TRENDS AND PROSPECTS OF TAX REFORMS IN CHINA

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Abstract

This study aims to identify the reform trends in Chinese tax systems with emphasis on the structural tax reduction policy that has been enforced in China's socialist market economy system for the past 10 years. This study also intends to draw the implications of such tax reforms by identifying the relationship between China's socialist and capitalist market economy systems along with other related tax systems and describing the tax policy trends for the last 10 years. A comparison and analysis of the differences in viewpoints on taxation between these market economy systems is also conducted. The core and specific contents of this study on structural tax reduction policy that has been enforced in China over the past decade are arranged.

Keywords: Tax, Reforms, China, Tax Reduction

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1. Introduction

The Chinese socialist market economy system differs considerably from the capitalist market economy system, which operates based on the principles of liberalism (Yoo, 2007). The market economy in China is defined based on Marx's dialectical and historical materialism and on the country's socialist theory because it functions as an essential measure that China can progress as an inclusive socialist country. In particular, the Chinese economy logically varies from the market economy in capitalist market economy system, in which the "invisible hand" is operated by demand and supply. The Chinese economy functions as a transitional system necessary to construct a socialist country and to realize socialism toward achieving Pareto efficiency (Deng, 1995). For example, in contrast with the capitalist market economy system in which prices are determined and resources are distributed efficiently by the "invisible hand" alone, the prices and resources in the socialist market economy system are handled by both "invisible" and "visible" hands.

When the "invisible hand" does not distribute resources in the market efficiently, artificial distribution by the same channel (finance and banking) is rationalized. Therefore, active government intervention in markets is essential when market failure occurs in a socialist market economy country. China recognizes the critical role and importance of taxation as one of the political means for the government to intervene in the market (Yoo, 2010). Such a strategic understanding of taxation can be observed upon examination of modern Chinese tax history. The taxation system in China has exhibited a substantially changing trend based on the Chinese government's policy changes and major policies, including the introduction of the socialist economic system, the "Great Leap Forward," "Cultural Revolution," "Reforms and Open Market Policy," as well as "State-Owned Companies Reform" and "Harmonious Society Construction". These circumstances highlight that China has been properly utilizing taxation as a core measure in implementing macro-economic policies for constructing a socialist country.

Accordingly, taxation in China must be perceived to comprise characteristics that differ slightly from that in countries with capitalist market economy because it is actively used as a political means for to define China as a socialist country and to secure the country's financial income. China has been implementing a structural tax reduction policy for the past 10 years. This policy requires adjusting the tax burden reasonably to address inequality among individual economic subjects. Such an inequality can be summarized as an imbalance "between regions, classes, cities, and rural community" that has emerged during the rapid economic development that resulted its reform and open market policy.

The structural tax reduction policy signifies that the tax policy seeks a stable and continuous development in society and economy by actively reducing taxes for low-and middle-income classes, as well as for small- and medium-sized companies that require political support (Deng, 1995). This reduction policy aims to increase the taxes of high-income classes and large companies that need to be taxed and eventually maximize the tax reduction effect without completely reducing tax revenues. After the global economic crisis, China had to enforce a tax reduction policy as its secondary measure to overcome the rapidly decreasing exports, local demand, and active policy so as to boost the economy (Zhao, 2007). Aiming to prevent aggravating the financial conditions and to guarantee financial health during the policy execution procedures, the Chinese government determined the existing structural tax reduction policy as the main policy, which could provide partial reduction benefits only to industries and classes that require and not as a universal tax reduction, while maintaining existing tax revenues (Zhu, 2012a).

Relevant statistics indicate that the size of the financial deficit in China during the midst of the economic crisis was 180 billion yuan in 2008, 750 billion yuan in 2009, and 800 billion yuan in 2010. The national bond balance of China at the end of 2011 was determined to be in the amount of 7 trillion, 204.4 billion yuan, indicating a relatively satisfactory level compared with that of other countries. China was able to maintain a stable financial status because of its continuously increasing tax revenues. Hence, despite the structural tax reduction policy having been enforced in China since the early 2000s, the country's tax revenues have continued to increase by more than two digits every year. At the end of 2012, the overall tax revenues of China broke through 10 trillion yuan, indicating a huge growth rate. Such a stable increase has contributing significantly to the continuous development of the Chinese economy. Hence, this study aims to identify and determine the implications of the reform trends in Chinese tax system, with focus on the structural tax reduction policy that has been implemented for the past 10 years in China's socialist market economy system (Hu, 2007).

This paper is organized into four sections. Section I identifies the relationship between China's socialistic market economy system, the capitalist market economy system and related tax systems. The trends in China's tax policy for the past 10 years are also described. Chapter 2 compares and analyzes the differences in viewpoints on taxation between the two market economy systems. Chapter 3 discusses the core contents of this study as well as specific details on the structural tax reduction policy of China. Chapter 4 summarizes the results and implications of the research.

2. Review of Viewpoint on Taxation in the Unique Chinese Socialist Market Economy

2.1. Viewpoint on Taxation in China's Socialist Market Economy System

The Chinese government, which operates China's socialist market economy system (CSMES), understands market economy as a resource allocation method of revenues formed in the relationship between consignor (country) and consignee (market) and not as a free-competition system based on demand and supply as inferred by capitalist countries. Therefore, profit sharing in CSMES is led by the Communist Party, a subject of proletarian dictatorship that emerged as a result of struggles between farmers and land owners. Hence, CSMES exhibits considerable differences in law structure and operation methods as compared with the capitalist market economy system (State Board of Education Social Sciences Division Group, 1998).

CSMES regards the country (Communist Party) as the subject of profit sharing formed in the market. Therefore, CSMES rationalizes the market intervention and artificial resource allocation of the country and places emphasis on national profits rather than market profits. Based on this logical relationship, taxation in China is recognized as a means of providing a reasonable distribution of the resources of the country (Communist Party). In brief, the tax system in CSMES is legislated and executed under a logical structure as follows: Construction of socialist country → fair society for everybody → optimum allocation of resources (Pareto efficiency) → necessity of profit sharing method → execution of taxation system. From this viewpoint, the taxation system in CSMES is identified to possess certain characteristics specified below.

First, the tax collection administration law serves as the main legal basis for the tax law systems. At present, the basic national tax law that guarantees the fundamental human rights of taxpayers is not legislated in China; instead, a tax collection administration law that specifies the collection power and procedures is enacted. Hence, the legal guarantee to necessarily acquire profits from the country (consigner) is secured from the market (consignee). However, the basic national tax law, which is a means of protecting the market, has yet to be enacted. In this event, the protection rights of the market and taxpayers in the existing Chinese system are not satisfactory (KIEP, 2013).

