

China's fiscal and taxation system reform under the background of "tax reduction and fee reduction"——international experience and exploration

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Abstract: The latest tax reduction transcripts disclosed by the State Administration of Taxation show that in the first half of the year, China's accumulated new tax reductions and reductions were 1,170.9 billion yuan, of which the new tax reduction of 1,038.7 billion yuan was the largest, and the value-added tax reform was the largest. In the case of 100 million yuan, the tax cuts have the most significant tax cuts. The two-step reform has a tax cut of 307.7 billion yuan, a drop of 30.6%. A total of 115 million people do not need to pay personal income tax on wages. The data shows that tax reduction and fee reduction have noticeable effects in reducing corporate costs, stimulating social consumption, accelerating the growth of new kinetic energy, and enhancing the vitality of private enterprises. The completion of the 2 trillion tax reduction and fee reduction has been completed. In the next step, the State Administration of Taxation and other departments will have more practical measures to ensure that the tax reduction and fee reduction will fall. In order to ensure that the tax reduction and fee reduction policy is carried out steadily and at the same time actively prevent financial risks, it is necessary to deepen the reform of the fiscal and taxation system and accelerate the construction of a modern fiscal system and tax legislation.

1. Introduction

Tax cuts and fee reductions are a significant measure for China to further promote supply-side structural reforms and an essential part of active fiscal policy. In the five years from 2013 to 2017, "the accumulated tax reduction exceeded 2 trillion yuan, plus the tax incentives for small and micro enterprises, cleaning up various charges and other measures to reduce the burden on market entities by more than 3 trillion yuan"; For corporate and individual tax reductions and reductions of about 1.3 trillion yuan; the latest tax reduction transcripts disclosed by the State Administration of Taxation show that in the first half of 2019, China's cumulative new tax reductions and reductions were 1,170.9 billion yuan, of which 1,088.7 billion yuan was added. In the tax reduction, the value-added tax reform has the most considerable tax reduction amount of 436.9 billion yuan, and the tax reduction reform has the most massive tax reduction. The two-step reform has a tax reduction of 307.7 billion yuan, a drop of 30.6%. The accumulated 115 million people do not need to pay wage earners. Income tax. The data shows that tax reduction and fee reduction have visible effects in reducing corporate costs, stimulating social consumption, accelerating the growth of new kinetic energy, and enhancing the vitality of private enterprises. The completion of the 2 trillion tax reduction and fee reduction has been completed. In the next step, the State Administration of Taxation and other departments will have more practical measures to ensure that the tax reduction and fee reduction will fall. This continuous large-scale tax reduction measure has undoubtedly made an essential contribution to China's rapid economic growth, structural optimization, and long-term economic consolidation and development. At the same time, we must also see that this round of active fiscal policy with "tax reduction and fee reduction" as the core is very different from the active fiscal policy under the traditional demand management objectives, not only to solve the problem of the downward pressure on the economy. Moreover, the impact on finance itself is different.

To a certain extent, this “tax reduction and fee reduction” is the most extensive institutional “tax reduction” policy implemented since the “tax-sharing system” reform in 1994, which has a significant impact not only on micro-subject behavior and macroeconomic operation. It will also have a profound impact on the financial itself. The economic effect of tax reduction and fee reduction is not only reflected in the fiscal revenue effect but also on the fiscal balance, fiscal revenue system, and local finance. If the economic effect of tax reduction and fee reduction is neglected, the tax reduction and fee reduction policy will not only be challenging to maintain but also may cause substantial financial risks.

2. The essential characteristics of tax reduction and fee reduction

The impact of tax reduction policies on economic activities and finance depends on whether the “tax reduction” is small-scale or large-scale, demand-driven or supply-driven, temporary or permanent. The “tax reduction and fee reduction” in the supply-side structural reform process has the following three interrelated essential characteristics, which determine the breadth, depth, and extent of the financial impact of tax reduction and fee reduction.

