

A historical review of the economy-based theory of taxation in China

——The difference between “economy-centrism” and “plan-centrism”

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The level of tax burden in a country should be determined by the condition of its economy, but it also has impact on economic development. Taxation and budget reform was discussed at the 3rd Plenary Session of the 18th CPC Central Committee, and the new reform was introduced. Under the new thinking, budget review is no longer be limited to balanced budget and the size of the deficit but will also include projected expenditure and policy. This means the change from “making tax plans “to” setting tax expected targets”. The idea of “economic determination of taxes” has left a prominent mark in the history of taxation theories in China going back thousands of years. In particular, taxation theorists have always stressed the need to protect and nurture tax sources. For example, Confucius stressed “keeping tax burdens light and allowing the people to be rich”, Mencius similarly advocated for the importance of enriching the people, Xunzi, for his part, argued for the need to levy taxes in accordance with the law, Wang Anshi believed that people can only be taxed if they are first allowed to earn an income, and Qiu Jun promoted the idea of “less taxes, more revenues”, and many others. All these ideas in the history are rich sources of reference for those trying to reform the taxation system today in China.

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1. Introduction: A must-discuss topic in the history of the relationship between the economy and taxation

According to the basic principle of the theory of finance, economic condition determines taxation, conversely, taxation influences the economy. What taxes do is directly regulate the benefit distribution between the government and taxpayers, therefore shaping the overall state of the economy. Economists from Adam Smith, Zaire to proponents of the modern supply-side school have all studied the relationship

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between the economy and taxation. The economist Arthur Laffer proposed the “Laffer curve”, which vividly illustrates the connection between economic development and tax revenue. “Laffer curve” depicts the relationship between the government's tax revenue and tax rate, according to which the government's tax revenue increases with the its increase in tax rate when the tax rate is below a certain limit; beyond that point, however, changes in the government's tax revenue is delinked from increases in tax rate and begin to decline. This is because when tax rate reaches a certain level it will beginto inhibit the growth of the economy, reduce the tax base thereby reducing tax revenue. By parity of reasoning, tax cuts can stimulate economic growth, expand the tax base, thereby increasing tax revenue. Since the “Laffer curve” was proposed, the economic appeal of tax cuts has been widely acknowledged. This is why tax cuts are by far the basic tone of taxation policies in middle- and high-income countries.

It has sometimes been said that budgeting is an art. If so, then its key consists in managing the relationship between tax rates and object of taxation. As a kind of relationship, taxation not only shapes of the relationship between enterprises and the government in terms of the benefit distribution, but also makes its impact felt by each and every household insofar and they are both income earners and consumer. Laffer, who was born in 1941, used the “Laffer curve” to explain the relationship between taxation and the economy, and before him, the Chinese thinker Qiu Jun, who was born in 1420 during the Ming Dynasty, also believed in the importance of managing well the relationship between the two. Obviously, on the one hand, excessively heavy tax burden means over-utilization by the government of social and economic resources, which could lead to the wastage of financial resources through excessive government outlay, dampen economic incentive among the citizens, and hinder the accumulation of capital, and retard economic development. On the other hand, when tax burden is too light, the government could suffer from a shortage of economic resources, the absence of material security, runs the risk of not being able to fulfill its financial responsibilities in terms of outlay, or performance its functions. Too much capital left in private hands could also lead to abuse, adversely affecting economic development. The appropriate level of tax burden can achieve the objectives of regulating and promoting economic development by not only allowing the government to perform its functions normally but also sustaining market incentives. Therefore, developed countries have increasingly shifted away from high tax rates, which could increase political and economic risks for a country, as the experiences of the United States and the European debt crisis amply show.

2. Understanding of the relationship between the economy and taxation in the Pre-Qin Period

The idea that taxation should serve the economy did not emerge only in the West

or only recently. Many Chinese scholars since ancient times have realized and argued for this. A glance at China's long history spanning thousands of years reveals that at any given point in time, economic development was influenced by how well or poorly taxation and the economy were coordinated. Taxation policies reflected the will of the ruling class and controlled by the state apparatus. The will, ideas and proposals and such of the ruling class constitute the state's prevailing thinking about taxation; taxation practices were the result of such thinking at work. At the same time, economic development and the taxation culture shape the relationship between taxation and the economy by influencing the ruling class's philosophy of taxation.

