

Thoughts on a comprehensive tax reform

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“The Decision on Several Major Issues Regarding the Deepening of Reform” adopted by the Third Plenum of the Eighteenth Session of the CPC Central Committee gave a new position to the next round of tax reform, and proposed its objectives, tone, mission, and core tasks. The new round of tax reform should cover a wide range of issues, including state governance, tax legislation, economic reform and development, social management, globalization, ecological and environmental protection, improvement of tax collection, as well as other related issues. Particular attention should be paid to replacing business tax with VAT, completing legislation on VAT, adjusting the scope, collection mechanisms, and rates of consumption tax; strengthening regulation and control, implementing a personal income tax system that considers both aggregate income and income by source, promoting real estate tax legislation, expanding the ad valorem natural resource tax, accelerating the gradual replacement of fees with taxes, and introducing legislation on environmental protection taxes.

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Currently, comprehensive tax reform is an important, on-going measure for deepening China’s reform. In China’s effort to build a moderately prosperous society in its new historical period, tax reform plays an important role, and its success will help determine the smooth realization of modernization of Chinese governance. Grasping the objectives and tasks of the tax reform, analyzing it with a multi-dimensional perspective, and carefully advancing tax reform have become major issues and will continue to be of concern in the coming years.

1. A comprehensive, systematic understanding of tax reform

“The Decision on Several Major Issues Regarding the Deepening Reform” adopted by the Third Plenum of the Eighteenth Session of the CPC Central Committee (hereinafter referred to as the “Decision”), was a problem-oriented document that highlighted the comprehensive approach required for the current round of reform in every sector and called for each sector to echo the others. Regarding tax reform, many people only consider six types of taxes. The “Decision” touches upon various tax reform measures and requires strengthening the top-level design of tax system while achieving the goal of establishing a modern tax system by 2020. Such a goal requires a comprehensive and systematic understanding of current tax reform.

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1.1. State finance is the foundation for national governance and gives the new orientation of tax reform

In the “Decision,” the fifth section discusses deepening fiscal and tax reform, proposing a series of requirements for fiscal reforms in China’s strategic planning. Part Five opens to present that “finance is the foundation and important pillar of state governance”, upgrading the state’s fiscal management to the level of national governance is not purely an economic issue. Taxes are an important part of public finance; whether or not the tax system can be modernized and reform objectives can be met is directly related to the realization of the objectives of fiscal and tax reform and the modernization of fiscal and tax systems, as well as achieving a modern system of state governance and governance capability. Tax reform is the key to displaying the country’s ability to achieve modernization.

1.2. Keeping the overall tax burden intact and the central-local share of revenue relatively stable

The “Decision” presents some overall requirements: “to reform and keep the tax burden intact,” and “to maintain the existing central-local share of tax revenue.” As part of the tax reform process, some companies may see their tax burden increase or decrease, but the overall tax burden should remain stable; tax revenue at different levels is subject to change, but the overall current financial resources or tax revenue distribution between the central and local governments shall not change significantly. These are the principals in implementing China’s new round of tax reform.

1.3. Tax reform’s goal: to implement taxation’s legal principles

Part Eight of the “Decision” states that “in strengthening the construction of socialist democratic political system,” “legal tax principles should be implemented.” As the core principle of tax law, legal tax principles are that the basic content and the core elements of taxation shall be confirmed through legislation. This includes statutory taxation elements, definitive taxation elements, legal taxation procedures and so on. This tax reform should continue to strengthen and coordinate the development of the top-level design of tax reform and tax legislation in order to give the tax system a more solid legal statute. Tax reform should reflect the requirements of legal taxation principles—they should be in line with the rule of law, and the final results should also be reflected in the tax legislation. The success of tax reform boils down to whether the reform is reflected in the law and whether the reform is optimized for the system, created a rational, scientific, and effective tax structure (Writing Group of “Decisions”, 2013).

