

Two decades of tax-sharing system reform in China: a comparative study

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Two decades have passed since the Tax-sharing System Reform began in China. We discuss deep-seated problems in the financial management system. We contend that from the point of fiscal relations among different levels of government, the marked decline of the central government's fiscal revenue as a share of the national total indicates that the macroeconomic regulation and control function of the central government has weakened; from the point of the form of fiscal revenue, the constant downward trend of the proportion of the tax revenue indicates that the old problem of excessive types of fiscal revenue forms have reappeared; from the perspective of tax structure, although the proportion of direct taxes has grown, turnover tax continues to account for the majority of tax revenue and the unbalanced dual-subject tax system has changed little, which indicates China's tax structure has brought about stagnation. We believe that China's tax reform should be incorporated into the medium-term fiscal planning in order to solve deep-seated problems in operation of the financial management system.

Keywords: tax-sharing reform, tax structure, medium-term fiscal planning

1. Introduction

The Tax-sharing System Reform of 1994 laid the foundation for taxation in China's socialist market economy and the basic framework of the current financial management system was finally established after constant adjustment and improvement. After the Tax-sharing System Reform, the national fiscal revenue in the GDP rose steadily and the proportion of central fiscal revenue in the national fiscal revenue is stable. The central financial and macro-control ability has also gradually increased. The layers of "inter-county competition" system under the tax-sharing contract directly contributed to China's rapid economic development (Zhang, 2009) and fully mobilized the enthusiasm of the local government financial management and reform. It also played

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an important role in controlling inflation, economic fluctuation stabilization, and equalization of basic public services (Lou, 2013).

However, in the past 20 years of tax reform, many deep-seated problems in China's fiscal system have required specific attention. For example, regarding intergovernmental fiscal relations, the proportion of central fiscal revenue in total national fiscal revenue fell below 50% in 2011 and reached 46.6% in 2013. The proportion has a downward trend and the role of the central government's macro-control is progressively weakening. At the same time, various types of local financial platforms that were raised in response to the international economic crisis in 2008 are not under direct financial supervision. The financial functions and regulatory power of the central financial powers is being dismembered and weakened. However, financial risks triggered by the above phenomenon continue to be taken by the central government.

Regarding the form of government revenue, the proportion of tax revenue in national fiscal revenue was more than 98% at the beginning of the Tax-sharing System Reform in 1994. The percentage, however, dropped to about 85% by 2013, which was the lowest level since the Tax-sharing System Reform began. The proportion of tax revenue accounting for fiscal revenue continues to decline and fiscal decentralization is ongoing, which shows that China as a "tax state" has entered a new crisis. Over the past 20 years of tax reform, the proportion of turnover tax dropped from 75% to 60%, while income tax increased from 15% to 26%. Although the proportion of direct taxes improved, turnover tax is also the main part and the unbalanced dual-subject tax system remains unchanged, which indicates the tax structure has the possibility to be stagnant.

This paper compares intergovernmental fiscal relations, the forms of fiscal revenue, the changing trend of tax structure, and also analyzes possible negative effects. We believe that reform should be incorporated into a medium-term fiscal framework in order to solve deep-seated problems in the operation of the financial management system.

2. Trends of intergovernmental fiscal relations

The internal targets of intergovernmental fiscal relations are diverse; external constraints are integrated—we are not dealing with simple financial division (Lou, 2013). The Tax-sharing System Reform has reversed two sharp decreasing proportions and also the distressed situation of the central government. At the same time, the central financial and macro-control capabilities are increasing. However, Table 1 and Figure 1 show that in the past 20 years of Tax-sharing System Reform, the share of central government revenue in national fiscal revenue fell below 50% in 2011 and has shown a declining trend during the past six years.¹ The proportion of central fiscal revenue in national revenue from January to June of 2014 was just 45.99%.² If tax return is taken

¹ In 2011, the extra-budgetary funds were totally abolished and all government revenue is included into the budget management, which resulted in a rapid growth of non-tax revenue of local governments and an increase of 43.3% over 2010. Therefore, the proportion of local government revenue in national fiscal revenue has increased more than 50%. However, this doesn't change the overall trend of intergovernmental fiscal relations.