2.1. Continuous Targeting of Tax Reduction and Reduction

In the past ten years, the income of China's four major tax categories (domestic value-added tax, business tax, corporate income tax, and personal income tax) respectively accounted for the proportion of tax revenue and general public budget revenue. The average is 70% and 60%. China's tax cuts are aimed at these significant taxes, and large-scale tax cuts have been made twice before. In response to the external pressure of the world economic recession, the new corporate income tax law, which came into effect on January 1, 2008, reduced the statutory tax rate by 33% to 25%. From January 1, 2009, the implementation of the VAT reform will be implemented nationwide. The production-type value-added tax was converted into consumption-type value-added tax; it was derived from the internal driving force to promote the supply-side structural reform. From May 1, 2016, the business tax was changed to the value-added tax pilot program and opened on July 1 and 20, 2017. On May 1st, respectively, degenerate and reduce the VAT rate. On August 31, 2018, the amendment to the Individual Income Tax Law passed by the Standing Committee of the National People's Congress will increase the basic fee reduction rate from 3,500 yuan per month to 5,000 yuan per month, clean up, and regulate a variety of government funds and administrative fees and other charges. This kind of intensive and large-scale continuous tax reduction and fee reduction measures is likely to appear in the future under the principle of “must insist on the supply-side structural reform as the mainline unwavering.”

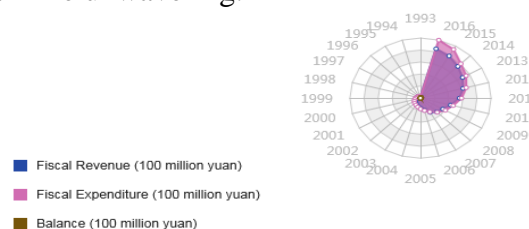


Figure 1 Scale and balance of fiscal revenue and expenditure from 1993 to the present

2.2. Long-term persistence of tax reduction and fee reduction

Although China currently has a large number of tax incentives, it is basically a temporary, short-term (or regular), particular policy measure, and in recent years, in value-added tax, The areas of business tax, corporate income tax, personal income tax, and social insurance contributions, which are called “reforms”, and the abolition of some funds and fees, are either the perfection of the tax system or the norm of the non-tax income system. The form of laws and regulations is solidified into a system. This is different from the traditional temporary policy measures introduced in the past to meet the needs of industrial policy, science and technology policy, education policy, etc. It is a

long-term and even permanent system construction, which has a certain degree of irreversibility. The "institutional tax cut" nature of "tax reduction and fee reduction" not only helps to create a pleasant policy environment, but also helps to stabilize the expectations of economic actors, and at the same time has a far-reaching impact on the financial itself.

2.3. Cost reduction of tax reduction and fee reduction

As a measure to reduce the tax reduction and fee reduction of the supply-side structural reform, its direct purpose is to reduce the cost of the main body of civil, economic behavior. The combination of business tax and value-added tax has been designed to reduce the cost of production and operation of enterprises. The reduction of group insurance rates has been aimed at reducing the cost of labor for enterprises, and the basic cost-reduction standard for personal income tax has been designed to reduce personal living costs. Increasing personal income tax, six individual deductions are designed to reduce the burden on families, and so on. Of course, these tax cuts and fee reduction measures may also increase the total social demand by increasing the disposable income of enterprises and individuals. If so, this not only achieves the goal of reducing the financial burden of the economic actors but also achieves the effect of stimulating household consumption and corporate investment.

3. Potential fiscal and tax effects of tax reductions and reductions

In the process of promoting supply-side structural reforms, in order to alleviate the burden on enterprises and ease the downward pressure on the economy, China has changed its active fiscal policy, which has mainly focused on expanding fiscal expenditures and has turned to a proactive fiscal policy centered on tax reduction and fee reduction. Achieved smooth economic operation. At the same time, the tax reduction and fee reduction with the above essential characteristics will also have a significant impact on the finance itself, which may affect not only the fiscal revenue, the fiscal deficit scale, but also the fiscal revenue structure and local finance.