1.4. Intrinsic requirement: optimizing tax structure

The “Decision” requires “improving the local tax system, and gradually increasing the proportion of direct taxes,” in order to “strengthen the management capabilities of tax incentives, in particular regional tax incentives,”—to optimise the tax structure through tax reform. The

first step is to improve the local tax system. The “Decision” made some parts of the reform tasks directly related to the reform of local taxes, including primary local taxes. The “Decision” required “promotion of value-added tax reform,” and “to replace business tax with VAT.” Business tax is currently a major local tax. If it is to be replaced by VAT, the main source of local revenue will be affected. If business tax is to be replaced, what will be the next major source of local revenue? Will consumption tax become the main local tax? Real estate tax? These are all the questions to be addressed.

Second, these reforms will gradually increase the proportion of direct taxes. From a structural point of view, increasing the proportion of direct taxes means a lower proportion of indirect taxes. Tax reform should seek ways to improve through the top-level system design, fully consider the role of direct taxes in future reforms, and enhance the role of direct taxes so as to adapt to the needs of future development. Third, in order to ensure a unified tax system, regional tax incentives should be further regulated in order to minimize differences and increase industry-specific tax breaks.

1.5. Reforming the six tax types is currently the core task

The “Decision” aims to deepen the reform of the current tax system, which includes six tax types: value-added tax, consumption tax, personal income tax, real estate tax, environmental protection tax, and resource tax; these are the core tasks and objectives. However, due to the correlation between tax types, reform of these six tax types will affect other taxes. For example, the highlight of the VAT reform is “to replace business taxes with VAT.” Although the “Decision” did not mention business tax reform, it will inevitably lead to the phasing-out of business tax; real estate tax legislation and reform may re-consolidate the categories existing the property tax and urban land use tax; when the consumption tax expands, it should consider whether the vehicle purchase tax is to be incorporated in the consumption tax. In reforming these six taxes, considerations should also be given to other taxes.

1.6. The mission: to progress in coordination with reforms in other areas

The “Decision” proposed reforms in political, economic, social, ecological, and other areas as a comprehensive system of reform, and gave tax reform the leading role in doing so. Tax reform is not in isolation—as an important part of larger economic reforms, it will push forward reforms in related fields. Tax reform is not only to optimize, adjust, and improve tax arrangement, but also to advance and coordinate other reforms.

In addition to the above, improving the taxation of enterprise annuity and distributing income also impose several requirements. A comprehensive and systematic understanding of the demands and requirements is the foundation for successful tax reform.

2. Multi-dimensional analysis to deepening tax reform

The current comprehensive, deepening reform comes at a new historical period and stage

of development for China and is faced by many serious issues. Under a problematic backdrop, the reform must still be launched. Although the “Decision” only pointed out reform tasks and goals for six tax types, the essence of the problem involves remodeling the entire system and the structure of the tax system. A multi-dimensional, multi-perspective analysis of a new round of tax reform should look into state governance, implementation of legal tax principles, economic development, and other important factors.

2.1. From the perspective of state governance

The “Decision” not only raises the requirements to further improve the basic socialist economic system, but also demands to push forward the modernization of state governance systems. Clearly, “finance is the foundation and important pillar of state governance.” This gives tax reform a very important mission and a leading role to play. The tax system should take the lead in realizing modernization and enhance tax legislation to establish a scientific, comprehensive, and modern system of tax laws.

The CPC’s 18th National Congress clearly stated that the rule of law is the basic way of governing the country. The Third Plenary Session of 18th Central Committee of CPC clearly stated that by 2020, there should be a comprehensive, scientific, and effective tax system; the Fourth Plenary Session required a full deployment of the rule of law, which in a nutshell is to have all acts and activities be integrated into the orbit of the rule of law, reflecting the leading role of the rule of law on state governance. State governance is based on the foundation of a comprehensive, scientific, and effective legal system. To give tax regulation a higher statute in law, implementing legal tax principles becomes necessary. Promoting rule of law governance; rule of law will inevitably involve a legal mindset and approaches in designing the top-level tax reform plans and programs. Tax reform must be implemented within the framework of the law and it should deal with the relationship between tax reform, innovation and tax legislation.