² Calculated based on the "revenue and expenditures from January to June in 2014," total fiscal revenue was 7.4638 trillion yuan from January to June in 2014, of which: central fiscal revenue is 3.4328 trillion yuan and local fiscal revenue is 4.031 trillion yuan.

into consideration, the proportion would be even lower. Does this indicate that intergovernmental fiscal relations have backtracked?

Table 1

Changes in the intergovernmental fiscal relations in China¹ (1993-2013)

(unit:%)

Year	The proportion of central fiscal revenue in the national fiscal revenue	The proportion of local fiscal revenue in the national fiscal revenue	The proportion of central government expenditure in the national fiscal expenditure	The proportion of local fiscal expenditure in the national fiscal expenditure
1993	22.0	78.0	28.3	71.7
1994	55.7	44.3	30.3	69.7
1995	52.2	47.8	29.2	70.8
1996	49.4	50.6	27.1	72.9
1997	48.9	51.1	27.4	72.6
1998	49.5	50.5	28.9	71.1
1999	51.1	48.9	31.5	68.5
2000	52.2	47.8	34.7	65.3
2001	52.4	47.6	30.5	69.5
2002	55.0	45.0	30.7	69.3
2003	54.6	45.4	30.1	69.9
2004	54.9	45.1	27.7	72.3
2005	52.3	47.7	25.9	74.1
2006	52.8	47.2	24.7	75.3
2007	54.1	45.9	23.0	77.0
2008	53.3	46.7	21.3	78.7
2009	52.4	47.6	20.0	80.0
2010	51.1	48.9	17.8	82.1
2011	49.4	50.6	15.1	84.9
2012	47.9	52.1	14.9	85.1
2013	46.6	53.4	14.6	85.4

Source: *China Statistical Yearbook* (1994-2013), “2013 Revenue and Expenditure” of Ministry of Finance.

Article IV in the new “Budget Law” stressed that all the government revenue and expenditures should be included in budget management.² Article V defines that the budget includes a general

¹ Compared with previous years, the reform of revenue and expenditure accounts was implemented in 2007, and expenditure items were largely changed. The data could not be comparable with previous years. This did not change the overall trend of intergovernmental fiscal relations.

² The Ministry of Finance issued more than 200 catalogs about administrative fees and government funds to the public in November, 2014, as well as the catalogs that were outside of the directory list. Citizens, legal persons, and other organizations have the right to refuse to pay. In order to improve the transparency of administrative fees and governmental funds policy, social supervision should be strengthened and various kinds of fees collection should be effectively stopped. According to relevant provisions of the State Council, administrative fees and government funds should be implemented according to the law, administrative regulations, and relevant policies. The list of public directories mainly related to the “administrative fees inventory list of national and central departments and units,” “administrative fees inventory list of national and central departments and relative enterprises,” and the “national inventory of government funds”. This will greatly promote the solution of the problem that non-tax revenue lacks on a legal basis. It also eradicated the phenomenon of non-standard hidden charges and fees, reduced the overall burden on micro-economic subjects, and regulated the behavior of the balance of payments and relevant government operation modes.

public budget, government funds budget, state capital operations budget, and social insurance fund budget, which enhances the integrity of the government budget and will fully reflect and account for the size of the government's financial activities. Accordingly, the term of "public budget" in Article 27 of the original "Budget Law" was revised to "general public budget" in Article 34 of the new "Budget Law," which further improved the scientific and normative role of budget management. Under the new management requirements of the "Budget Law," with the example of 2013, we can find the deeper problem of intergovernmental fiscal relations.