Second, tax law is legislated and executed as a delegated legislation of administrative bodies. All tax laws in Chinese law system, except for the enterprise income tax (EIT) law, individual income tax (IIT) law, and tax collection administration law, are authorized and legislated by the financial and tax departments (Ministry of Finance and State Administration of Taxation) in the State Council, which is a national agency (Yoo, 2012). Therefore, legal stability and predictability are difficult to guarantee in China. These concepts, which are significant propositions of tax law, are generally pursued by countries with capitalist market economy systems.

Third, because it regards tax as a method of procuring national wealth and adjusting (control) macroeconomics, China generally conducts tax administration based on the national revenue principle and instrumentalism (Choi, 1997). For example, the withholding and proxy taxation systems in China apply to all taxable items, which are typical national revenue principle tax systems for safely securing tax revenue.

Moreover, given that taxation is mostly recognized as a method (tool) for adjusting (control) macroeconomics and artificial resource distribution, retroactive legislation and retroactive taxation may also be used to secure tax revenue. Therefore, taxation under the CSMES is defined as the core measure for optimum profit allocation (resource allocation), which is formed in the relationship between consignor (country) and consignee (market). The system is analyzed to operate the tax system (in dubio pro fisco) from the viewpoints of national wealth principle and instrumentalism to secure national wealth and attain artificial resource allocation.

2.2. Comparison with Capitalist Market Economy System

Under CSMES, taxation is based on consignor-consignee relationship that exists between the government and market and is used as a means of achieving macroeconomics control, optimum resource allocation, and financial income expansion. Hence, the tax system is operated from the national wealth principle perspective (in dubio pro fisco). Accordingly, the Chinese government places the national profit as high priority in the legislation and administration of the tax system. Even retroactive taxation and retroactive legislation, which are generally regarded under capitalist market economy systems as illegal, can be implemented in China (Ma, 2013).

In contrast, the capitalist market economy system regards tax as a claim-obligation relationship based on the social contract theory. This system places emphasis on the rights and liabilities between the country and taxpayers. The tax system in a capitalist market economy system is therefore considered the basic method of guaranteeing the rights of the taxpayers, who are tax obligators, and generally executes the institutional devices for protecting the rights of its people. Capitalist market economy systems also view retroactive legislation or retroactive taxation, which could result in disadvantages for the taxpayer, as originally invalid. The differences in the viewpoint of CSMES and capitalist market economy system toward taxation are listed in Table 1.

Table 1. Comparison of Viewpoint between CSMES and Capitalistic Market Economy System

	CSMES	Capitalistic Market Economy System
Theoretical Background	socialist materialism(sharing economy)	social contract theory(market economy)
Market Concept	consignor-consignee relationship (subordinate relationship)	demand-supply relationship (equal relationship)
Understanding about Tax	Resource (profit) allocation measure (instrumentalism)	Rights and duties protection measures (rights theory)
Basic law System	tax collection administration law (focusing on taxation)	national tax (tax) basic law (focusing on right protection)
Interpretation of Tax Law	in dubio pro fisco (focusing on national wealth)	in dubio contra fiscum (focusing on taxpayer’s interest)
Core Differences	retroactive legislation & retroactive taxation are possible (legal behaviors)	retroactive legislation & retroactive taxation are not possible (illegal behaviors)
Taxation Method	withholding taxation & proxy taxation & consignment collection (mandatory execution)	Taxpayer's payment by self-assessment (exercise of rights)
Judgment of Tax liability	national revenue principle judgment (secure financial income)	Judgment of rights and duties relationship (property right protection)

Source: Yoo(2011) and Yoo(2014)

Previous studies have claimed that the tax system in China is sensitive to the macroeconomic policy changes of the Chinese government (SBESSDG, 1998). Hence, when the Chinese modern tax history is examined, the Chinese tax system changes extensively according to the core policy changes enumerated in the Introduction.

Table 2. Core Policies and Major Tax Reforms of Chinese Communist Party

Period	Core Policy	Major Tax Reforms
New China	* Introduction of socialist economic system - Secure financial income	* Establishment of socialism type tax system - Establishment of centralized tax system
Great leap Forward	* Construction of socialistic industrial industrially advanced nation - Make all economic subjects as people's commune - Highly regard manpower and industrial production power - 'Surpass UK within 10 years'	* Simplification of tax system - Maintenance of existing tax burden·Consolidation of tax item·Simplified tax system - Consolidation of 4 taxes - Transition theory of tax system
Cultural Revolution	* Creation of socialist proletariat culture - Progress of omni-directional socialization - Highly regard socialist materialism - 'Demolition of 4 old customs': Old ideologies, thoughts, habits, customs	* Simplification of tax system - Consolidation of 5 taxes - Transition theory of tax system - Uselessness of tax system
Reforms and Open Market Policy - early stage	* Introduction of socialistic market economy system - Introduction of market economy - Highly regard pragmatism	* Establishment of socialist market economy type tax system - Adjustment, reform, arrangement and improvement - Tax for Profits reform
Aug. 5 plans ~ Sept. 5 plans	* Establishment of socialistic market economy system - Establishment of market economy based on co-ownership - Development of socialist production capacity - Build up national strength, improvement of living standards -Nánxún Jiǎnghuà	* Support the development of socialist market economy - Unified tax law, fair burden, and simplified tax system - Relationship between reasonable decentralization and reasonable allocation - Guaranteed financial income, construction of socialist market economy - Overall tax reform
Oct. 5 plans	* Consolidation of socialistic market economy system - Highly regard science, technology, education - Encouragement of overseas investment, invitation of overseas investment	* Promotion of socialist market economy - To maintain the sustainable development of national economy - Strategic economic restructuring - A new round of tax reform
Nov. 5 plans	* Consistent development through harmonious society construction - Harmonious society construction - Market principle and highly regard equality and efficiency - Views about scientific development, equilibrium wealth theory	* Tax reform for continuous development - Domestic demand, fair and equal development - Self-dependent innovation, environment protection - Indirect tax system, , The wide tax base, low tariff, - The strict collection and Administration

As mentioned earlier, China has been executing the structural tax reduction policy for the past 10 years with the aim of providing reasonable adjustments to tax burdens to solve the inequality problems between economic subjects. These problems can be summarized as the imbalance between regions, classes, cities, and rural community caused by the rapidly developing procedures of the Chinese economy since the 20th century (Cong, 2012; Hua, 2013). The Chinese tax authority has continued to strive towards the construction of harmonious society, which is one of the government ideologies of Hu Jintao in conjunction with the views on scientific development, which is a related execution policy. The creation of this so-called harmonious society involves improvement and continuous development of the Chinese economy, the enterprise and individual income tax systems, as well as the reinforcement of taxation management, all of which pose obstacles to the realization of equality in society (Cong, 2012).

