretation: 1. Small loan companies are approved and established by the financial offices of various provincial governments. If the small loan companies are under the supervision of the financial offices, their lending behavior and lending interest rates are under orderly supervision, which is different from unregulated ordinary private lending. Therefore, their interest rates should be regarded as the loan interest rates of financial institutions and used as a reference for pre tax deduction of interest on loans to non-financial institutions; 2. Although small loan companies have not obtained a financial license from the China Banking and Insurance Regulatory Commission (CBIRC), if in reality, the financial office is using the CBIRC's system to supervise them and has also made accounting provisions and accounting for bad debts according to the CBIRC's standards, then small loan companies can deduct bad debt provisions before tax in comparison to financial institutions.

5. Conclusions

To sum up, the principle of literal interpretation is the most basic principle of tax law interpretation and should be applied first; when the application of literal interpretation cannot obtain a correct understanding, the systematic interpretation method should be applied; when neither the literal meaning nor the systematic interpretation method can provide a correct interpretation, the purposive interpretation method shall be applied to achieve the social purpose or effect that tax law interpretation can achieve.

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