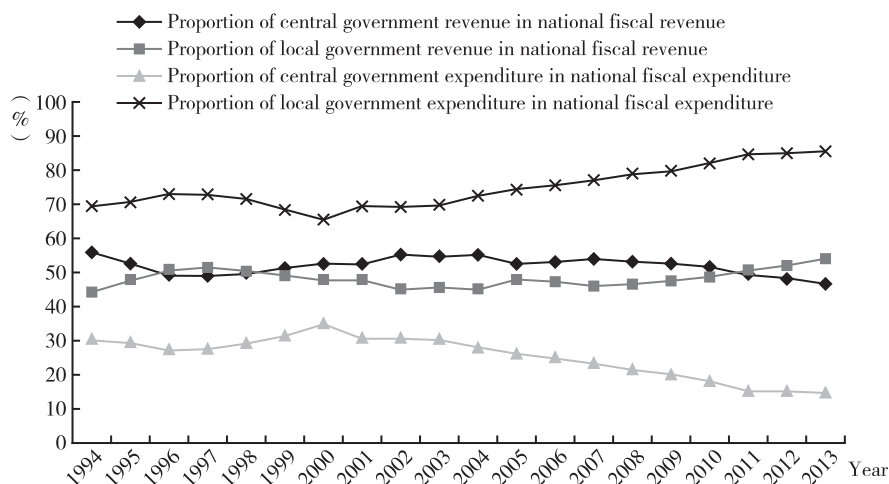


Figure 1. Changes in the intergovernmental fiscal relations in China (1993–2013)

Source: *China Statistical Yearbook (1995–2003)*, "2013 Revenue and Expenditure" of Ministry of Finance.

Taking into account that a significant portion of revenue in the social security fund budget belongs to the citizens, this article only includes the public budget, government funds budget, and state capital operations budget. We found that: from the point of view of national finance, in terms of revenue, public revenue accounts for 70.53%, the government funds budget accounts for 28.53%, while the state capital operations budget income is minimal. In terms of expenditures, public expenditures account for 72.29%, the government funds budget accounts for 26.26%, while the state capital operations budget expenditure is also minimal.

From the point of intergovernmental fiscal relations, taking into consideration the three budgets without excluding central tax refunds and transfer payments to local government, central fiscal revenue accounts for 35.75% and 38.3%, respectively. If only the central level is taken into consideration, then the central government's share of revenue is only 8.76%. The proportion of central government expenditure was only 12.59%. In fact, local fiscal revenue and expenditures account for the vast majority of national fiscal revenue. Although the center of the state capital operations budget accounts for more than 60%, it played a small role in intergovernmental fiscal relations because of its absolute value.

Table 2

Intergovernmental fiscal relations under the full coverage (2013)

(units: 100 million, %)

Name	Revenue						Expenditure			
	Central		The transfer payments and tax return from central to local	Local		Central		The transfer payments and tax return from central to local	Local	
	Quantity	Proportion		Quantity	Proportion	Quantity	Proportion		Quantity	Proportion
Public budget	60198.48	46.59	48019.92	69011.16	53.41	68491.68	48.85	48019.92	71720.42	51.15
Government at the corresponding levels only	12178.56	9.43	-	117031.08	90.57	20471.76	14.60	-	119740.34	85.4
Government funds budget	4238.44	8.11	1420.18	48030.31	91.89	4179.46	8.28	1420.18	46321.40	91.72
Government at the corresponding levels only	2818.26	5.39	-	49450.49	94.61	2759.28	5.46	-	47741.58	94.54
State capital operations budget	1058.43	61.78	-	654.93	38.22	978.19	62.64	-	583.33	37.36
Social insurance fund budget	-	-	-	-	-	-	-	-	-	-
Total	65495.35	35.75	49440.10	117696.4	64.25	73649.33	38.30	49440.10	118625.15	61.7
The total level of government	16055.25	8.76	-	167136.5	91.24	24209.23	12.59	-	168065.25	87.41

Source: calculated by Ministry of Finance "2013 National Financial Accounts."

As shown in Table 3, from the point of view of the world's major economic powers, the United Kingdom, Japan, and France, as representatives of the unitary state stressing a fiscal balance of power, have great differences with the governmental fiscal relationship of decentralized states such as Germany, Australia, and Brazil. Even under the same state structure, intergovernmental fiscal relations are different because of the differences in national history, politics, and economic development. Compared with other countries in the world, the proportion of China's central government revenue in national fiscal revenue is not only lower than the level in other countries, but also can't meet the requirements of equalizing public services. With the increasing commitment of the central government towards expenditure responsibilities, unbalanced regional development, and equalization of public services, we see that the central government can't continue to be reduced (Lou, 2013).

