Opportunities and Challenges of Individual Tax Reduction

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Abstract: The personal income tax reform in 2018 is a way to reduce the burden of the people, but it also brings opportunities and challenges. Starting from the background of the reform of individual income tax, this paper introduces in detail the basic situation of the reform of individual income tax. In view of the problems in the tax deduction project, personal information security and other issues, some suggestions are put forward.

1. Introduction

With the implementation of the Regulations on the Implementation of the Personal Income Tax Law of the People's Republic of China from January 2019, China's personal income tax reform has come to an end. This tax reform is different from the simple adjustment of the tax threshold in the past. It is also the perfection of the personal income tax system in China from the legal level. It also takes into account the differences in the actual living burden of middle-income groups, taking into account the adjustment of personal income level. The background of this tax reform not only takes into account the decline of consumption demand in the international market under the Sino-US economic and trade friction, but also evidently intends to boost domestic consumption by increasing household income through the tax reform. In addition, the proportion of personal income tax revenue to total tax revenue has exceeded 7.5% since 2015, which is also an important reason for adjusting personal income tax. As shown in Figure 1. The figure shows that before 2012, the proportion of individual income tax revenue to total tax revenue in China continued to decline, but since 2012, the proportion of individual tax and total tax revenue in China has continued to increase, which shows that the group that should pay individual tax has increased year by year. The original tax threshold of 3500 yuan has no longer adapted to the basic situation of China's national income. The effect of income saving difference is also gradually weakening, so the reform of individual tax law is just in time.

Fig.1 Individual and Total Tax Revenues in China, 2004-2018

2. Highlights and Opportunities of Personal Tax Reform

2.1 Highlights of Personal Tax Reform

There are many highlights in this tax reform. The amendment of one tax bill is no longer limited to minor amendments such as a tax threshold, but a systematic amendment to the individual tax law,
which makes the individual tax levy more reasonable on the basis of reducing the burden of the masses. Firstly, the adjustment of individual tax exemption has been adjusted from 3500 yuan per month to 5000 yuan per month, and the proportion of individual income tax payable has decreased from 44% of the employed population to 15%. That is to say, 85% of the people who actually participate in the work do not need to pay individual tax. Compared with the adjustment of individual tax exemption in previous years, the direct adjustment is not as effective as the last one, but through special purpose. The amount of additional deduction can be deducted is much higher than the adjustment range of individual tax exemption. The adjustment of individual income tax exemption is shown in Table 1.

Table 1 Adjustment of Personal Income Tax Exemption

<table>
<thead>
<tr>
<th>Adjustment time of individual tax exemption</th>
<th>2006</th>
<th>2008</th>
<th>2011</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual tax exemption standard</td>
<td>1600 yuan/month</td>
<td>2000 yuan/month</td>
<td>3500 yuan/month</td>
<td>5000 yuan/month</td>
</tr>
</tbody>
</table>

Secondly, this tax reform has put forward the system design of special additional deduction, as shown in Table 2. The highlight of this design is that it takes into account the actual consumption demand of different income groups and reduces the consumption burden of 5000-10000 income groups. Because of the change of social structure, people are generally anxious in the fields of schooling, pension, housing, medical treatment, reproduction and so on. This consideration of individual burden difference is a progress in tax law reform and a positive response to people's anxiety. At the same time, this governance model to avoid “one size fits all” is also an important manifestation of the more and more humanized government governance model. In order to avoid many adjustments after the tax reform, this tax reform has also optimized the tax rate gradation. The monthly tax collection mode has been changed to annual tax collection. The three low-level tax rate gradations of 3%, 10% and 20% have been expanded in different ranges, while the 25% tax rate gradation has been reduced, the 30%, 35% and 45% tax rate gradation has remained unchanged, so as to achieve the middle and high levels. The income group pays less tax while the individual tax payment of the higher income group remains unchanged or even increases, which is of great significance for improving income distribution and narrowing the gap between the rich and the poor. Finally, the tax reform has also added anti-tax avoidance clauses, and the supervision of individual tax collection is more stringent, which is of positive significance to prevent tax loss.