The idea that "the economy shapes taxation philosophy" has a prominent track record throughout China's long history. Chinese thinking about taxation is rich and colorful. Not only was it influential for social and economic development at the time, but it is still relevant today as we try to reform the taxation system against the backdrop of the "new normal" of economy. There is bound to be much to learn from a careful study of the history of this idea.

Agriculture, animal husbandry, and handicraft industry first began to develop during the Xia, Shang and Western Zhou dynasties in China, and it was during this time when thinking about taxation budded. *Zhou Li*, a book in which ideas about taxation at that time were recorded, was described by Wang Anshi as a work "half of which was devoted to discussions about financial management". In the early days, fiscal and taxation issues were essentially issues of "financial management", which included the question of how to set the appropriate tax burdens and other tax-related problems. The idea was to classify citizens according to occupation or profession, and require all to pay taxes provided they were gainfully employed and had secure places of dwelling. So long as the ruled were all in proper order, sustainable sources of tax revenue for the government would fall into place. Things are not much different today, after all.

The Spring and Autumn period and the Warring States period marked a time of historical transformation, occupying a place of special significance in Chinese history. Slavery as a system began to fall apart, while the inchoate form of a feudal society began to show itself and the society underwent upheaval. The square-field system, which had been dominant under slavery, was gradually being supplanted by relationship of land ownership that was characteristic of feudalism. The use of iron tools, the use of cattle as draft animal in farming and the application of agricultural technology helped increase agricultural productivity, leading in turn to the rapid development of economy and society. Many different ideas about taxation emerged. Most thinkers, however, advocated for "light taxes". Confucius, Mencius and Xunzi of the Confucian school thought so, Li Kui and Shang Yang, representative of the Legalist school proposed "economic development first, taxation second"; Lao Tzu of the Daoist school advocated for "doing by inaction"; Mohist Mo Di argued that "thrift

leads to prosperity, decadence leads to perish”, while *Guanzi* “ [the government] should not take excessively from the people, and make wise and measured use of what it does.” *Guanzi* is a remarkable book. The wide ranging time span it covered suggests it had not one but many a co-author, and ultimately became the premium classic of the *Guanzi* school. In the west, the Keynesian school may be the only eponymous school of thought. These schools of thought from the pre-Qin period were shaped by the social and economic situation on the ground during the Spring and Autumn and the Warring States periods. Reviewing these theories is of academic and practical significance.

2.1. The Confucian school: keeping tax burdens light and allowing the people to be rich

As the founder of Confucianism, and a great thinker, Confucius was also known throughout history for his thinking about taxation. He was an advocate for “going light on taking from others” and the idea that “frugality makes for good politics”, while highly critical of the profligate lifestyle of the ruling class. He opposed taxes for war and denounced Ran Qiu, a student of his for helping Ji Sunshi with the latter's effort to reform the taxation system and enrich government coffers. Indeed, Confucius felt so strongly about this he disowned Ran Qiu as his student. He advocated for a “ten-percent tax”, a rate that is considered low and one whose significance as a symbol of light taxes trumps its practical significance throughout Chinese history.

Confucius was also a proponent of the notion that prosperity for the people should come before the prosperity for the state and other related ideas to the effect that taxation should serve the interests of the people, and that when they do, the interests of the state are advanced as well. According to *The Analects of Confucius*, You Ruo, a student of Confucius', said that the state would become well-to-do if its people are. Conversely, excessively heavy tax burden leaves the people impoverished and the state could not become rich. In addition to what You Ruo recorded, his dialogue with the Duke Ai of Lu was another source of information about his beliefs about Confucius' beliefs on such matter. For example, similar to the relationship between the state and its people, that between parents and children is also one in which the prosperity of the one (the children) brings about that of the other (the parents).

Furthermore, Confucius advocated for protecting and nurturing tax sources. He is against drafting the people to work for the state in busy season when and if doing so has adverse impact on agricultural production, which he believes could lead to resentment and dampen work incentive among the farmers.