Table 3

Intergovernmental fiscal relations comparing between major countries in the world¹

(unit:%)

Country	Revenue			Expenditure		
	Central accounting	State accounting	Local accounting	Central accounting	State accounting	Local accounting
Australia	59.3	34.5	6.2	62.0	33.1	4.9
Brazil	56.3	26.4	17.3	58.1	26.4	15.5
Germany	59.0	25.3	15.7	58.5	25.6	15.9
France	78.7	-	21.3	80.8	-	19.2
Italy	71.7	-	28.3	73.6	-	26.4
Japan	40.9	-	59.1	54.3	-	45.7
Korea	65.4	-	34.6	67.2	-	32.8
Russia	77.8	-	22.2	77.0	-	23.0
United Kingdom	74.9	-	25.1	77.5	-	22.5

Source: IMF, *Government Finance Statistics Yearbook*, 2013.

Fiscal relations are the core of intergovernmental relations. In the process of intergovernmental fiscal relations adjustment, financial stability and sustainable relations between governments should be the deeper goal, as opposed to indicators of reasonable decentralization proportions. However, in terms of longitudinal configuration of taxing power,² tax authorities pay more attention to the revenue rather than the characteristics of tax. The poor rationality, strong randomness, and great volatility are its salient features. At the same time, in the specific process of implementation, the adjustment of fiscal relations and distribution patterns implemented by the central government are too causal and frequent.³

The stable fiscal relations between governments fundamentally determine the local government's reasonable expected range and can effectively reduce the short-term behavior of local governments. Meanwhile, the fiscal relations between governments also needs a hardline constraint system. At the same time, various types of local financial platforms that were raised in response to the international economic crisis in 2008 are still not under financial supervision. The financial function and regulatory power of the central finance departments is being disbanded and weakened. However, the financial risks triggered by the above phenomenon were taken on by the central government. Tax-sharing System Reform changes the distribution patterns of revenues and expenditures between the central and local governments, and local governments are facing financial difficulties as a result. However, financial difficulty is by no means the root of expanding local government debt. The fact that the quantity of debt stock and debt increment

¹The Russian data in this table is preliminary data collected by IMF in 2012.

² This paper argues that for the government, taxing power is a resource. Its efficiency needs to be considered not only just between different levels of governments. Therefore, the term of "allocation of tax power" is more adaptable. The study of tax power allocation in this article refers to longitudinal transfer of power between central and local governments.

³ For example, from January, 1997, the stamp tax composed two kinds of taxes: central and local stamp tax, with both 50% respectively and 80%, 20% respectively after the first adjustment, and 88%, 12% after the second adjustment.

in eastern regions is much higher than in the underdeveloped central and western regions is good evidence.

3. The proportion of tax revenue in fiscal revenue continues to decline

According to relevant data,¹ national public revenue in 2013 was 12.9143 trillion yuan, an increase of 10.1% over the previous year. Among which, tax revenue was 11.0497 trillion yuan, an increase of 9.8% over the previous year. Non-tax revenue was 1.8646 trillion yuan, an increase of 12.1% over the previous year. The proportion of income tax revenue accounted for 85.56% of fiscal revenue and the growth rate of non-tax revenue was significantly higher than the tax revenue. The proportion of tax revenue in national fiscal revenue fell below 90% in 2006 for the first time and continued to hover around 85% in recent years.

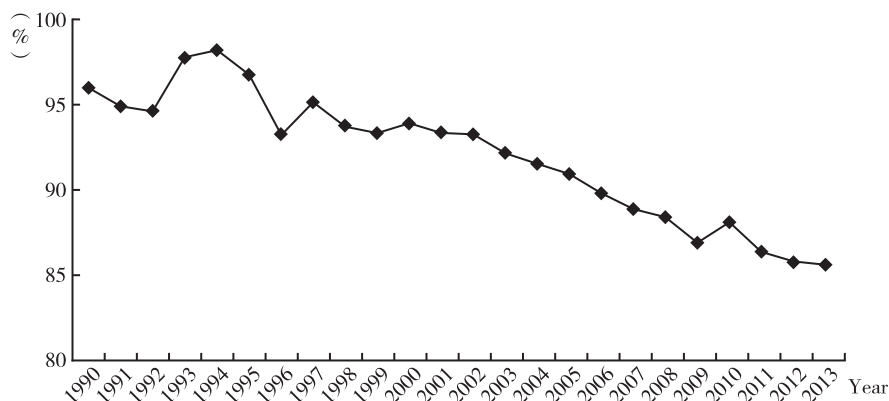


Figure 2. Tax revenue accounting for in the proportion of the national fiscal revenue (1990-2013)

Sources: *China Statistical Yearbook (1991-2013)*, “2013 Revenue and Expenditure” of Ministry of Finance.