Table 2 Basic Situation of Special Deduction Items for Two Persons

<table>
<thead>
<tr>
<th>Special additional deduction items</th>
<th>Special deduction conditions</th>
<th>Individual Deduction Maximum Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Additional Deduction for Children's Education</td>
<td>Education for children or study abroad</td>
<td>1000 yuan per person per month</td>
</tr>
<tr>
<td>Continuing Education Expenditure</td>
<td>Education for academic qualifications/vocational qualifications</td>
<td>400 yuan a month or 3600 yuan a year</td>
</tr>
<tr>
<td>Special deduction for supporting the elderly</td>
<td>Only-child/non-only-child</td>
<td>2000 yuan per month/1000 yuan per month</td>
</tr>
<tr>
<td>Special deduction of interest on housing loans</td>
<td>First home loan in 20 years</td>
<td>1000 yuan per month</td>
</tr>
<tr>
<td>Special deduction of housing rent</td>
<td>Provincial capitals or planned municipalities/population of more than 1 million/less than 1 million</td>
<td>1500 yuan per month / 1100 yuan per month / 800 yuan per month</td>
</tr>
<tr>
<td>Special deduction for major diseases</td>
<td>Resistance after deduction of medical insurance for serious illness</td>
<td>15000-80000 yuan per year</td>
</tr>
<tr>
<td>Total</td>
<td>Take the case of a person who has only one child who is educated, and who is also an only child, and who bears the burden of housing loans in provincial capitals and serious illness in his spouse.</td>
<td>A total of 132800 yuan per year or 11066.7 yuan per month can be deducted.</td>
</tr>
</tbody>
</table>
2.2 Opportunities for Individual Tax Reform

For personal income, it is very obvious that the real wage will be boosted after the change of tax threshold. In addition to the increase of personal income directly brought about by individual tax reform, individual tax collection standard is also an important reference for many enterprises to formulate wage standards. Many enterprises are generally willing to raise the basic wages of most employees to a tax threshold after obtaining more economic benefits, in order to increase the staff's sense of enterprise gains. For enterprises, the increase of tax threshold is also a kind of burden reduction. Although personal income tax is paid by individuals, in fact, many of them are paid by enterprises when the wages are settled. In fact, tax reduction is also a burden reduction for most enterprises. For the country, individual tax reform and the amendment of individual tax law have different meanings. The tax reform first boosts the income of the residents, then boosts the consumption of the residents, so as to promote the sales of enterprises by consumption, thus offsetting the impact of Sino-US trade frictions. The amendment of the individual tax law also shows the breakthrough in flexible governance of our government. In the process of “deleveraging” in the first half of 2018, the “one size fits all” problem has brought great pressure to the economic operation. Avoiding “one size fits all” in the top design of the system is an important manifestation of the breakthrough in governance concept. In the future, when dealing with various problems, our government will put concrete analysis of specific problems into practice, take measures according to local conditions and cities, so as to reduce the negative impact of reform policies. Generally speaking, the reform of individual tax is an opportunity for residents' income growth, a burden reduction for enterprises, and a perfection of the national governance system.

3. Problems and Challenges in Personal Tax Reform

3.1 Problems in Personal Tax Reform

Another important feature of this tax reform is that the individual income tax has changed from a classified tax system to a comprehensive and classified tax system. This not only puts forward higher requirements for the tax collection and management ability of our country, but also lays a foreshadowing for the future increase of special additional deduction items. Among them, special additional deductions are faced with many implementation difficulties. Firstly, the special deduction is limited to the income of wages, salaries, remuneration for services, contributions and royalties in personal income. Others are not included in the special deduction because they are difficult to define. Secondly, for the special deduction of supporting the elderly, it is stipulated that only for the parents of the taxpayers themselves, and the parents of the spouse are not included in the special deduction, which does not strictly match the family's maintenance obligations. Finally, there are many kinds of information proof of the special deduction quota, such as the special deduction quota of housing rent needs to provide the relevant information of the homeowner, which is a difficult problem for the homeowner's personal information security protection. In addition to the problems in the special deduction policy, such as tax declaration and anti-tax avoidance clauses are still difficult to solve.