2.2. Mencius: Taxation should benefit and enrich the people

Often called the Confucian sage second only to Confucius, Mencius accepted and

passed on many of Confucius' beliefs and ideas, while enriching its import, especially with respect to financial and tax-related matters. His thinking had far-reaching impact. Mencius advocated benevolent rule, and believed that taxation should benefit and enrich the people, an idea that was consistent with and complimented that of "good politics must serve the people". According to Mencius, a system of taxation should help the people secure ample "fixed asset" that would allow them to support their family and sustain a decent material standard of living despite possible fluctuations in their income. "Fixed asset" can be understood in one of two ways. It could mean property owned by ordinary households which would allow them to sustain life and thereby keeping the size of the migrant population low, or it could mean land ownership by farmers that would allow them to pay taxes regularly, thereby keeping the state in good operational order. Mencius was, in fact, the first thinker in the history of China to put forward the idea of private property, one that is highly valuable to us as a source of reference.

The Confucian idea of "light taxation" found clear expression in the writings of Mencius, believing that heavy tax burdens would undermine the citizens' "fixed asset" or private property, thereby destroying the foundation of good political governance. In terms of classification, Mencius was in favor of taxing no other production except agriculture and allowing the citizens to make use of natural resources as they saw fit. He opposed commercial taxes, whose elimination would facilitate the development of industries and commerce, something whose value to economic development in general was not lost on Mencius. In terms of tax rate, Mencius was in favor of a uniform "ten-percent tax". Therefore, we can see that while Mencius advocated for "light taxation", because he recognized the importance of tax revenue for the orderly operations of the state apparatus, he was also aware of the dangers of too little tax. This "doctrine of the mean" with respect to taxation is worth our close attention.

Compared with Confucius, Mencius argued more forcefully for the need to protect tax sources. He believes that "following the natural rhythm of agricultural production" promotes production and helps realize the goal of making the citizens rich first. If the government drafted people for military service arbitrarily without regard for the needs for labor of agriculture, it would hurt an important source of tax. This practice, therefore, must not be allowed. In addition, Mencius also argued that the burden of taxation must not be so great as to have adverse impact on people's lives, i.e., it is of an appropriate level only if it did not hamper people's ability to engage in production activities, which constitute another important source of tax.

2.3. *Xunzi: Levying taxes in accordance with the law*

Significant changes marked the social and economic situation during the final years of the Warring States period, which was when Xunzi lived. Therefore, Xunzi's

theories and ideas are at once importantly continuous with those of Confucius and Mencius while at the same time different from them at key points. For example, Xunzi was also in favor of light taxation, acknowledged the need to make sure agricultural production is not unduly disrupted by taxes, and gave a more insightful interpretation of the relationship between enriching the people and attaining prosperity for the state than was previously available. Specifically, he is to be credited with suggesting that the former is a necessary means for the latter, an idea that has since inspired generations of leaders and politicians. In *Xunzi—Wealth of Nations*, the thinker argued that the way to achieve both is through thrift and conservation. In China, the idea that the wealth of a nation should be “stashed away” with its ordinary citizens goes back to ancient times. When we put a premium on helping the people get rich, the nation will become rich as a matter of course; conversely, trying to enrich the nation first invariably leads to the people’s impoverishment. For the people, an important way for achieving prosperity is through frugality and thrift, which have been traditional Chinese moral virtues. They continue to define our national characters until this day, as evidenced by such activities as the campaign to mobilize the citizens to practice frugality that began in July 2014.

In the past, wealth distribution was by far the dominant issue in relation to the tax system, with the presumption that the size of the economic “pie” was fixed, such that the only open question was who get how much, and that the more of the citizens’ income the government takes from them, the less they get to keep. Xunzi, however, looked beyond wealth distribution and also considered questions related to production, arguing that tax should be part of the flow of wealth, rather than a stock source, and for the diversification of taxable income. For Xunzi, agricultural production is the base on which the expansion of taxable income should take place. When economic productivity increases, there will be a greater variety of income options eligible for taxation. There is no need, therefore, to subject ordinary people to heavy tax burden.