As shown in Figure 2, the proportion of tax revenue in national fiscal revenue was above 98% at the beginning of the Tax-sharing System Reform in 1994 and dropped to 85% in 2013, a decrease of more than 10%. We can say that the proportion of China’s tax revenue in fiscal revenue decreased to its lowest level in 2013 since the reform of the tax system. By contrast, the proportion of non-tax revenue in fiscal revenue was increasing and the old problem of decentralized trends began to reoccur.

Among non-tax revenue, land transfer revenue accounts for a high proportion of the total and has had a significant growth rate. Land transfer revenue is outside local government budgets, which becomes the second revenue source for local governments (Lv, 2013). The relative data in the ministry of finance shows that national government funds revenue increased 1.4704 trillion yuan compared with last year—an increase of 39.2%. Local government funds revenue was more than 4.8007 trillion yuan—an increase of 44.6%. Among them, the transaction price of land

¹ Sources: National Bureau of Statistics: “Statistical Communique on the 2013 National Economic and Social Development.”

transfer contracts increased considerably, which strongly impacted the dominant status of tax revenue, boosting prices and exacerbating more serious risks for local governments.

A “Tax State” is defined from the perspective of revenue. Since modern times, the share of tax revenue in total fiscal revenue has increased to more than 90% in most counties, which makes the title of “tax state” outside the realm of ideology and has a strong practical significance.

In the modern market economy, taxation occupies a dominant position as the main revenue form. If the dominant position changed, the national economy and tax system would be in a “sub-healthy” state, and there would be some problems in the operations. During the past 20 years of Tax-sharing System Reform, the share of China’s tax revenue in fiscal revenue has continued to decline, which indicated a new crisis in China. If the proportion is not effectively curbed, there would certainly be transformation from its status as a “tax state.” The reason for the declining proportion of tax revenue and the expanding non-tax revenue is the unstandardized revenue of local governments. However, the more important reason is that local finances after tax reform have always faced a difficult situation without effectively addressing the problems. Financial difficulties prompt local governments to obtain non-tax revenue through land sales and other acts. We should recognize that, first, relying on non-tax revenue from land sales is unsustainable. Over time, local finances will eventually fall into the dilemma that no land will be for sale. Second, the huge land revenue of local government ultimately turns into resident pressure. Behind increasing housing prices, growing financial pressure is inevitable. Housing is one of the most basic livelihood issues. Land finance seriously stifles the new urbanization process and the construction of a harmonious society. Third, the continued expansion of the real estate bubble puts China’s national economy at a tremendous risk. The weak recovery of the domestic economy in US subprime mortgage crisis and Japan’s bubble economy are all worthy of our attention.

Since 2014, China’s social economic development has entered a stage of a new status quo, which highlights three simultaneous periods: a “shift of growth,” “structural adjustment pains,” and “pre-stimulus digestion.” Along with the high growth rate of China’s social economy and a lower growth rate, China’s fiscal revenue is growing at a slower pace. In this context, new tax policy should be adapted to adhere to the new norms, and should be implemented according to taxation’s legal doctrine and not to past inertia. Second, tax policy should be effective in the creation of a favorable tax environment for economic growth by steadily promoting structural tax cuts. Third, on the base of the new era of “tax cows,” the growth of tax revenue should be steady and tax revenue should play the role of the main revenue channel. Tax policy should be promoted in different areas. Tariff and resource taxes should be simultaneously developed in foreign and domestic sectors. Tax policy friction should be reduced and the effectiveness of tax policy should be enhanced and improved, which will effectively promote the construction of a modern tax system.