Thus, by strengthening the income allocation function of taxation via a stepwise and systematic structural tax reduction policy and by constructing a sound tax environment, the Chinese tax authority has been actively utilizing tax as a means of realizing the government ideology of constructing a harmonious society the embodies the completion of the balance and harmony between cities and rural community, East and Mid-West, economy and society, human and nature, local development and opening, and to address the views on scientific development.

To obtain a better understanding of Chinese tax law, requires thorough comprehension of Chinese tax laws and practices of taxation administrative bodies that legislated based on the views of CSMES on taxation, because the Chinese tax system is used as one of the major methods of controlling the “China’s socialistic market economy system” because Chinese tax system is being used as the major macroeconomic policy (Yan and Yu, 2011). Hu Jintao completed his term in 2012 and Xi Jinping stepped in to replace him. Hence, conducting an analysis of the domestic and foreign economic environments of the Chinese Communist party and of the central government during the 12.5 and 13.5 plans implemented by Xi Jinping in necessary to predict the consequent macroeconomic policy directions and tax burdens.

3. Recent Major Tax System Changes In China And Related Results

3.1. Income Tax System

(1) Agricultural Tax

In 2006, the Chinese government abolished the agricultural tax, which imposed taxes on approximately 70% of farmers in China. This abolishment coincided with the implementation of the 11.5 plans. The step marked the first time that the tax burden of farmers was reduced completely, and served as the first measure towards the construction of a harmonious socialist society. However, not all farmers benefitted from the abolishment of the agricultural tax.

The abolition of agricultural tax in 2006 did not target high-income self-employed farmers who cultivated commercial crops (e.g., special agricultural products), but instead targeted ordinary small peasants. Accordingly, the substantial beneficiaries of the abolition of agricultural tax were restricted to low-income farmers.

After the agricultural tax was abolished, a special agricultural production tax was imposed on high-income farmers who produce special agricultural products. However, tax was not levied when the agricultural products cultivated in non-taxable agricultural lands became the subjects of special agricultural production taxation. Moreover, accumulated tax, which was levied on livestock raisers, was completely abolished in 2003, further reducing the tax burdens of low-income farmers and livestock raisers. The related analysis of Chinese government at that time reported that the tax burdens of low income farmers were reduced by approximately 100 billion yuan.

(2) Individual Income Tax (IIT)

Recent major tax reform trends, which are related to individual income, can be summarized as the increase in the taxable point of wage earners. When the Chinese economy displayed continuous growth after 2000, the Chinese government amended the IIT law, implementing Articles 6 and 26 in 2005 and increasing the taxable point from 800 yuan to 1600 yuan. This effort could be interpreted as a mechanism of reducing the tax burdens of wage earners and self-employed individuals given that the income of Chinese people is also increasing rapidly because of the continuous growth of the Chinese economy. This policy trend is identified to continue into the future.

In 2007, the Chinese government further reduced the tax burdens by once again raising the taxable points of wage earners from 1600 yuan to 2000 yuan in connection with the income increase. In 2011, the government increased the taxable points of wage earners to 3500 yuan and increased the tax burdens of high-income earners. The Chinese government also lowered the tax burdens of low-income earners by modifying the nine-step progressive marginal tax rate structure into a seven-step structure. To compensate for the income reduction of individual income earners because of the financial crisis, the government exempted saving interest income of individuals from IIT, along with interest income from stock trading closing fund earned in the stock market and accrued interests earned from local government bonds to promote the revitalization of capital market.

Table 3. Major reforms in IIT law in recent China

Year	Contents	Characteristics
2005	Improved IIT taxable point (800yuan→1600yuan)	tax reduction
2006	Strengthened taxation administration targeting high income earners (voluntary payment by self-assessment above 120 thousand yuan annually)	tax increase
2007	Increased IIT taxable point (1600yuan→2000yuan)	tax reduction
2008	IIT exemption for savings interest income IIT exemption for the stock trading closing interest which is earned from stock market by individual investors	tax reduction tax reduction
2011	Improved individual income tax exemption and increased taxable point (2000yuan→3500yuan) Lowered minimum tax rate interval (5%→3%) Adjusted accumulated tax rate structure (9 step→7 step)	tax reduction tax reduction tax increase
2012	Exempted industrial accident insurance premiums of the workers and relatives who had industrial accident	tax reduction
2013	Exempted pension payments of the corporate and individuals Exempted allocated amount to the individuals in pension management profits	tax reduction tax reduction
2014	Stipulated inclusion of deductible expenses regulation of individual business operator Exempted transfer gains in shares retained by the individual longer than one month (75% maximum)	tax reduction tax reduction

Another notable fact in the Chinese tax law is that the unfair issues in tax burdens between corporate and individual business entrepreneurs are addressed by including various social welfare insurance premiums in the deductible expenses of individual business entrepreneurs and individual income earners or by deducting them as expenses. Strengthening taxation management through the formulation of new regulations is another step taken. Under these new regulations, taxpayers earning an annual income of more than 120 thousand yuan can voluntarily pay IIT based on self-assessment to local jurisdiction tax authority within three months after the end of the tax year.

Since 2012, the income level and living stability of individual taxpayer have also been guaranteed with the stipulation of the industrial accident insurance premium, which will be received by workers who had met industrial accidents. The pension borne by corporations and individuals should not be taxed. Recently, individual business entrepreneurs can also include related expenses in their deductible expenses, which have stricter regulations for industrial accident insurance premium compared with corporate businesses. Equity transfer gains were exempted from tax burdens by up to maximum 75% to draw long-term stock investment. The Chinese government has also consistently maintained the trend of reducing the IIT to improve the income of low-income class. The major reforms and characteristics of the newly enacted IIT law in China are summarized in Table 3. Recent China-related studies have revealed that more than 100 billion yuan of tax reduction effect is expected by executing the structural tax reduction policy for IIT.

(3) Enterprise Income Tax (EIT)

In 2008, the Chinese government integrated domestic capital EIT ordinances and foreign investment EIT law into a single EIT law that would address the unfair issues in tax burdens stemming from the EIT law classified taxation for domestic and foreign investment companies.

