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Tax evasion accusations in China point to tighter state scrutiny, say experts

The National Audit Office this week said state-owned Bank of China had evaded $348mn in tax

by Kimberley Long

The People's Bank of China said earlier this month that new bank loans decreased to Rmb520bn in May from Rmb620bn a year earlier © Bloomberg Finance

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Accusations of tax evasion made by China's auditor against three major lenders are a sign of tighter scrutiny of the industry going forward, commentators believe, as banks continue to wrestle with the country's challenging economic climate.

The National Audit Office this week announced that state-owned Bank of China had evaded Rmb2.37bn ($348mn) in tax between April 2023 and August 2025 by using two subsidiaries to package 11 private funds as public funds. BOC this by padding investor lists with bank employees, who contributed as little as one yuan each.

Agricultural Bank of China, which is also state-owned and is the country's second-biggest bank by assets, was found to have improperly issued Rmb11.07bn in loans to non-compliant farmland projects between December 2021 and August 2025. This was due to inadequate pre-loan reviews, and some of the funds were used for wealth management products or for debt repayment.

China Everbright Group also was found to have weak oversight of subsidiaries, with some subsidiaries improperly using its brand name.

Strong signals

The NAO's naming of the three major institutions is an "unusually direct" move, Alicia García-Herrero, chief Asia-Pacific economist at investment bank Natixis, told The Banker.

While issues in local governments or smaller entities are often called out, naming two of the largest state-owned banks is "a stronger signal of accountability than we've seen in recent years", she said.

Eswar Prasad, senior fellow, global economy and development at think-tank the Brookings Institution, says the audit findings point to broader concerns around weak corporate governance and poor risk practices in the Chinese banking system, with stricter oversight of the industry highly likely.

The NAO's findings will prompt regulators to "tighten the screws on these banks", Prasad told The Banker.

"Within the parameters of existing regulations, these banks are likely to be subject to even more intense supervision and pressures to fix such problems and prevent their recurrence."

The actions of the banks, particularly those of Bank of China, are symptomatic of an increasingly challenging operating environment for the country's lenders, said Victor Shih, director of 21st Century China Center at the University of California, San Diego.

The People's Bank of China said earlier this month that new bank loans decreased to Rmb520bn in May from Rmb620bn a year earlier, as household consumption and corporate investment remain weak. The weakness comes despite the government injecting Rmb300bn of capital into the system in March to support credit growth.

Reuters reported on Friday that the PBoC had once again urged banks to boost lending to stimulate demand, citing sources with knowledge of the situation.

Shih pointed in particular to margins being compressed by falling interest rates and the issuance of refinancing bonds by lower governments, which have lower yields than the loans they are replacing.

Possible repercussions

The repercussions for banks in the near term remains to be seen. Grace Wu, senior director, financial institutions at Fitch Ratings, said that while prior incidents have resulted in financial penalties and mandatory corrective actions, there is no explicit mention of this in the report.

Wu added that BOC has publicly acknowledged the audit findings and has committed to improving its compliance in the future.

If there is a financial penalty or BOC is forced to repay the tax, Shih said that given the multitrillion Rmb balance sheet of the bank, “evading two billion in taxes is de minimis”.

“The Ministry of Finance and the bank will work out something reasonable that will protect the bank’s interests,” Shih added.

Wu agrees that the regulator remains committed to strengthening the financial supervisory framework, and said she does not expect the findings to materially impact the banks’ operations or financial performance.

Yet the public disclosure of wrongdoing and its impact on investor sentiment is more significant that any potential financial penalties for the lenders in question, according to García-Herrero.

Shares in all three institutions have fallen since the NAO’s findings were made public.

At a time when Beijing is looking to demonstrate financial discipline amid fiscal pressures driven by the property downturn and weak local government revenues, García-Herrero said the authorities are “signalling that even flagship state institutions are not exempt from compliance standards — while also demonstrating that the audit system is functioning”.