In short, as the proportion of China’s tax revenue in fiscal revenue continues to decline, we are warned that in addition to the unequal growth of fiscal revenue, deep-seated structural problems regarding revenue should be an important focus. The unsustainable development of China’s fiscal system is reflected in the declining proportion of tax revenue in total fiscal revenue. To defuse this new crisis emerging in China, the form of government revenue should be regulated. Tax revenue, as the main channel, should be strengthened. On the other hand, real estate tax reform should be promoted thoroughly. Taxes of a fair value can be collected through real estate taxes.

The policies that different types of housing levy in different tax rates could increase the cost of ownership of housing and could be helpful in cooling the current overheated real estate market; this could promote the development of the national economy and construction of social harmony. At the same time, normal and compulsory real estate taxes will also provide long-term, stable, and sustainable sources of revenue.

4. Deficiencies of tax structure

By comparing the tax structure in 1994 and 2013 from Table 3 and Table 4, we can see that the three types of transfer tax-VAT, business tax, and consumption tax-account for about 75% of total tax revenue. The proportion in 2013 was about 60%. From the point of view of income tax, the proportion of foreign-invested enterprises, foreign enterprise income tax, and personal income tax accounted for about 15% of total revenue. The share of corporate income tax and personal income tax is 26% of the total. Overall, the proportion of turnover tax declined by 10% while the proportion of income has increased by 10% in the 20 years of Tax-Sharing System Reform. However, China's tax structure is so that turnover tax is the main revenue source and the crippled dual subject has not changed radically.

As shown in Table 5, the tax structure of OECD countries in the decade from 1995 to 2005 remained stable. The total proportion of personal income tax, corporate income tax, social security tax, and payroll tax increased from 54% to 62%, which was mainly due to the increasing proportion of social security tax. In contrast with the increasing proportion of income tax, the proportion of indirect taxes dropped by 10%. Among the indirect taxes, the share of the general consumption tax was rising and the special consumption tax was declining. If the increasing share of direct taxes in OECD countries can show that the public has paid more attention to social justice, then the increasing share of indirect taxes shows that efficiency is promoted, which achieves a balance between equity and efficiency.

Table 4

The main composition of China's tax revenue in 2013

(unit: 100 million yuan, %)

Name	Quantity	Proportion
Domestic VAT	28803	26.07
Domestic consumption tax	8230	7.45
Business tax	17217	15.58
Corporate income tax	22416	20.29
Personal income tax	6531	5.91
Import goods VAT, excise duties	14003	12.67
Vehicle purchase tax	2596	2.35
Deed tax	3844	3.48
Land Value-added tax	3294	2.98
Farmland occupation tax	1808	1.64
Urban and township land use tax	1719	1.56
Total tax revenue	110497	-

Sources: "2013 Revenue and Expenditure" of Ministry of Finance.

Table 5

The mainly composition of China's tax revenue in 1994

(unit:100 million yuan, %)

Name	Quantity	Proportion
VAT	2661.3	52.48
Consumption tax	516	10.18
Business tax	680.2	13.41
Corporate income tax	639.7	12.62
Income tax of foreign investment and foreign enterprise	48.1	0.95
Personal income tax	72.7	1.43
Resource tax	45.5	0.90
Urban and township land tax	32.5	0.64
Other taxes	374.8	7.39
Total tax revenue	5070.8	-

Sources: *Tax Revenue Statistics (1994-1998)* of State Administration of Taxation.

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Table 6

Changes of tax structure in OECD countries(1965-2005)

(unit: %)

Year	1965	1975	1985	1995	2005
Personal income tax	26	30	30	27	25
Corporate income tax	9	8	8	8	10
Income taxes					
Social security tax	18	22	22	25	26
Payroll tax	1	1	1	1	1
Total income taxes	54	61	61	61	62
Proportion tax	8	6	5	6	6
Indirect taxes					
General consumption tax	14	15	16	18	19
Special consumption tax	24	18	16	13	11
Total indirect taxes	46	39	37	37	36
Other taxes	1	1	1	3	3
Total	100	100	100	100	100

Sources: OECD, *Revenue Statistics 1965-2006, 2007*.