3.1. Impact on the size of the fiscal deficit

The tax cuts and fees have significantly increased the size of the fiscal deficit. According to the official metric, the overall public budget balance, the fiscal deficit to GDP ratio in 2013~2018 (referred to as the fiscal deficit rate, also known as the "announced deficit rate") is 2%, 2.1%, 2.4%, 2.9%, 2.9, respectively. % and 2.6%, if we look at the fiscal deficit from the actual situation of the general budgetary revenues and expenditures from the economic system and the injected economic system, then we calculate the fiscal deficit rate for the same period (from now on referred to as "calculated deficit rate") of 1.9%. , 1.8%, 3.4%, 3.8%, 3.7%, and 4.2%; in particular, if the general public budget, the government fund budget, and the state-owned capital operating budget "three budgets" are comprehensively considered, due to national government The fund budget has a deficit, and the "calculated deficit rate" reached 4.7% in 2018. Obviously, from 2015 onwards, in order to actively promote the structural reform of the supply side, the intensity of tax reduction and fee reduction has increased, and the scale of fiscal deficit has increased significantly. Although the fiscal deficit rate has risen sharply since 2015, there may be an impact of short-term incremental growth and auto-stabilization factors caused by downward pressure on the economy. However, the camera selection policy measures such as tax reduction and fee reduction are undoubtedly an important reason.

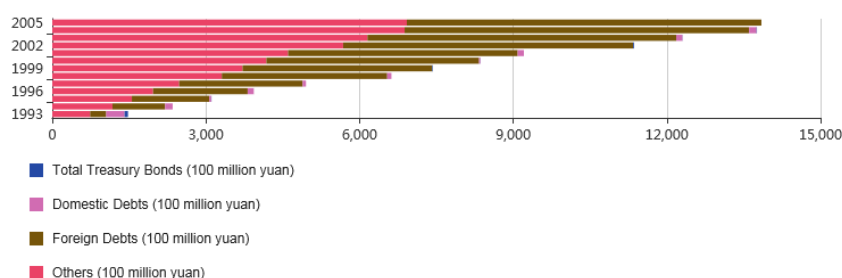


Figure 2 Statistics on the issuance of state financial debts from 1993 to the present

It can be foreseen that under the premise that the growth rate of fiscal expenditure remains relatively stable, the fiscal deficit rate still has an upward trend shortly. The main reason is that the above-mentioned essential characteristics of tax reduction and fee reduction indicate that the institutionalized permanent tax reduction for the primary tax category will generally hurt the fiscal revenue in the next three to four years. Although in theory, tax cuts and fee reductions will reduce the burden on enterprises, stimulate market vitality, stabilize economic growth, expand the tax base, and thus relatively increase a certain amount of fiscal revenue, but from the financial results of many countries after significant tax cuts The scale of the fiscal deficit has increased more or less.

3.2. Impact on the scale of fiscal revenue

Because the tax reduction and fee reduction in the active fiscal policy mainly affect the general public budget income, we analyze the overall public budget income in recent years and the tax revenue to GDP ratio (referred to as the general public budget income ratio and tax revenue respectively). The change in the ratio can, to a certain extent, observe the impact of tax cuts and fee reductions on the scale of fiscal revenue.

First, from the general public budget income ratio and the tax revenue ratio, the general public budget income ratio had decreased from 22.1% in 2015 to 20.4% in 2018, and 2016 (21.5%) compared to 2015 (22.1%). Reduced by 2.7%, 2017 (20.9%) was 2.8% lower than 2016, and 2018 (20.4%) was 2.4% lower than 2017. Meanwhile, the tax revenue ratio decreased from 18.1% in 2015 to 17.4% in 2018. , each year decreased by 3.3% (2016), 0.4% (2017) and 0.5% (2018). This change in the general public budget income ratio and the tax revenue ratio indicates that the tax reduction and fee reduction measures have been effectively implemented, and on the other hand, the reduction effect on fiscal revenue has also been shown. Secondly, because VAT is the largest tax category, and deepening VAT reform is the core content of tax reduction and fee reduction, we will further examine the changes in VAT income ratio. Since the promotion of the “reform of the camp” on August 1, 2013, to the national trial, the income tax rate of the value-added tax (including the past business tax) had dropped from 7.8% in 2012 to 6.8% in 2018, and the rate of decline has been accelerated. The slowdown: 0.9% in 2013, 2.4% in 2014, 3.1% in 2015, 4% in 2016, 2.9% in 2017, and 0.3% in 2018. These data show that the impact of VAT income is the greatest in the three or four years after the comprehensive “reform of the camp,” and the subsequent reduction effect is diminishing or even disappearing. However, considering that the VAT rate will be lowered to 16%, 10%, and 6% on May 1, 2018, it will be further reduced to 13%, 9%, and 6% in 2019, a new round of VAT reform. The effect of reducing the value-added tax revenue will appear again, and this institutionalized, permanent tax cut will make the first major tax reduction affect more.