The integration of these ordinances and EIT law has a significant implication in the sense that it includes deductible expenses ranges from various expenses (depreciation expense, labor expense, R&D expense, donations, entertainment expense, advertisement expense, etc.) individually and differently stipulated by domestic capital companies and foreign investment companies in the past and tax preference regulations. These regulations were applied excessively to foreign investment companies and were identically applied according to the industry without distinction between domestic capital and foreign investment companies. Moreover, taxation units and tax rates in EIT were equally unified. Consequently, the unfair tax burdens between domestic capital companies and foreign investment companies were addressed.

When the EIT law was enacted, tax evasion behaviors were avoided via the transfer pricing trade of foreign investment companies by stipulating the "special tax payment adjustment" in EIT law. This particular adjustment is elucidated in Chapter 6, which is a regulation on transfer pricing behaviors. In particular, the regulations were legislated for advance pricing agreement, cost contribution arrangement system, cost contribution arrangement system, General Anti-Avoidance Rules, and foreign holding company, which were stipulated as partial rules (administrative order). The decree also imposed that restricted transfer price should not be investigated arbitrarily by local tax authorities by integrating the transfer price investigation decision to the State Administration of Taxation.

When a multinational corporation, which has applied regulations on advance pricing agreement, cost sharing agreement, or cost contribution arrangement system, agrees with tax authorities beforehand for transfer pricing behavior in special tax payment adjustment legislated as a State Administration of Taxation Order, a characteristic of drastically reinforced regulations against tax avoidance of foreign investment companies must be written. Moreover, the transfer price synchronization data must be retained and submitted if necessary. Various regulations were put in place during the financial crisis. These regulations allowed financial institutions to lend bonds to small- and medium-sized companies and farms to promote the economy during the financial crisis. When allowance for bad debts was accounted for, the related inclusion of deductible expenses ranges could be expanded, and start-up agricultural product manufacturing companies could be exempted from EIT.

The Chinese government also issued regulations stipulating that an exempted tax rate of 20% could be applied to the taxable income to reduce the tax burdens of small- and medium-sized companies. In particular, these regulations were realized by reducing 50% of the relevant taxable income among small companies that had less than 30,000 yuan of taxable income. In this case, income from clean fund could also be completely exempted from EIT. The Chinese government actively supported small- and medium-sized companies and farms in critical situations and recovering from the global financial crisis. The Chinese government formulated regulations that held that interest income purchased and acquired by companies from local government issuing and railroad construction bonds could be exempted from EIT. These regulations were established to support the financial resource procurement for local government in line with the occurrence of the financial crisis and to compensate for the income reduction of companies. With the aim to support technology innovation and service development, the government also strengthened taxation support via the application of 15% exempted tax rate for the acquired income from foreign trades of 20 nationwide technology-oriented service companies with foreign companies. The deductible expense ranges for workers' job-related education and training expenses were also expanded.

Meanwhile, to reduce the tax burden of security companies in security and future price investments, which suffered during the financial crisis, the government expanded the before-tax deduction rates in stock investor and future price investment protection funds to up to a maximum of 5%. The government also amended EIT-related regulations, designating that farm trust companies in Sichuan, Gansu, Shaanxi, Chongqing, Yunnan, and Ningxia, which were suffering from economic difficulties due to disasters, could be exempted from EIT. For the past few years, the Chinese government has deployed active tax reduction policies as the economy displays a consistent downward trend because of the global financial crisis.

For example, the Chinese government applied the tax preference only for small- and medium-sized companies with less than 3,000 yuan taxable income, and expanded this rate to less than 60,000 yuan among small companies in 2012. The government further expanded the application ranges to less than 100,000 yuan. At the same time, the government expanded the tax preference for energy saving companies to secure the efficient use of energy. The government also exempted technology transfer companies from EIT to promote technology transfer and R&D and significantly reduced the tax burden by relaxing the accelerated depreciation regulations for additional reduction in R&D and fixed assets. Nonetheless, the Chinese government continues to strengthen their management and control in international tax areas. This effort is aimed to compensate for the tax revenue deficiency that might occur in the tax exemption of local Chinese infant industries and of small- and medium-sized companies.

After clarifying the judgment standards as an actual controlling body for local and foreign companies in 2009, the Chinese government in 2011 began to enforce their tax management system by targeting local and foreign holding companies. In the same year, the government enforced specialized regulations on tax management for large companies and began to strengthen their tax source management by executing laws for special relation company management in 2013.

In 2014, the Chinese government reinforced tax management regulations on international trades. This undertaking was realized by enabling the anti-tax avoidance regulations, a transfer pricing investigation executed by legislating in case of tax avoidance charges. The government also required resident companies to report all information on local and foreign investments and introduced the judgment standards of resident companies based on actual control relationship. However, the government continues to execute the tax reduction policy to protect low-income class as well as the infant industries within the country. For example, by 2015, the government will completely exempt manufacturing companies that produce assisting devices for handicapped from taxation of EIT. This particular measure was expanded by including deductible expenses range for companies that participate in remodeling the underdeveloped shanty towns in industrial and mining areas. Moreover, the government increased the limit of deductible expenses to up to 30% of the total sales for cosmetic and pharmaceutical products manufacturing companies and allowed the inclusion of tax exemption benefits in deductible expenses with unlimited carryover of the exceeding limit to the following business year.