Moreover, Xunzi must be commended for emphasizing the importance to achieving the goal of wealth creation of making sure the practices of tax collection are in accordance with the law. A greedy ruler who behaves arbitrarily in this matter will inevitably end up taking more than he should from the people. Collecting taxes in accordance with the requirements of the law, therefore, was key to the effective sustainable operations of the tax system in a feudal society. Today, many of the government’s tax collection agencies continue to subscribe to the idea of having and adhering to “tax plans”. While this is not the same as arbitrary and exploitative taxation that frequently happened in the past, it can lead to excessive taxation and be unsustainable. Tax collection in accordance with the law, therefore, is an important lesson Xunzi has left us and policy makers today should take its core idea seriously when designing the country’s taxation system.

3. Understanding the relationship between the economy and taxation: the dynastic period

From the Qin Dynasty to the Qing Dynasty, a period that spanned more than two millennia, feudal economy had a profound impact on thinking about taxation. In the early days in each dynastic reign, when the need for economic recovery and development dominate, the government would adopt the policy of “light taxation and government services”. Examples of this include the tax policy that was implemented in early Western Han, and those that were adopted by Li Shimin, the second Tang emperor, Zhu Yuanzhang, the first Ming emperor, and Kangxi, the second Qing emperor (in Beijing). Under the tax policy during the Kangxi reign, it was explicitly required to keep each household’s tax burden unchanged even if it grows in size. After the period of recovery, adjustments would be made to tax policy as thinking about the function of tax to reflect changing needs of economic growth and social development.

Below we will examine the three prominent scholars’ thinking about the relationship between taxation and the economy.

3.1. *Wang Anshi: from whom [the government] wishes to take, to whom it should give first*

The 16-year reform movement eponymously named after Wang Anshi, the mastermind behind it and its main executor went some way toward easing class tension and increasing government revenue, and made considerable dent to the problem of persistent poverty. A key feature of the reform movement was Wang Anshi’s emphasis on increase government revenue by developing the economy, i.e., ramping up production. In his view, deep and stubborn poverty is due not so much to spending too much but rather more to producing too little. On this, Wang Anshi was largely in agreement with Xunzi. As for the reasons for underdevelopment in agricultural, one is tyrannical landlords’ annexation of land, another is the excessively heavy tax burden on peasants. Wang’s answer is a two-part solution to both problems. On the one hand, the government should facilitate economic production, and on the other hand, it should ease the people’s tax burden. This suggests Wang’s appreciation for the importance of harmony between economy and taxation.

After the establishment of the Northern Song Dynasty, the annexation of land was no longer prohibited, leading to a surge, with devastating consequences for many both ordinary people, many of who ended up driven away from their homes, and the government, which suffered a loss in tax revenue. Wang Anshi advocated imposing restrictions on annexation by means of taxation. With respect to industrial and commercial taxes, he pressed the importance of promoting the development of circulation of commodities, which he believed was the key to growing industrial and

commercial tax revenues. He once criticized those ministers who amassed wealth for themselves, contending that allowing the economy to develop freely was beneficial to securing a strong tax base.

3.2. *Li Gou*

In the opening chapter of *On Achieving National Prosperity*, Li Gou made it clear that taxes constitute a country's foundation from the points of view of its politics, military, diplomatic relations, culture and even morality, which was his answer to the Confucian idea that honors duty and loyalty while denigrating practical benefits and utility. He discussed in depth the necessity for the government to collect taxes, but also cautioned against excess in this practice, of which he accused the regime of being guilty. The economy is the basis of government revenue, without development of the former, it's in vein to speak of sustaining still less growing the latter? He was in favor of alleviating the people's tax burden, and abolishing monopoly and promoting free trade. This was rather sophisticated thinking about taxation for his time.