3.3. Impact on local finance

Under the background of the "unification of tax administration and the unification of the tax system," the tax reduction and fee reduction policy will have a significant impact on local finance. First, the tax reduction policy is mainly based on value-added tax, while the value-added tax is a shared tax (its income is divided between the central and local levels). The local government is less than half of the value-added tax deduction; if the value-added tax is taken into account. With additional taxes, local government revenues will be reduced even more. Second, the “fee” in

“reduction of fees” may take many forms. If it is only a wide-ranging “fee” defined by the financial perspective, it can be regarded as “non-tax income” in general public budget revenue. Local non-tax revenues account for about 80% of the country's non-tax revenue, so the reduction in fee reduction is mainly due to local government revenue. Therefore, tax cuts and fee reductions will make local governments relatively short-term, increase fiscal deficits; may cause local governments to respond strategically and seek other ways to increase revenue.

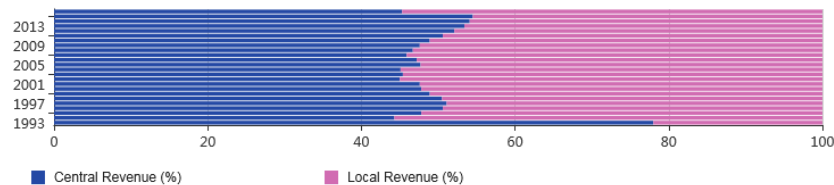


Figure 3 Statistics on the ratio of central and local fiscal revenue

4. Effective ways to deepen the reform of the fiscal and taxation system

From the above brief analysis, it is not difficult to see that the tax reduction and fee reduction will have a huge impact on the financial situation and fiscal policy. Not only will the fiscal revenue be reduced in a certain period, but also the fiscal revenue structure will be changed, especially the impact on local finance will be more obvious. In order to ensure that the tax reduction and fee reduction policies take root, and at the same time, prevent financial risks and ensure healthy financial development, we must accelerate the construction of modern fiscal systems. Among them, more targeted measures include: formulating fiscal consolidation strategies; strengthening fiscal governance; Expenditure budget; promote the modernization of the economic revenue system.

4.1. Formulating a fiscal consolidation strategy

In order to control the size of the fiscal deficit and prevent the government debt burden rate (debt balance to GDP ratio) from rising significantly, relevant decision-making departments should start to formulate fiscal consolidation strategies. The so-called fiscal consolidation or fiscal adjustment refers to the government's efforts to reduce the fiscal expenditure and increase fiscal revenue to improve the budget balance or reduce the fiscal deficit rate and debt burden rate in a certain period of time, usually divided into expenditure-based consolidation (to reduce fiscal Expenditure-based and revenue-based consolidation (to increase fiscal revenue). From the perspective of the fiscal consolidation strategy adopted by many countries in recent 30 years, especially in recent years, and the effect of fiscal consolidation strategy, the countries with reduced revenues and reductions and reductions greater than the reduction rate has the highest annual economic growth rate. The decline in the deficit rate is also more obvious; in the countries where the fiscal consolidation strategy adopts reductions and increases in income, and the reduction is greater than the increase in income, the fiscal deficit rate is the best, but the annual average economic growth rate is much lower than the former; The country, whether it is from the reduction of the fiscal deficit rate or the speed of economic growth, is the worst. Overall, the international experience of fiscal consolidation strategies suggests that reducing the size of fiscal expenditures may be a good strategy.