Table 4. Major reforms in EIT law in China

Year	Contents	Characteristics
2008	Included deductible expenses range, tax preference, taxation unit, tax rate unification between domestic and foreign investment companies Reinforced international tax regulations like transfer pricing system, advance pricing agreement, cost sharing agreement general tax avoidance, foreign holding company and cost contribution arrangement system Increased before-tax deduction rate in stock investor protection fund and future price investor protection fund related EIT Exempted EIT for startup agricultural product processing companies	tax reduction tax increase tax increase tax reduction tax reduction
2009	Expanded small and medium size company related before-tax exemption of loan loss reserve Increased before-tax deduction rate for farm related loan loss reserve Applied exemption tax rate for foreign business income of advance technology-oriented service company (15%) Increased before-tax deduction rate for education and training Applied taxable income reduction and reduced tax rate for small companies with less than 30,000 yuan of taxable income Strengthened resident judgment standard of foreign holding company	tax reduction tax reduction tax reduction tax reduction tax reduction tax reduction tax increase
2010	Expanded allowance for bad debts inclusion of deductible expenses in disaster area of farm trust company	tax reduction
2011	Exempted EIT for local bond interest Gave preference to EIT for agriculture, forestry, fishery companies Exempted EIT for correction device for the handicapped manufacturing companies Applied taxable income reduction and reduced tax rate for small companies with less than 60,000 yuan of taxable income Strengthened tax source management for foreign holding company and large companies	tax reduction tax reduction tax reduction tax reduction tax increase
2012	Exempted EIT for IC manufacturing company and software development company	tax reduction
2013	Gave preference to EIT for energy saving company Exempted EIT exemption for technology transfer company Allowed additional reduction for R&D expense Strengthened tax source management for special relationship company	tax reduction tax reduction tax reduction tax increase
2014	Allowed accelerated depreciation for fixed assets of high-tech company Applied taxable income reduction and reduced tax rate for small companies with less than 100,000 yuan of taxable income Legislated anti-tax avoidance regulation and strengthened supervision about transfer pricing behavior Executed reporting system for resident company's foreign investment information and strengthened the judgment for actual control relationship	tax reduction tax reduction tax increase tax increase

The reform trends recently observed in Chinese EIT are as follows: (1) Expansion of tax exemption for infant industries, including small- and medium-sized companies and hi-tech companies; (2)

Allocation of tax preference for financial industries to support the low-income population suffering from financial difficulties; (3) Tax support for companies and industries to improve the living standards of the handicapped and residents in underdeveloped areas; and (4) Reinforcement of tax source management and tax investigation. The case of EIT signifies that the government also maintains the policy trend to expand tax expenditure for socially disadvantaged classes such as the case of IIT.

Table 4 lists the major reforms observed in the EIT of China. The Chinese scholars estimated more than 93 billion yuan of annual tax reduction effect through the tax reduction policy for EIT. Nevertheless, considering that the size is continually expanding, larger tax reduction than the previous estimation of scholars is expected for EIT.

3.2. Consumption Tax

(1) Value-Added Tax (Zēngzhíshuì) (VAT)

The previous Chinese VAT was type of production value-added tax that did not allow for the reduction of purchase tax for capital investment and caused many problems on taxation and VAT returns. The applied tax rates in China were considerably higher than those in neighboring countries and the non-deductible purchase tax, which was passed to commodity price, primarily caused the reduction of price competitiveness of Chinese products in the global market.

Hence, the Chinese government appointed three North Eastern States in 2005 and six states in the central area in 2007 as model areas and gradually converted the production VAT system into consumption VAT system. In 2009, the previous production VAT system was completely converted into consumption VAT system, allowing general taxpayers to purchase or receive complete deduction of purchase tax for capital goods such as self-manufactured machineries.

Since 2008, the government has also increased the metallic mineral and nonferrous metal development and import-related VAT rates from 13% to 17% to address the unregulated resource development and industrial structure. The government also reduced a certain amount of tax burden in related business fields by adjusting the withholding ratio of VAT to support resource recycling.

Meanwhile, to reduce the VAT burden on small- and medium-sized companies and self-employed individuals, in 2009, the government lowered the judgment range of small-sized taxpayers from 1 million yuan (for industrial companies) or 1.8 million yuan (for commercial companies) to 500,000 yuan or 800,000 yuan, respectively. The government also simplified the applied tax rates from the previous 6% (industrial companies) or 4% (commercial companies) to 3%.

Granting preferential status to R&D companies that have bought local equipment and promoted technology development since 2009, the Chinese government returned the entire amount of VAT to these corporations (regardless whether domestic or foreign investment companies) granted that they have satisfied certain conditions. The government also exempted foreign-based R&D companies importing R&D-related products from the tax burden at the import stage. Moreover, the government implemented tax preference regulations to exempt full-time rural joint venture companies from VAT or imposed a low tax rate (13%) on these firms to support new rural constructions.

When the financial companies transferred the ownership of lease vessels to Tianjin City, which is one of the model areas, the government amended the VAT law. Companies in Inner Mongolia, Liaoning, Jilin, Heilong Jiang, Guangxi, Xingang, Xīzàng, and Yunnan could export through general trading and border trade. When the payments were made with yuan, the entire VAT had to be returned as one of the policy objectives for promoting tax burden reduction and internalization of yuan currency. In the case of VAT return system, the government increased the return rate by three times for about 10,000 export items to address the effects of the financial crisis. However, the government cancelled the export return because of the anti-dumping decision in 406 steel and metal products in 2010. The above circumstances demonstrate that the Chinese government could become flexible in operations considering the country's macroeconomics and international trade situations.

The government actualized the prices of 2,000−5,000 yuan in commodity sales and 1,500−3,000 yuan and 15−200 yuan for daily service based on the VAT taxable point. The government also increased monthly prices to 5,000−20,000 yuan and daily prices to 300−500 yuan. Effective August 1, 2013, the government completely exempted from the VAT law small businesses that earn less than 20,000 yuan in monthly sales from the VAT law. Finally, the major contents of the Chinese VAT system were converted into VAT system in business tax and the non-taxable service areas were expanded.

Chinese business tax is a kind of sales tax, in which the supplied taxable services were taxed with the sales as taxable standards. Under the business tax, tax burden was heavier than VAT, and purchase tax could not be deducted from the transaction procedures (transportation, construction, and installation). Therefore, the tax burden in service business was extremely heavy. This issue was resolved by the Chinese government by converting the business tax system into VAT system beginning in Shanghai in 2012.

In July 2013, the government expanded the tax ranges, targeting the transportation business and several personal service industries in large cities (e.g., Shanghai and Beijing) and in 11 state cities, including six central states. The government also began to enforce the tax invoice reform nationwide on August 1, 2013. Given that the conversion of the business tax system into VAT system addressed the double taxation problem for service business and greatly reduced the tax burdens of taxation object business field (e.g., service business), the promotion effect in service business development can be expected. Therefore, to promote the further development of service businesses, the Chinese government is expected to convert the business tax in all service businesses to VAT and achieve full scale reduction of the tax burden with the 12.5 plans period.

In 2014, the Chinese government increased the VAT taxable point from 20,000 yuan to 30,000 yuan and lowered the tax rates of some currencies, applying 6% of the tax rates as a simple taxation method. At present, the government continues the active tax reduction trend, including the complete exemption from VAT of the film industry and for the social welfare of the handicapped.