The “Decision” makes it clear that “a scientific tax system optimizes the allocation of resources, maintains market unity, promotes social justice, and achieves long-term stability for the country.” Be it dynasty changes in China, or the British Chartist movement, the American War of Independence, the breakdown of the former Soviet Union, or the recent sovereign debt crisis in Western countries, these are all closely related to the rights of levying taxes and what taxes to collect. The tax system in any country will hold a pivotal position. A new round of tax reform is not a simple adjustment of wealth distribution, nor simply a reform in the economic field, but also a very important political mission, with high political relevance, and a very politically-sensitive nature. The CPC’s Central Committee and the State Council of China held several meetings to discuss the deepening of fiscal and tax reform. On June 30, 2014, the CPC Politburo approved the “Overall Plan to Deepen Fiscal and Tax Reform” with a clearly defined timetable and roadmap. By 2016, the tasks of tax reform shall be basically put in place, and China must steadily push forward tax reform, strengthen top-level design, and plan every step of the implementation of this reform program.

2.2. *From a legal taxation principle perspective*

The legal taxation principal is also called statutory taxation, in that tax elements, collection, and management systems to be established by law is an international convention. In the legal system, there are only criminal and taxation principles. Taxes are a forced “deprivation” of private property of its citizens by the state through coercion, and therefore only legal representatives of the people will decide what, and to what extent, property should be levied.

Under the current tax system, only the personal income tax, corporate income tax, and vehicle and vessel tax have been legislated by the NPC. Most of other taxes are levied under provisional regulations by the State Council. The legal system concerning taxation is still immature. Of course, there are historical reasons: in 1984 and 1985, the National People’s Congress authorized the State Council to issue provisional regulations relating to economic reform and opening up. But in 2000, the state promulgated and implemented the new “Legislation Law of the People’s Republic of China” (hereafter referred to as the “Legislation Law”). This law clearly states that the legislative rights in the “basic economic system, as well as public finance, taxation, customs, foreign trade, banking, and basic systems” are exclusive legislative powers of the NPC. For issues in the above categories, the State Council can only make administrative regulations with approval from the NPC and when no law limiting an action is in existence.

As for “the implementation of legal tax principles,” China raised the same issue before, but it was not implemented in full. The “Decision” required implementation of legal tax principles. The ultimate purpose is to de-authorize the State Council’s power in tax legislation, which was given by the NPC in the 1980s. This tax reform’s purpose is to legislate and formalize reform results-and will be a measure of whether the current round of tax reform is effective (Li, 2014).

To implement legal tax principles, remove delegated legislation, and deepen tax reform, two issues are to be balanced: tax legislation and tax reform. Tax reform focuses on the economic side of the problem; tax legislation is more about the rule of law. Tax reform is an important way to improve tax legislation. Substantive tax reform aims to enhance the quality of legislation regarding the taxation process. General Secretary Xi Jinping emphasized that “all major reforms should have a legal basis,” and tax reform must be carried out under a legal framework. Otherwise, how would China maintain social order? There are two modes of tax reform and tax reform legislation, reform before legislation and legislation before reform. China’s current endeavor of replacing business tax with VAT is an example of reform before legislation: it reforms and improves the VAT system and ultimately completes VAT legislation. In future reform and legislation, legislation will likely come before reform.

To implement legal tax principles and accelerate the formation of a legal tax system with Chinese characteristics, the priority is to achieve legislation, phase out relevant legislative mandates, give tax systems a higher status in the eyes of the law, further strengthen the existing statutory tax legal system, and further improve the legal system of taxation. In short, to implement legal tax principles is to achieve legalization of the tax system (Li & Niu, 2014).

2.3. *From an economic reform and development perspective*

Tax reform has been a pioneering force in promoting China's reform and opening up. In the early 1980s when China had just put forward reform and opening up, to meet the needs of such a task, the "People's Republic of China on Sino-Foreign Enterprise Income Tax Laws," the "People's Republic of China Individual Income Tax Laws," and the "People's Republic of China Foreign Enterprise Income Tax Laws" came into place as a legal foundation for taxation on foreign investors in China-improving China's investment environment to a certain extent. In the mid-1980s, the focus of reform was on the urban economic system, and business tax became the focus. With a fixed price and two-track mechanism, "replacement of profit delivery by taxes" defined and regulated the distribution between the state and enterprises. In 1994, a comprehensive and far-reaching tax reform and tax-sharing system concerning central-local and government-market revenue distribution was implemented with an aim to establish a socialist market economy.