First, we need to clarify the question – is it to reduce the absolute size of fiscal expenditure, or to control the growth rate of fiscal expenditure, or reduce the ratio of fiscal expenditure to GDP (referred to as the fiscal expenditure ratio)? Judging from the needs of China's current economic and social development, it is difficult to reduce the absolute scale of fiscal expenditures. It is more feasible to control the growth rate of fiscal expenditures or reduce the ratio of fiscal expenditures. To control the growth rate of fiscal expenditure, it is necessary to control the price level (CPI) to rise too fast; to reduce the ratio of fiscal expenditure, it is necessary to maintain a specific rate of economic growth. Also, it is necessary to examine and optimize the structure of fiscal expenditures, especially in the process of budget preparation, and not to adhere to the concept of “existence is reasonable,” but also to break the habit of increasing expenditures for each category. Second, what

are the expenditures for cutting projects? From the international experience, there are individual differences in the fiscal consolidation strategies between high-income countries and developing countries. The most crucial consolidation measures in high-income countries are to cut fiscal expenditures through pension system and welfare system reforms (because pensions and welfare expenditures are the most substantial burdens of high-income governments) while developing countries cut fiscal subsidies and governments. Total wages are the primary consolidation measure (because the total government wages are often the most significant part of the developing country's budget).

At present, China's control and reduction of fiscal expenditure scale can focus on the following three aspects: First, deepen the "distribution service" reform. In the process of reforming the "distribution suit," it is particularly difficult to attack the "release." Since "putting" is the abbreviation of "simplified administration and decentralization," it cannot be limited to the cancellation of administrative approvals, etc., and more importantly, streamlining government agencies, especially local governments at all levels do not necessarily have to correspond to the central government. Set, whether some "institutions" can also "go to the market." Only in this way can we reduce general expenditures. Second, reduce financial subsidies. China's current financial subsidy programs have a large number of names and large amounts, which not only expand the scale of fiscal expenditure but also undermine fair competition and result in inefficient allocation of resources. Third, reasonable control of social spending. With the development of China's economy and society, increasing social expenditures (including education, medical care, social security, and social welfare expenditures) is a development concept of implementing innovation, coordination, green, openness and sharing to meet the people's growing needs for a better life. The necessary measures. At the same time, social spending should also avoid excessive growth. In particular, social security and social welfare expenditures should not be linked to GDP growth, at best, linked to price levels (CPI).

4.2. Strengthening financial governance

From international literature and national practice, fiscal governance can generally be defined as rules, regulations, and procedures that affect budget policy planning, approval, implementation, monitoring, and evaluation, often including fiscal rules, a medium-term budget framework, and an independent financial institution. Fiscal rules refer to various long-term constraints on the total budget and debt balance of the government budget, usually the upper limit of the total amount of each budget (such as income, expenditure, debt issuance, debt balance, deficit) Or absolute amount, or growth rate, or GDP ratio). Medium-term budgetary frameworks are financial arrangements that allow the government to make fiscal policies that are not tied to the annual budget, and usually include the preparation, execution, and monitoring of multi-year budget plans, and revenue and expenditure projections. Independent fiscal institutions are public institutions that are independent of the government or the financial sector. Their functions include monitoring compliance with fiscal rules, preparing macroeconomic forecasts for budget preparation, and advising the government on fiscal policy matters. The purpose of strengthening fiscal governance is to achieve a good budget situation, improve the efficiency of public expenditure, reduce the cyclicalities of fiscal policy formulation, and promote better coordination between governments at all levels.

As far as China's fiscal reform practices are concerned, the main measures to strengthen fiscal governance should include the following four aspects. First, implement the statutory principle of the budget. It is necessary to curb hidden debts resolutely, and it is strictly forbidden to borrow money in the name of government investment funds, government and social capital cooperation, and government purchase services. Second, the implementation of the medium-term budget system. Annual budgeting must be carried out within the framework of the medium-term fiscal plan, which is an integral part of accelerating the establishment of a modern fiscal system. Therefore, a full-coverage medium-term budget system should be implemented as soon as possible. Third, comprehensive implementation of budget performance management.