This adjustment in VAT taxable point and VAT exemption for small-scale business are incorporated into the tax reduction policies intended to protect small-scale businesses. Accordingly, the Chinese academic field estimates 130 billion yuan of tax reduction through the conversion of production type VAT system into consumption type VAT system, reduction of applied tax rates for small-scale taxpayers, and conversion of business tax into VAT. The reforms related to the Chinese VAT system specified above are summarized in Table 5.

Table 5. Major reforms in VAT system in recent China

Year	Contents	Characteristics
2005	Trial conversion of consumption VAT (3 Northeastern states)	tax reduction
2007	Trial conversion of consumption VAT (6 central states)	tax reduction
2008	Full-scale execution of consumption VAT Raised applied tax rates of metal (non-ferrous metal) (13%→17%) Raised applied tax rates of some import mining products (13%→17%) Adjusted withholding ratio of waste recycling companies (70%→50%) Give preference to VAT for specialized farming Joint venture companies Raised the return rate of some export commodities like textile products	tax reduction tax increase tax increase tax reduction tax reduction tax reduction
2009	Tax exemption for equipment purchase of R&D companies Adjusted small size taxpayer's judgment standards (industrial company 500,000yuan, commercial company 800,000yuan) Adjusted applied tax rates for small taxpayers (commercial company 6%, industrial company 3%)	tax reduction tax reduction tax reduction
2010	VAT return for vessel lease companies in Tianjin area VAT return when trading company makes the trading payment with yuan Cancelled the return for some anti-dumping commodities	tax reduction tax reduction tax increase
2011	Raised VAT taxable point (5000yuan~20000yuan, 300yuan~500yuan each time(daily)) Tax exemption for equipment purchase by R&D companies	tax reduction tax reduction
2012	Trial execution of tax invoice(Shanghai, Zhejiang, Tianjin etc)	tax reduction
2013	Full-scale execution of tax invoice Stopped taxation of VAT for the small-scale business with less than 20,000yuan	tax reduction tax reduction
2014	Expanded items and issuers of tax invoice to post, railroad, general services Stopped taxation of VAT for the small-scale business with less than 30,000yuan Lowered the applied tax rates to 3% for the business with 6% of simplified taxation Exempted VAT taxation for the development of film industry	tax reduction tax reduction tax reduction tax reduction

(2) Business Tax (BT)

The taxation range of BT in the early years of China was stipulated as the BT object service provided within the Chinese borders based on the territorial principle. In 2009, however, the provision of all services occurring in China was stipulated through the amendment of BT ordinances.

This step indicates that the taxation range of BT was converted from territorial into personal principle, and the application ranges were expanded to overseas. The Chinese government amended the regulation in 2009, exempting overseas borrowings granted by financial institutions from BT. Moreover, the government decided to impose BTs on local financial institutions within the country (including foreign-based local banks and braches) as well as individuals who borrow from overseas financial institutions (retroactively applied on January 1, 2008, applied tax rate of 10%). Business revenues earned by local taxpayers living within the country and working in international transportation service were also exempted from BT.

Meanwhile, the Chinese government exempted sales amount of technology-oriented service companies in 20 major cities from BT to support the development of these companies. The government also executed the tax reduction policy for service businesses and several financial institutions. Such a policy was implemented by exempting stock investor and future price investor protection funds accumulated by the Chinese Stock Investor Protection Fund Limited Liability Company as part of security companies from BT. These funds were accumulated as part of operating profits in security and future price investments during the financial crisis.

The government strengthened its financial support to the farmers by exempting small loan amounts of less than 50,000 yuan from BT. The government also stipulated that light tax reduction (3%) could be applied for the financial insurance revenues of loan companies and corporations established by banks, agriculture joint venture banks, and rural community commercial banks whose locations are lower than Hyun class. The government also actualized the taxable point of BT in November 1, 2010 as it lowered the point of monthly business revenues of 1000 – 5000 yuan and daily revenues of 10 yuan in the past to monthly business revenues of 5000 – 20000yuan and daily revenues of 300 − 500 yuan, resulting in a significant reduction in BT burden.

However, the government levied BT in real estate to promote the stability of this market. When personal houses did not exceed five years or the house was not for residential purposes, the transfer of the houses that met the requirements was exempted from BT. House sale with structural adjustments could also be exempted from BT. More importantly, China realized the conversion reform of BT to VAT on a trial basis and expanded this reform to large cities (e.g., Shanghai and Beijing) and 11 states, including six central state cities until July 2013. The government has continued to execute the reform, targeting transportation businesses and some personal services.

On August 1, 2013, the government expanded the tax invoice reform. Consequently, BTs in all service businesses are expected to be converted to VAT within period of the 12.5 plan. In the same year, the government decided to exempt small-scale businesses with less than 20,000 yuan monthly income from BT. In 2014, the government reduced the tax burden of small-scale businesses by increasing the taxable point in BT from 20,000 yuan to 30,000 yuan.

Table 6. Major reforms in BT system in recent China

Year	Contents	Characteristics
2009	Expanded taxation range (territorial principle → personal principle) Taxation of the business tax on foreign investment companies and foreigners' overseas loan interests Exemption of BT on business revenue which were acquired by technology-oriented companies in external business (20 cities) Exemption of BT on stock investor protection fund and future price investor protection fund Reduced house holding period in case of general house transfer of the individual (5years→3years, by 2010)	tax increase tax increase tax reduction tax reduction tax reduction
2010	BT exemption for farmer related small loan interest BT exemption for international transportation service which was provided by the taxpayers within the border Light tax reduction rate for loan companies in rural areas and rural community Joint venture Bank whose locations are under Hyun class	tax reduction tax reduction tax reduction
2011	Raised taxable point (monthly 5000yuan~20000yuan, each time(daily) 300yuan~500yuan) Expanded BT exemption period for farmer related small loan interest Exemption for the real estate transfer in the cases of residential houses (held longer than 5 years) and structural adjustment	tax reduction tax reduction tax reduction
2012	Started conversion of business tax system to VAT system	tax reduction
2013	Stopped BT for small businesses with less than 20,000yuan monthly business revenue Conversion of business tax system to VAT system	tax reduction tax reduction
2014	Stopped BT for small businesses with less than 30,000yuan monthly business revenue	tax reduction

The tax reduction effects in various service business companies through the recent implementation of the tax invoice reform increase of taxable income in BT, and reduction of BT for small- and medium-sized companies as well as for individual business entrepreneurs are determined to be a minimum of 12 billion yuan and over 15 billion yuan every year. The recent reforms and characteristics of BT in China are enumerated in Table 6.