Taxes are an important bridge between government and market. The main purpose of deepening tax reform is to further standardize the distribution relationship between government and business and to further regulate the relationship between the government and market. The relationship between government and market has always been the core issue of China's economic reform. Resources or funds collected in the form of taxes are a certain social resource to be used by the state, the government will determine the taxable amount of possessions and social resources. It is also a form of regulative power that the government imposes on the market. Through deepening tax reform, the government can apply control and guidance directly to the market. Currently, the state's regulation mechanisms are more directly related to business, without taking on market mechanisms directly. In the future, through the deepening of tax reform, regulation will be able to signal to the market more effectively; the government will have effective control and guide the allocation of social resources.

Deepening tax reform gives the market a decisive role in resource allocation. The "Decision" made a major scientific judgment—"to let the market play a decisive role in the allocation of resources and allow the government to better play its role." To let the market play a decisive role in the allocation of resources is to encourage the free flow of resources led by price and the law of value; this will eliminate monopolies and provide the market subjects with fairer competition. Increasing the proportion of direct taxes, lowering the proportion of indirect taxes will help the market to play a decisive role in the allocation of resources. To put indirect taxes on prices is to insert a wedge on the market; the allocation of resources will suffer excessive burden and lose efficiency. We should reduce the proportion of indirect taxes and minimize the impact of indirect taxes on the allocation of resources. "Replacement of business tax with VAT" is to employ the neutrality of VAT, reduce price distortion in resource allocation, and encourage the market to play a decisive role in the allocation of resources.

Deepening the tax reform will help optimize and upgrade economic structures. The current principle contradiction of China's economic development is an irrational economic structure; in recent years, with the "replacement of business tax with VAT," China has witnessed rapid development of a modern service industry. Although the effect of the "replacement of business tax with VAT" still requires in-depth assessment, but at least it is certain that it plays a positive

role in optimizing the economic structure. Through the introduction of green taxes and consumption tax reform, high-pollution industries are better controlled. A series of preferential policies to encourage technological innovation, and the implementation of deductions for science and technology enterprises will promote economic structure optimization and industrial upgrades.

Deepening tax reform is an important aspect of creating a fair competitive market environment, so that tax burdens are relatively equal and reasonable on market players engaged in the process of production and business activities. The market economy is also an economy by rule of law; the market will be better regulated with more importance given to taxation mechanisms and regulations.

2.4. From a social management and stability perspective

From the perspective of social management, the current focus is the unfair distribution of income. The Gini coefficient in China has been at or near the internationally recognized warning line. Unfair income distribution ought to be faced and tackled seriously, otherwise it could become a source of significant social unrest.

In solving the problem of income disparity, we often refer to the role of personal income tax in Western countries, and propose that China should strengthen the burden of personal income tax for high earners. In fact, to solve the problem of unfair distribution through personal income tax in China, under its current allocation mechanisms, is not feasible. The current distribution of income inequality in our country is mainly due to biased allocation methods and mechanisms; it would be quite difficult to solve the problem by means of redistribution. In addition, Western countries distribute wealth before levying taxes, giving greater space for redistribution. In China, it is the converse. At the same time, personal income tax revenue accounts for more than 20% of Western countries' tax revenue and regulation power is strong; in China, personal income tax revenue accounted for only about 6% of revenue, which is indicative of a weak regulatory capacity.

From the perspective of social management, in order to reverse or alleviate unfair distribution of income, tax reform should play an active role. First, an overall coordination between the social security systems, transfer payment policies, tax reform, and increased efforts to regulate tax redistribution should be employed. For example, in the United States, Japan, and other countries, taxes are a complementary measure of the social security system, tax reform is embedded in social security reform. This will improve personal income tax reform. Implementation of a comprehensive income tax on earned income, promotion of the combination of classification and comprehensive tax systems, and an increase in personal income tax rates are all important steps. Third is real estate tax reform. China should levy a tax on individuals who hold several properties and have a high income to avoid unfair distribution. Fourth, China should explore ways to combine taxes on self-employed individuals and small businesses owners.