3.3. *Qiu Jun*

Qiu Jun, a Ming Dynasty scholar, believed that people are the foundation of the nation. An outstanding ruler, in his view, must have compassion for the people, and should implement beneficent policies such as low tax rates. Keeping the people well taken care of and content is important for ensuring the security of the sovereign, political stability and prosperity of the nation. Qiu Jun also believed that human beings are naturally acquisitive with respect to wealth, of which there is a finite amount in country, for a greater share of which government officials and ordinary people must compete. He described in astonishingly vivid terms how the former wants and tries to get more of it as much as the latter resists giving more of it.

In his *Pingfushu*, the Tang Dynasty scholar Li Ao argued that it was a mistake to assume that raising taxes necessarily leads to increases in revenue. Instead, less taxes generate more wealth. Qiu Jun was in agreement with this idea. The logic is easy enough to see: harsh taxation drives people from the land, hurts agricultural production, and destroys sources of private income and government revenue. Conversely, low tax rates can bring in more revenue into government coffer because it creates an environment conducive toward steady economic activities and the generation of stable income. Increases in revenue would follow as a matter of course.

This is a particular type of reverse thinking on the relationship between the economy and taxation, suggestive even of the "Laffer curve" at play in China, which

shows how high tax rate does not mean more revenue. In fact, taxation and the economy are related to each other in three types of relations: taxation exceeding what is appropriate given the level of economic growth, the perfect match between the two, and tax growth being lower than economic growth (similar to having the wealth of national stashed away among ordinary people). It is under the third relationship when low tax rate generates more tax revenue because of a highly prosperous economy. There is much here for us to learn.

4. Projected tax target

China has moved into the “new normal” in its economic development, under which the faster speed of growth gradually slows down. Both the structure and the quality of the economy are improving, and Chinese economy is shifting gear from being driven by investment in production factors to being driven by innovation. On the whole, the economy is experiencing the temporal overlapping of slowdown in economic growth, difficult structural adjustment, and absorbing the effects of previous economic stimulus policies. Given the objective inevitability of economic determination of taxation, the government’s fiscal and tax policies need to adapt to the current economic situation and the new normal.

Special historical background and environment give rise to the need to reinterpret the relationship between taxation and the economy. Currently, deepening all-round reform has become a marker of our time and at its core it consists of two specific objectives. One is to have the market play a decisive role in resource allocation, and the other is take the “three further liberations”, i.e., the liberation of thinking, the unleashing of productive forces and social vitality even further. Both are closely linked to the question of taxation. Only if and when we can think freely about taxation research and system design can we hope to make headways towards increasing productivity and improve social vitality. Many findings, a new understanding of the relationship between the economy and taxation being among the more important, about reform of the fiscal and tax policies from past research have helped to inform the new taxation system.

“A new kind of thinking about taxation”, which was articulated at the 3rd Plenary Session of the 18th CPC Central Committee and informed the *Budget Law* that was passed in 2014 answers effectively the needs given rise to by the current economic situation. At the 3rd Plenary Session of the 18th CPC Central Committee, China’s top leadership pointed out the country’s need to have the scope of the budget review expanded to include not only balanced budget, and the scale of the deficit but also expenditure and policies. Lou Jiwei, the Minister of Finance noted in his reading of the relevant document that “Tax will no longer be a binding task related to the budget but a goal or target. The emphasis in the old *Budget Law* on a balanced budget and

the need to meet tax collection targets has proven to produce perverse incentives among tax collection agencies. They would either take more than they should during stagnation in order to avoid falling short or less than they should during periods of economic overheating in order to avoid ratcheting up the base amount. But not collecting money that should be leaves too much capital in private—either individual or corporate—hands, which can exacerbate overheating. All these irregularities undermine the application of the rule of law in tax collection, run afoul of the government's express objective to keep tax burdens light for the citizens, and thwart its efforts to use macroeconomic instruments for “counter-cyclical” economic fine-tuning. According to the newly passed *Budget Law*, budgetary revenues at all levels should be compiled in a way that reflects the level of economic and social development, and be consistent with the demands of fiscal policies; the government at any level is disallowed from assigning specific collection targets to collection agencies; in their review of the budget people's congresses at different levels should focus on whether it can facilitate the implementation of economic and social development policies, whether revenue and expenditure policies are practicably feasible, and whether the budget plans for major investment projects are feasible. This is the new “thinking about taxation” at work in shaping the law, which now places more emphasis on projection while deemphasizing the notion of tax plan.