(3) Consumption Tax (CT)

CT was first introduced by the tax reform in 1994 and was stipulated to be imposed on shampoo and cosmetics, considering the disposable income and indispensable goods of Chinese people at that time. However, as the income level of Chinese people increased after the reform and opening up policy of the Chinese government, CT on shampoo and cosmetics was no longer in accordance with its purpose, thereby causing an increase in the tax burden of the Chinese people. Hence, the Chinese government amended the CT provisional ordinances in 2006 and conducted a full-scale reform of the CT object items.

To prevent the inclusion of high class commodities such as golf clubs and paraphernalia, luxury watches, and other items, which were classified as new luxury commodities and taxed accordingly, the amendments to the CT provisional ordinances included general consumption goods such as disposable chopsticks and hardwood floor materials and finished oil products such as naphtha, petroleum benzene, lubricants, fuel, and aviation fuel as taxation objects. At the same time, CT for skin and hair protection products was abolished because these had lost taxation meaning as they have already been designated as ordinary consumption goods in 2006. However, high quality skin and hair protection goods were also included as taxation objects along with high quality cosmetics. In 2009, with the aim to save natural resources and protect the environment, the Chinese government levied CT on oil products (e.g., naphtha, petroleum benzene, and lubricant), and increased the tax previously imposed on these goods (from 0.2 and 0.1 yuan per liter to 1 and 0.8 yuan per liter). A year after, several biodiesel products were excluded from CT. The CT return rate of certain naphtha products and their raw materials was adjusted in 2013 and 2014. To ensure environment protection and strategic resource reserve, the fixed tax rate in CT for finished oil products (e.g., naphtha, petroleum, benzene, and lubricants) and fuel was gradually increased. The prices of these items were increased to 1.4 and 1.2 yuan per liter. Finally, based on the disposable income of Chinese people, the taxation of CT motorcycles below 250cc, car tires, and liquors was also abolished.

3.3. Property Tax System

(1) Urban Land Use Tax (ULUT) and Occupying Farmland Tax (OFT)

In 2007, the Chinese government increased the tax standard three times by amending the ULUT, which was previously imposed only on foreign investment companies. In 2008, the government increased the tax standard of OFT by fivefold. OFT was levied only on domestic capital companies, but was consequently levied on foreign investment companies as well. These efforts have been interpreted as a measure of addressing the unfair tax burdens between domestic and foreign investment companies. Issues have emerged because of the encroaching of foreign investment companies in rural areas that they could not previously enter and to prevent the decrease in available land because of unregulated land use. Subsequently, the Chinese government temporarily exempted farming wholesale market from land use tax and reduced taxes by 50% on taxable lands owned by logistics companies for business purposes. Public rental housing users, public traffic facilities, and other related facilities were also exempted from ULUT. However, the wild mountains and lands that were not previously taxed have also now been regarded as objects of taxation, and partial adjustments have been made for purpose of taxation according based on the structural tax reduction policy.

(2) Urban Real Estate Tax (URET)

The URET, which was imposed only on foreigners, was abolished in 2009. Instead, a stipulation that the same defense tax provisional ordinances similar to those imposed on locals would apply. Comparable to ULUT and OFT, URET is also interpreted as a means of addressing the unfair tax burden problem between locals and foreigners in owning houses and buildings given that the residence restriction of foreigners has been abolished. However, the abolition of the URET is considered to have caused a heavier real property tax burden on foreigners owning and using real estate than in the past.

(3) Urban Maintenance and Construction Tax (UMCT)

On December 1, the Chinese government rectified the UMCT, which was originally collected from domestic capital companies and locals. Consequently, UMCT was also imposed on foreign investment companies and foreigners. UMCT is taxed under the China Railroad Corporation with a 1% tax rate.

(4) Vehicle Purchase Tax (VPT)

The government lowered VPT from 10% to 5% for automobiles with less than 1600cc of engine displacement to overcome the depression in the automobile industry resulting from global financial crisis in 2009. The tax rate was increased from 5% to 7.5%, exhibiting the flexible operation of the government in accordance with existing economic conditions. The new regulations were enacted in 2013 to strengthen the taxation of VPT. In 2014, new energy vehicles were exempted from taxation.

4.4. Others

(1) Resource Tax

The Chinese government modified the resource tax system, which, since 2009, has been uniformly taxed according to the past fixed amount method, by amending the resource tax provisional ordinances levied. Crude oil and natural gas were taxed under a fixed rate method, whereas other resources were also taxed with the same channel, but with a greatly increased tax burden amount. This approach was adopted to bring the wanton development of resources and arbitrary adjustment of tax revenues executed by local governments by altering applied tax rates or tax amounts. Zhu (2012b) states that only the Ministry of Finance State Council could change the applied tax rates and tax amounts, thereby depriving the local government of the authority to adjust resource-related applied tax rates or taxes. In 2012, the Chinese government also changed the taxation method for resource tax for iron ore, which was then taxed under a fixed rate method. In 2014, the government amended the regulations, which required crude oil and natural gas to be taxed under different tax rates based on the contents of each component. Coal products must also be taxed under a fixed rate method (applied tax rates from 2% to 10%).

(2) Securities Exchange and Stamp Taxes

In order to promote the development of capital market, The Chinese government lowered the applied tax rates for stock exchange tax from 3% to 1% to promote the development of the capital market. The government also reduced the tax burden by changing the taxation method from taxing on both concerned parties to taxing only on one party (seller). Full-time rural joint venture companies requiring political support were exempted from stamp tax and tax burden in rural community was reduced. The stock exchange and stamp taxes in stock trading by non-listed small- and medium-sized companies as well as in preferred stock trading were taxed at a 1% tax rate. Stamp tax for financial a institution that lend funds to small- and medium-sized companies, such as related to dormitories and restaurants, is non-taxable. Public rental housing is also exempted from stamp tax and the tax burdens of the low-income population were reduced.

(3) Land Appreciation Tax (LAT)

A problem observed in LAT is that the real estate business is consistently overheated in China. Moreover, previous LAT-related regulations could not reflect real estate prices, which have already increased. However, in recent years, the Chinese government has considered this reality and provided rational adjustments to the accumulated taxation rates as well as the scheduled taxation rates for LAT. The government also focused on strengthening the taxation management by amending the 2010 LAT law.

4. Prospects and Implications

For the past several years, China has steadily enforced its structural tax reduction policy, which aims to reduce taxes for low- and middle-income classes as well as for small- and medium-sized companies that require tax reduction, while raising taxes for the high-income class.