4.3. Implementing the tax expenditure budget

Tax expenditure refers to the tax revenue that is lost or abandoned due to preferential tax treatment for a specific taxpayer or activity, as stipulated by special legal provisions. The purpose of the concept of tax expenditure is to treat this “loss or abandonment of tax revenue” as the government’s “hidden indirect expenditure” and require the government to manage and control the budget as well as explicit direct expenditure. Therefore, the implementation of the tax expenditure budget can improve not only fiscal transparency, but also strengthen fiscal discipline, facilitate the “input-output” assessment of tax incentives, and more importantly, control the scale of tax expenditures. According to the international experience and China's national conditions, the establishment of a tax expenditure budget system can be divided into the following steps: First, comprehensively regulate tax incentives. Although China's tax administration is unified, various regions and departments still have introduced a large number of tax incentives, resulting in disorderly and fragmented tax incentives, and even vicious tax competition, which disrupts market order. Second, establish a tax expenditure reporting system. Based on comprehensively standardizing tax incentives, we will start with some large-scale tax expenditure projects that have a significant impact on the economy, and establish a particular tax expenditure account for data statistics, calculation, analysis, and evaluation. At the same time, according to the budget management procedures, the tax expenditure report is prepared on an annual basis and attached to the regular annual budget report, so that the relevant departments can fully understand the state of fiscal policy and the fiscal revenue and expenditure. Finally, a formal tax expenditure budget is prepared. After the implementation of the key tax expenditure reporting system for a period of time, a comprehensive and complete tax expenditure account is established for all tax expenditures, and the annual and medium-term tax expenditure budgets are prepared in strict accordance with the legislative procedures of the formal budget, and the approval, supervision, and inspection by the legislative bodies are truly formed. "The fifth budget."

4.4. Promoting the modernization of the fiscal revenue system

The fiscal revenue system consists of a variety of income instruments, including taxes, fees, fines, funds, state-owned assets, and donations. From the perspective of government financing, tax revenue is regarded as the most stable, predictable and sustainable income compared with other forms of income, because the normative and the rule of law characteristics of taxation are the most obvious. From the perspective of national construction, taxation capacity is seen as an essential part of national capacity, because the taxation, especially the direct taxation, reflects the administrative capacity and effort of a country. If the ability to collect taxes is a manifestation of national capabilities, then the ability to levy income tax is even more so. Therefore, to promote the modernization of the fiscal revenue system is to gradually implement tax revenue as the primary source of fiscal revenue while fully implementing the statutory principle of taxation.

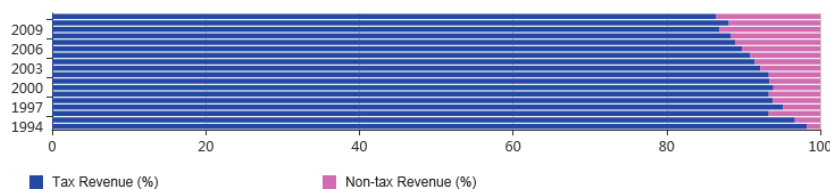


Figure 4 Comparison of tax revenue and non-tax revenue scale

5. Conclusion

As a significant fiscal policy measure to reduce the cost burden of economic actors and promote supply-side structural reforms, “tax reduction and fee reduction” will undoubtedly have a significant impact on the macroeconomic operation and fiscal health. The research results of this paper show that “tax reduction and fee reduction” not only has an impact on the current financial situation but also has an impact on the future financial situation; it not only has an impact on the

fiscal scale and structure but also has an impact on the fiscal system and system; The impact of the central government's finances will also have an impact on local finances. All these effects of “tax reduction and fee reduction” will exert tremendous pressure on the state's finances, and also provide an opportunity to deepen the reform of the fiscal system further and accelerate the construction of modern fiscal systems and tax legislation.

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