2.5. From an international and environmental protection perspective

Currently, international convergence of tax systems is underway. To draw from international

experience and consider the background and trends of international development is important. Since the beginning of 21st century, economic globalization, information technology, and e-commerce have created major changes in commodity trading. As a result, it has imposed a big challenge to the sovereign rights of taxation. In the 1950s and 1960s, international tax treaties were signed to avoid double taxation. Now, the situation has changed; none of the relevant countries can levy taxes on certain incomes, resulting in tax base erosion and profit-shifting problems (BEPS). To solve this problem, a fixed tax information exchange mechanism has been established between countries, which has triggered a new trend of international cooperation in tax collection. The United States introduced the “Foreign Account Tax Compliance Act” (FATCA) a strong impetus to the development of this trend. International trends of tax collection impose a profound impact on the tax arrangements between countries. In deepening tax reform, we should consider international issues, adapt to international rules, incorporate international rules, participate in the formulation of international rules, and improve our national and international discourse in the field of taxation.

The “Decision” specifically discussed the speeding up of the construction of an ecological civilization. The new round of tax reform is bound to make a difference in protecting the environment. Starting December 1, 2014, the coal resource tax has been levied *ad valorem*; two recent increases in oil consumption tax rates aim to promote rational exploitation of resources for environmental protection. Future tax reform task also includes expanding consumption taxes, levying environmental taxes, improving resource taxes, and protecting resource conservation by promoting rational exploitation and utilization, ultimately all in order to protect the environment.

2.6. From the perspective of improving tax collection

Modernization of tax governance is part of achieving good general governance. A sound legal code is the foundation of good governance, and the goal of tax reform is to build “good tax laws.” But “good laws” are not enough; it also depends on full implementation of the legal system, which depends on the ability to achieve good governance—a measure of the legal system. The essence of “good tax laws and good governance” is tax collection. In the future, tax collection will be the priority to be faced in deepening tax reform. A major goal of tax reform is to establish effective tax collection facilities, follow-up mechanisms, and build a comprehensive tax collection and management system which plays a significant role in the progress of reform. The VAT is an excellent example. Had it not been implemented determinedly, China would not have its current VAT system. To improve the tax collection system is a guarantee to deepen the reform of taxation. It has to adapt to the requirements of tax reform, but also needs to actively assist it.

The “Decision” clearly stated that “it is imperative to perfect national tax and local tax collection systems.” Tax collection is the core of tax revenue management capabilities. In designing the framework of tax reform, it needs to consider the impact of tax collection and coordinate the development of taxation mechanisms and tax collection. At present, comprehensive tax reform has not yet been achieved. An important reason is the lack of support for tax collection. Expanding “the replacement of business tax with VAT,” consumption tax downsizing, and comprehensive declaration of personal income tax and property tax reform are all subject to

the progress of tax collection and management.

Speeding up the revision of tax administration laws, deepening the reform of the tax system, and providing ample protection have become imperative. Collection law amendments require consideration of compulsory administrative law, criminal law, corporate law, bankruptcy law, and other related laws; we should also consider current trends in international cooperation regarding tax collection, learn from international experience in tax administration and tax services, and protect legitimate taxpayers. What is more important is to adapt to the current tax reform needs and introduce safeguard requirements for tax collection administration. The revision process can be lengthy; priority should be given to personal income tax collection, property tax collection, and gradual improvement of collection methods. Otherwise, lengthy amendments may restrict tax reform and becomes obstacles in the reform process.

3. Key issues in tax reform

The “Decision” points out the priority of the tax reform and focuses on practicality and operability. VAT, consumption tax, and the four other taxes are to be reformed. The tasks and objectives of each are very clear. These six tax types are the core and key content in the new round of tax reform.

3.1. Promoting VAT reform

Double taxation in business taxes has been prominent in the past. In order to resolve double taxation and promote a modern service industry, in 2012, a pilot reform program of “replacement of business tax with VAT” began in Shanghai, levying VAT instead of business tax in industries such as transport. By August, 2013, it expanded gradually across the country. Currently, “replacement of business tax with VAT” is being expanded to other categories that fall under business taxes. The policy reduced the burden on enterprises, released reform dividends, and promoted development of related industries.