A tax structure with indirect taxes as the main revenue source can easily lead to the problem of “pro-cyclical” macro-control, which increases the difficulty of “counter-cyclical” macro-control, weakens regulatory power, and to some extent impacts the stability of tax revenue.

Indirect taxation is regarded as the main part of the tax structure, and people are not as sensitive to indirect taxes. In contrast, people dislike direct taxes. Efforts to promote direct taxes to revert to indirect taxes will certainly be opposed by the general public. While people dislike increasing direct taxes, taxpayers cannot be sure whether indirect taxes decline in proportion to direct tax increases. The result of tax reform is not only that indirect taxes have not been falling, but direct taxes have also been increasing. From the taxpayer’s point of view, opposition to direct taxes increasing is a rational choice, which delays the adjustment process of income inequality and contributes to damaged social benefits. As for the government, since the resistance to levying indirect taxes is small, while the promotion of direct taxes is difficult, it becomes difficult to understand invariable tax structure over time. Tax structure with direct taxes as the main revenue source causes taxpayers to believe the provision of public goods are free, which leads to a low demand for efficiency of public services and further contributes to low operating efficiency. This causes China, in a sense, to become socioeconomically disharmony. Does this once again prove Hegel’s thesis that there is “more space but little time in China”?¹

In the future, direct taxes should be the main goal in China’s tax system. Specifically, on the one hand, the proportion of indirect taxes should be gradually reduced. The single tax structure with indirect taxes as the main source should turn into a double tax structure with both direct and indirect taxes as main sources. On the other hand, the proportion of personal income tax in direct taxes should be gradually increased, which will play an essential role in regulating the distribution of income and narrowing the gap between rich and poor. From an international point of view, the main inter-regional and international tax competition is corporate income tax and even there is a “race to the bottom.” Therefore, in order to increase the proportion of income tax, personal income tax should be focused on. This is because there is currently double taxation from two different income taxes. On the other hand, personal income tax accounted for about 6% while corporate income tax accounted for 20% of tax revenue. In this sense, the proportion of corporate income tax can remain stable in the future, while the proportion of personal income tax has the great potential to improve.

5. Three questions’ relationship

Summarizing the three issues analyzed in the second, third, and fourth part, we can see from Figure 3 that both the trend of the proportion of central fiscal income in national fiscal income and the proportion of tax income in national fiscal revenue are the same. The former’s declining can partly be the reason for the latter’s decline. Furthermore, the trend of the proportion of direct taxes in tax revenue shown in Figure 3 is different from other movements. However, the

¹ “In essence, China has no history. It’s just the monarch repeated destruction and from which no progress can be produced.” (Hegel, 2009).

share of direct taxes in tax revenue is increasing, which will definitely be helpful to improve the overall revenue proportion. It's just because the proportion of direct taxes in tax revenue is small and there is resistance in the reform process that the impact between the two proportions is not obvious.

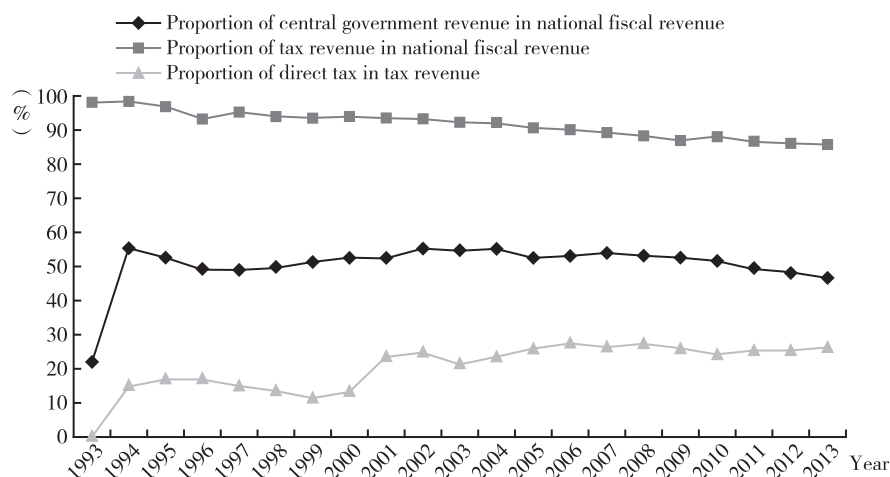


Figure 3. The trends of three proportions

Sources: *China Statistical Yearbook (1994-2013)*, Ministry of Finance: “Revenue and Expenditure in 2013”, State Administration of Taxation: “*Tax Revenue Statistics in 1994-1998*”.

