Chinese Taxation: The Current Situation and Future Reform

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Current Situation 1: The high proportion of turnover tax—State Administration of Taxation (2011)

- VAT: 37.75%
- Business Tax: 14.29%
- Consumption Tax: 9.41%
- Corporate Income Tax: 20.48%
- Personal Income Tax: 6.32%
- The other: 11.75%
**Current Situation 2**: The high proportion of enterprise tax—State Administration of Taxation (2011)

- Stock companies: 45.31%
- Private enterprises: 10.57%
- Foreign enterprises: 20.47%
- State-owned enterprises: 14.25%
- Collective-owned enterprises: 0.96%
- Stock cooperative enterprises: 0.49%
- The others: 7.94%
The serious unbalance of the current taxation forms

Turnover tax: over 70% + From enterprises: Over 90%

Huge challenges:

- The high relevance between tax and price
- High tax, high price

- The difference between Chinese and foreign countries’ tax
- Export duty refund for the trade friction

- Most tax from enterprises
- Increase the nominal levy of enterprises

- Divert the attention to direct tax
- No good for equalization of the income distribution
The future reform: Increase of direct tax

General Rules

The background of globalization

The convergence of tax system

The simple primitive direct tax

Indirect

The developed direct tax

Reform of direct tax

Direct tax

Indirect tax

Individual tax

Enterprise tax

Increase of direct tax
Structural Tax Cut 1: Main on VAT

**Main on VAT**

- Main tax in China
- The chance: Assimilate Business tax into VAT

**The effects: three channels**

- Reduce the double taxation
- Reduce the difference of levy after the reform of VAT’s Conversion
- Reduce the average levy after reform

**Shanghai’s Pilot:**
Application and extension
Structural Tax Cut 2: outspread effect

Extension of VAT: The relevant Reforms

- Spread the reform to whole China
- Address the contradictions
  - The main tax of local tax system——Direct tax
  - The risk of the increase of VAT——Direct Tax
  - The reform of revenue-sharing system——Fiscal system
The future reform: The comprehensive PIT

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<td>Too many forms of income + Gap not in salary and wages</td>
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The future reform: China’s property tax

- Tax on rich people—Decrease the gap
- Property tax → Wuye Tax: Not approaching
- Main obstacles: Vested interest (VT) + Collection system
- Pilot reform 1: Not on VT → Tax on “0”
- Pilot reform 2: Collection system → Quit halfway
- Next: Revolution of collection
**Basic construction : Revolution of collection**

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