VAT are neutral, and its main function is to raise fiscal revenue. In order to ensure the neutral characteristics of VAT, there is no need to set up a complex, multi-level structures of tax rates; instead, tax rates should be simplified. Policy should not be used as a tool to implement tax incentives. VAT reform is focused on promoting the “replacement of business tax with VAT” to complete VAT legislation. In accordance with the arrangements of the reform process, this replacement will be generally completed in two years’ time.

There are some difficult issues to be treated with caution. First, there are widespread difficulties in VAT collection. Second, in the financial sector, it is more difficult to determine the added value of financial derivative products, given the variety and nature. This is a difficulty in VAT reform for the financial industry. Third, as we are faced with stagnation in the real estate industry, will VAT become the “last straw that breaks the camel’s back” and intensify social contradictions further? Moreover, after the VAT is applied to the real estate industry, there are deductibles across all sectors. The decrease in tax collection also needs to be treated with caution. Fourth, if the new VAT system is fully implemented, local tax revenue will be reduced, causing

great pressure on a reform in revenue-sharing between the central and local governments. We must ask: is it the right time to do so?

Smooth progress in VAT reform requires full assessment of the financial industry, construction, and real estate industries, an understanding of potential risks, and a focus on progress and timing.

3.2. Consumption tax reform

At present, China's economic restructuring and industrial upgrading is being faced with great pressure. The real estate market is cold, resulting in a significant reduction in local fiscal revenue. To redefine the scope, rate, and ownership of consumption taxes helps to promote economic restructuring, optimizing, and upgrading of industrial structures, as well as make up for the lack of local financial resources. Recently, China twice raised refined oil consumption tax as a move towards consumption tax reform. Refined oil consumption tax is only one tax item; this is a precursor to more complete consumption tax reform.

The main function of the consumption tax is that it provides a deterrent through taxation. But now it mainly acts as a tool to centralize revenue, its regulatory function is inadequate. Consumption tax reform is to adjust tax scope and tax rates. We should encompass high energy consumption, high pollution products, and some luxury goods so as to strengthen regulation. On the one hand, we need to expand the scope of consumption tax levied to cover some high-end consumer goods, high pollution, and high energy consumption products; on the other hand, it is important to remove items such as car tires and other general merchandise from a consumption tax. When adjusting the scope and rates of the consumption tax, rates for high pollution and high-end consumer products should be raised, while the rates for general merchandise should be greatly reduced or abolished. In addition, consideration of relevant tax reforms is necessary. For example, consumption tax and vehicle purchase taxes are both levied on car buying, thus should be considered as one.

There are some difficult issues that need to be treated with caution during consumption tax reform. First, the timing of taxation will be pushed forward. With the exception of gold and silver jewelry, the current consumption tax is levied in the production phase; with reform, tax would be levied at the wholesale and retail phase. Taxation at the wholesale level is a typical concept of a planned economy. In a market economy, it is difficult to distinguish between the wholesale and retail sale of a commodity. This imposes difficulties in tax base control and thus in tax collection. If tax is shifted forwards, it may cause some difficulties in determining taxable items. Another issue is which level of government receives the revenue of a consumption tax? Oil, for example, is one of the main sources of consumption tax revenue, but it is also an important strategic material for a nation. Letting local government take hold of consumption tax on oil still needs thorough pondering. With this new change, a conflict between the ownership and the subject of taxes may deteriorate the imbalance of fiscal capabilities among local governments (Gao, 2014).

3.3. The reform of the personal income tax system

The current income gap in China is a prominent problem. The personal income tax system

plays a limited role in adjusting this disparity, but aims to mitigate unfair distribution of wealth under a classification model.

The main function of the personal income tax is to bridge the income gap and maintain social equity. In order to let it play the role of income redistribution, the state has promoted a new round of personal income tax reform. The main content and direction of this reform is to implement a combination of a classification and comprehensive income tax model in which wages and salaries, labor remuneration, royalties and franchise fees are all to be declared comprehensively as earned income. The first step is to combine labor remuneration and royalties, the second is to address the leasing of property and franchise fees, before finally putting together all types of earned incomes.

It is not yet an appropriate time to implement a comprehensive income tax system. On the one hand, a comprehensive declaration of all income will give tax collection authorities great pressure on existing auditing and collection mechanisms. China's tax collection laws are not yet completed and tax authorities have little in terms of tax collecting mechanisms. On the other hand, it needs to redefine the tax threshold. The current threshold of wage and salary income at 3,500 yuan is not realistic anymore—it needs to consider the cost of education, pension saving, social security spending, and other livelihood expenses. No simple answer can be provided to whether there should be a national threshold or how much it should be deducted.