3.2 Challenges of Individual Tax Reform

This tax reform has set up six special additional deduction projects, which lays the groundwork for the establishment and adjustment of future special deduction projects, and also brings challenges. For example, in the context of downward car sales, will interest on car loans be included in special deduction projects in the future to promote car sales? Or, whether the deduction for major illness medical treatment is no longer limited to individuals or minor children, but covers all members, including the immediate elders, and so on, needs further discussion in the future. In terms of tax supervision, allowing individual income tax to be declared centrally by individuals at the end of the year also increases the difficulty and pressure of the work of tax authorities at a specific time. In addition, it may be difficult to cover all sources of personal income by collecting individual income tax according to the existing 11 categories of income. With the improvement of China's financial
industry and the overall improvement of national financial literacy, income sources have long been no longer limited to labor remuneration. Income such as bonus package reward has not been included in the scope of personal income, which enables some writers to use another form of remuneration for contributions, while the individual gains in the stock market and Futures market are also absent. Individual income tax is required. There are many occupations and sources of income that are not covered in a tax system. How to clarify these sources of income and distinguish them from personal income is also a challenge for tax regulation.

4. Suggestions on Individual Tax Reform

4.1 Improving the Basic Cost Standard of Special Deduction Projects

In the special deduction project, even if the deduction quota of major illness medical treatment is not used, the individual can enjoy the deduction of about 50,000 yuan per year after satisfying other conditions, and the deduction of major illness medical treatment reaches 130,000 yuan, which makes the special deduction have great adjustment space, and its special deduction standard needs to be further improved. Firstly, special deduction items should be introduced to exclude those items that do not qualify for professional qualification certification in special deduction for education; to increase the coverage of supporting the elderly, especially for father-in-law, mother-in-law and adoptive parents; to increase the description of the scope of medical treatment for major illnesses, so as to avoid the illegal use of loopholes in medical insurance. Medical resistance quota.

4.2 Strengthen the Publicity of Individual Declaration and the Disposal Mechanism of Tax Evasion and Tax Avoidance

After the tax reform, there are higher requirements for taxpayers to pay taxes on their own initiative. It requires not only taxpayers to declare and submit tax materials on their own initiative, but also housing landlords to check the information of relevant materials, which has certain operational complexity. Therefore, propaganda for individual tax reform must be carried out ahead of time. Firstly, the propaganda of enterprises should be strengthened. The Party branch of enterprises should coordinate the propaganda of the results of individual tax reform, and encourage employees to declare individual taxes actively and submit tax deduction materials. Secondly, relevant publicity should be carried out in various housing districts to avoid some landlords' worries about personal information leakage and reduce the communication cost of tax declaration materials when individuals rent apartments in different places. Finally, the authenticity and timeliness of the declaration materials should be checked periodically to ensure the authenticity and validity of the declaration materials. Because of the short implementation time and the short publicity time of the individual tax reform, the disposal mechanism of tax evasion and tax avoidance allows individuals to make one-time reimbursement after verifying tax evasion, but the second time will be strictly investigated and punished in accordance with the law and double deduction penalties.

4.3 Strengthening Information Security Supervision

Due to the need to attach a variety of private information to the tax deduction declaration materials, and the disclosure of these private information is likely to expose the personal social network, threatening the safety of taxpayers. Therefore, it is very important to strengthen the information security supervision of material declaration. To strengthen the supervision of information security, we should start from three aspects: material collection, material processing and material protection. In material collection, we should use electronic input as far as possible to reduce other people's access to personal privacy information, and classify private information. Different staff members are responsible for different projects. In material handling, in addition to the necessary links, as far as possible to be handled by machines, to avoid direct contact between intermediate staff and declaration materials. In terms of material protection, we should establish a mechanism for encrypting and archiving declaration materials, establish data centers for tax-paying materials in various counties and municipalities, and centralize the protection of tax-paying
5. Conclusion

The reform of individual income tax is undoubtedly good for the growth of national income and the promotion of consumption, but the transformation of individual income tax from a classified tax system to a comprehensive and classified tax system also brings different challenges. In the future, the new tax system will inevitably have some problems which are difficult to solve directly. This requires not only the people to give the tax department a certain time, but also the tax department to give the individual a certain understanding.

References