However, despite the structural tax reduction policy, tax revenue and tax burden in China exhibit a continuously increasing trend. This condition is observed although the Chinese government has been actively implementing the tax reduction policy for specific classes and areas in need of tax reduction and despite compensating for the tax revenue shortage caused by the partial tax reduction through the tax increase policy for classes and areas that can afford a tax increase.

Evaluating the structural tax reduction policy in terms of its contribution to the Chinese economy based on the increase in the disposable income of Chinese people and the expansion of domestic consumption, as well as in weathering the global financial crisis and contributing to the continued development of the national economy, the policy has had positive effect. Accordingly, future structural tax reduction policies in China must incorporate tax reductions for specific areas and classes that require tax reduction, while consistently increasing taxes for high-income classes through tax increase within an appropriate range to ensure that tax revenues are not decreased.

For example, the Chinese financial incomes in 2011 were 8 trillion, 972 billion yuan, accounting for 19.03% of the total GDP of 47 trillion, 156.4 billion yuan. If the social expenditure of 1 trillion, 870 billion yuan is included, 10 trillion, 842 billion yuan would account for 23% of the total GDP of 47 trillion, 156.4 billion yuan. The GDP growth rate in China is 9.2%, but its tax revenue growth is 22.6%.

In general, GDP is calculated with constant prices, but tax revenue is measured with the current price rate. Therefore, the tax revenue is approximately 17.5% if it is calculated based on the current price. This finding reveals that the tax revenue growth rate is slightly higher than the GDP growth rate. However, the tax revenue growth rate in China is still low when compared with that of the member countries of the Organization for Economic Co-operation and Development, such as Canada (32%), Germany (37.3%), UK (34.3%), and France (42.4%).

The percentages of consumption taxation (VAT, BT, CT, UMCT, construction tax, VPT) in tax revenues are approximately 51%, representing only 15.8% of EIT, 7% of IIT, and 4% of property tax (defense tax, contract tax, land use tax). This observation indicates that percentage of consumption taxation is highly prohibitive than in other tax revenues. Thus, the Chinese tax system can be interpreted as having an advantageous structure for achieving horizontal equality, but is disadvantageous for realizing vertical equality and addressing global imbalance issues.

Based on the above analyses, future Chinese tax reforms must focus on addressing the income imbalance and tax burden inequality within the country as well as the global imbalance issues. These reforms must also be focused on completely realizing China as a socialist country through the optimum allocation of resources. By considering these macroeconomic situations in China and the related policy prospects, the Chinese government should consider implementing the following tax reforms in the future.

First, in China, the basic tax rate in VAT is 17%, which is excessively high, and is considerably more prohibitive than that in neighboring countries such as Korea (10%) and Japan (5%). The exemption ranges in China are also relatively narrow, and the tax burden of the taxpayers remains high. Eventually, such a burden may affect the disposable income of Chinese people and could constrict domestic consumption particularly because VAT has the characteristic of being a substantive tax burden passed to the final consumer. Therefore, the Chinese government must actively take tax reduction measures to lower the basic tax rate in VAT or to expand the exemption range as a means of expanding the domestic consumption within the country by decreasing the tax burden for low- and middle-income classes.

Second, the percentage of CT represents only 3% of the entire consumption-related tax revenues. Thus, taxable goods cannot properly reflect the rapidly increasing trend. Taxable goods are connected with the income level of Chinese people in 2006, but are no longer in accordance with the current income level. Hence, the applied tax rates or taxable goods must be adjusted based on the trend of increasing disposable income of Chinese people in the future.

BT partially solves the double taxation problem of VAT and BT through the tax invoice reform. However, BT is still being imposed on financial service areas, and the issue of double taxation cannot be addressed completely. Specific alternatives cannot be suggested to compensate for the decreased tax revenues of local governments because of the tax invoice reform. Nonetheless, the abolition of BT is a logical topic of discussion because BT is also a type of transformed VAT. Nullifying BT is the only direction for addressing the issue of double taxation and inequality of tax burdens. BT must be completely abolished and integrated into VAT based on the non-deductible VAT.

Third, IIT is expected to increase from the current 3,500 yuan, which is the taxable point for wage earners, to a minimum of 4,800 yuan to achieve vertical equality. Taxation on aggregate income may also be introduced extensively, and capital gains tax must be strengthened in the future on the assumption that the real-name financial and real-name real estate transaction systems would be introduced based on the progress of anti-corruption reforms in China.

Regarding EIT, the tax preference policies for central and western areas and high technology industries must be reformed consistently to address regional imbalance and growth issues. A consolidated taxation system must also be executed to improve national competiveness by restricting state-owned companies and dismantling the monopoly system.

Finally, in international and resource tax areas, foreign companies and foreign investment companies in China display an increasing trend in tax evasion behavior by providing intangible assets and personal services that differ from they have provided in the past. Therefore, laws and regulations that control these negative trends must be enacted, and transfer pricing investigation on related behaviors must be realized. In particular, regulations related to revenue owners and anti-tax avoidance must also be more stringent. The Chinese government aims to achieve consistent economic development within the country and intends to expand its influence on international societies by controlling rare resources. In this event, the future increases in basic tax or export return rate and custom tax rate adjustment must be utilized more actively. This undertaking could also increase the resource tax burden significantly.

China’s policy flows has huge implications on our country as China is our primary trading partner and investment target. China, which has a close economic relationship with our country, is not a capitalist market economy country similar to ours. Second, China has already established a very long national development plan (spanning 70 years) and has been executing such a plan for the past 30 years. Finally, China follows the concept of virtuous circulation, which can be described as follows: increase of disposable income → expansion of domestic consumption → consistent growth of national economy. China is pursuing this through the execution of the tax burden structure adjustment referred to as structural tax reduction policy”.

More importantly, the structural tax reduction policy currently implemented in China focuses on increasing the tax imposed on high-income class and large companies while decreasing the tax burden on low- and middle-income classes as well as on small- and medium-sized companies, resulting in an increase in the disposable income of these sectors. The policy of increasing the disposable income of the underprivileged population by reducing the tax burden of high-income class does not contribute significantly to the expansion of domestic consumption. Instead, reducing the tax imposed on middle- and low-income classes would increase their disposable income and consequently revitalize the domestic market. Many countries focus currently on tax policy competence for large companies and overseas market as well as export increase because of the limitations of the local market. However, a policy must be established to guarantee the continuous development of the national economy by increasing the disposable income of small- and medium-sized companies as well as that of middle- and low-income classes. This enhancement can be achieved through the implementation of tax reductions and by revitalizing the local market.

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