6. Conclusions

The Tax-sharing System Reform has laid the foundation in fiscal relations between governments and the fiscal management system that was finally built after adjustment and improvement. The path of reform that was based on crisis promotion and gradual reform promotes and guarantees the implementation of the reform, but inevitably brings low efficiency and stagnation (Lou, 2013). It shows a gradual trend toward a “money-sharing system,” and the “revenue-sharing cropping system” in the last 20 years’ of Tax-sharing System Reform (Gao, 2014; Lv, 2014). Many deep-seated problems in the current financial management system need special attention. This paper argues that the proportion of central fiscal revenue in national fiscal revenue is clearly downward and intergovernmental fiscal relations should not remain the same. The proportion of tax revenue in fiscal revenue has continued to decline and the problem of decentralized forms has recurred. China’s tax structure in which turnover taxes are the main source and the crippled dual subject that has not changed radically indicates our tax structure has the possibility to be stagnant. It is possible for the tax structure to evolve from stable to stagnant, which makes the steady adjustment of a fluid tax system the best choice. Personal income tax should be given more attention as well.

Fiscal reform has entered a profound and fortified zone. Real estate tax reform and personal income tax reform were held back by vested interests. In the process of increasing the proportion of central fiscal revenue in national fiscal revenue, we face a lot of pressure from protecting

people's livelihood and stabilizing growth. Therefore, a medium-term fiscal planning should be included in future reforms. On the one hand, the fiscal department's management of revenue and expenditures should be strengthened. Fiscal management authority should be centralized and all types of local government financing platforms that were widely distributed should be standardized. On the other hand, legislation should always adhere to the correct direction in regards to important reforms of personal income tax and real estate tax. A practical timetable and roadmap should be developed. Since tax reform began, the proportion of tax refunds from central to local has declined from 44.55% in 1994 to 3.64% in 2013, which is a successful model for the management of a "medium-term fiscal plan."¹ At the beginning of the Tax-sharing System Reform, the local government is fearful and sensitive to reform. Therefore, it's necessary to maintain local vested interests in order to promote reform and mobilize the enthusiasm of the local governments. However, this does not mean that the right direction for reform will be denied certainly. Thus, the proportion of tax refunds is gradually declining through mechanism design, which achieves a win-win situation not only between governments, but also between short-term and long-term interests.

There will be many difficulties in the fiscal reform, as the revenue structure enters a new stage: swelling local government debt, local finance and property tax reform, population aging and pension reform, optimization of tax structure, and income distribution reform. All these factors should be taken into consideration for the long-term. Thus, not only the requirement of a "transparent budget" can be met, mid-term predictability can be enhanced, and the wisdom of fiscal reform can be reflected upon. All these policies strengthen top-level supervision and enhance the confidence in fiscal reform's ability to benefit all taxpayers.

After 2014, China will reach a "post-tax reform era" and a "new normal" should be given more attention in the process of promoting and improving tax system reform. Many factors, such as the appearance of energy conservation, international crisis aversion, counter-terrorism, and other international public goods all require fiscal reform to have a global concern. Rapid economic and financial growth should not be the goals of tax reform. On the one hand, reform resistance in tax reform has been resolved and mitigated through "incremental reforms" in the past. Now, the reform roadmap should be adjusted and reform room should be compressed. On the other hand, government systems should be improved to promote further fiscal system reform. Both the economic and social system should be improved to create "reform dividends" in the fiscal system.

¹ Source: *China Statistical Yearbook (2000-2001)*; *China Financial Yearbook (2000-2013)*; the Scale of Local Finance and Subsidies Situation of Central Government in 1995-2009, *Local Financial Research*, 2011(1); *Central Public Revenue Accounts in 2012*; *Tax Rebates From Central to Local and Transfer Payments Balance Sheet in 2012*.

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