There are several difficult issues involved in the reform of personal income tax. First, there is a lack of convenient mechanisms and channels to obtain reliable income information. At present, a large number of transactions are done through cash, online transactions, or bank card transactions, tax authorities have no convenient mechanism to obtain reliable personal income information. Second, the software used is different from region to region. Even though tax collection authorities have improved the level of information obtained in their locale, it is still hard to share information.

Third, tax collection law mandates corporate bodies to self-declare its taxable revenue, and provides enforcement measures for that, but not for individuals. Furthermore, the ownership of personal income tax is another big issue in the reform. The current personal income tax is levied by the local taxation bureau, and shared between the central and local governments at a rate of 60% to 40%, respectively. Personal income tax used to be a local tax. As it increases, it has been shared between central and local governments. If the growth continues, or if the central government has a tight budget, will it be shared as it is now or will it still be a local tax? This is also a question the reformers need to answer with caution. The vast majority of western countries treat personal income tax as a central tax. They would argue that according to the nature of personal income tax, it should be a central tax.

3.4. Real estate tax reform

As the reform in urban and rural land systems and housing systems deepens, current real estate tax cannot adapt to the requirements of the development of a socialist market economy; at the same time, in order to curb excessive growth of real estate prices in some cities, and promote healthy development of the real estate market, the state has launched real estate tax reform.

According to the “Decision,” it is imperative to promote real estate tax legislation and launch reform when appropriate. The direction and the main content of real estate tax reform is to consolidate the current real estate tax and urban land use tax; the key to the reform is to resume the tax on personal property. Moreover, real estate tax reform will have legislation prior to any actual levying of taxes.

Real estate tax reform has many difficulties. First, the timing of the introduction of real estate tax reform is problematic. The current real estate market is dormant, and the industry is highly influential to the macro-economy. To reform property taxation, the government needs to consider the impact it will have on the macro-economy and social capacity. When to implement the tax is an issue to be handled with care. The second issue is how to expand property taxes to individuals and how to deal with stock-based ownership. It will also be important to determine whether the difference between rural and urban real estate should be reflected in the tax. It is also important to determine whether the basis is the size of the property, by a set valuation, or by market value. These are some of the issues to be addressed. Third, the ownership of real estate taxes will pose a challenge to reform. An important purpose of this reform is to foster local real estate taxes as a major local tax. As per international experience, real estate tax can be a major tax at county level, but not up to the provincial level or further.

Steady progress in real estate tax reform requires proper timing, low tax burden, and a narrow scope.

3.5. Resource tax reform and environmental tax reform

Beginning December 1, 2014, the coal resource tax has been levied *ad valorem*. The next step is to expand the resource tax to water, wetlands, forests, and other resources to promote comprehensive utilization of resources and enhance resource compensation efforts. Ownership of the resource tax is another key issue. After the reform, will resource taxes be under the control of the local or central government? Mineral resources belong to the state, so many would say the resource tax belongs to the state; however, some cities in China rely mainly on resources to develop; resource extraction destroys the local environment and local governments need to raise funds to protect the environment and restore ecology. It seems unreasonable for all resource taxes go to the central government. A rational allocation model should benefit both the central and local governments, but how to establish a resource center and local tax sharing model is a question to be treated with caution.

Environmental taxes are relatively mature. The Legislative Affairs Office of State Council has publicly solicited opinions in drafting environmental tax legislation from the people. In essence, this tax reform aims to replace charges with taxes, or more specifically, to replace sewage charges levied by the environmental protection department. A point of contention is whether the carbon tax is to be included as an environmental tax or levied separately. In addition, the introduction of environmental taxes is to identify the amount of emissions so as to form a clear tax basis. Environmental authorities have the technology to identify the amount of emissions while the tax bureau will be responsible for collecting the tax. If a dispute over the emission arise, who has the

final say? A possible solution is to transfer related personnel from the environmental protection department to the tax department so that disputes can be handled properly.

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