This change has something in common with how people have tended to understand the GDP as an economic indicator. In the past, governments at different levels would set a GDP target at the beginning of a year that was typically quite high, and, then doing everything possible to show that the target has been exceeded when they do their year-end accounting, which would score performance points for these officials. President Xi Jinping has been stressing since 2013 the importance of keeping our GDP figures free of exaggeration, and lower levels of government answer the call by deemphasizing the GDP as a criterion for performance evaluation. As a result, actual GDP figure that is either slightly above or below the target would be considered normal, while something is thought to have gone awry if the actual figure matches the projected one exactly. The country's economic growth rate in 2014 was 7.4%, even though the target was set at around 7.5% at the beginning of the year. There is nothing out of the ordinary for such discrepancy to occur, and the same should apply to tax revenue.

For a long time, the idea of tax plans has constricted thinking about collection among collection agencies. Traditionally, tax plans have done their part in helping the government meet revenue targets, allocate budgetary expenditures, execute macroeconomic control measures and facilitate economic development in general. But today, under the economic new normal, the idea of “tax plans” in the narrow sense is not conducive to China's efforts to adapt. For many years, the “Plan + Growth” tax ideology has led to a range of taxation irregularities, including both excess and

deficiency resulting in a “overdone tax” and “not tax to those should tax” and “storing treasure among the people”, in effect pitting “tax plans” against tax collection in accordance with the rule of law. Years’ worth of data from the National Bureau of Statistics indicate that for years, growth rate of tax revenue has outgunned that of GDP, something that in all likelihood has something to do with the prevalence of the idea of “tax plans”.

During the 3rd Plenary Session of the 18th CPC Central Committee, president Xi Jinping pointed out that “market plays a decisive role in resource allocation”. As an important market player, corporations’ role in resource allocation cannot be ignored. Heavy tax burdens have made survival difficult for many Chinese corporations, whose average lifespan is but 2 years. The number for conglomerates is not much longer, standing at 7-8 years, which is not unrelated to the concept of tax plans to some extent. Under the new normal, we should free ourselves from the grip of the idea of “tax plans” and shift toward “projected tax targets”. At the level of practice, all legally levied taxes and nothing beyond them should be collected. This is the best way to protect corporations, an important source of tax revenue, and by extension to make sure market plays a decisive role in resource allocation.

5. Promoting economic development through supportive tax policies

Under the new normal, the economy is experiencing the temporal overlapping of slowdown in economic growth, difficult structural adjustment, and absorbing the effects of previous economic stimulus policies, the new normal also applies to the country’s fiscal conditions, in which the growth of fiscal revenue is declining, fiscal expenditure is increasing, and fiscal management is more demanding. Tax policies can be improved in the following ways to better adapt to the new situation:

5.1. Recognizing the difference between “deciding according to economic conditions” and “deciding according to plans”

In the era of planned economy and during the transition toward a market economy, the idea of “plan-centric” decision reigns supreme in all aspects of life, and not just in taxation matter. The thinking was that there is nothing more to worry about as long as plans were made, and executed, and managing the economy through planning was rather simple and straightforward. This was taken granted until as recent as 15 years ago. Every year, governments at different levels would convene during the final quarter to discuss how to increase tax revenue and cut expenditure, assigning very specific targets to different government agencies, and sometimes even government employees in charge of tax collection. Corporation complained bitterly about the impact this had on them. But the mark of a market economy is the rule of law, under

which arbitrary practices must be disallowed, the desire to meet specific targets notwithstanding. In the market economy era, the law of nature to be followed lets the economic conditions on the ground decide, reflecting a new understanding of the relationship between taxation and the economy. Progress continues to be made in economic development, tax collection must keep up. The critical difference between the two kinds of thinking about taxation is ultimately reduced to how they answer the question of which one trumps the other between fulfilling a pre-determined target and helping corporations grow. Of course, the latter is more difficult than the former. However, as long as we make wise use of the internet, we would be able to manage the vast amount of tax data.

5.2. Normalizing collecting as much as is owed

From ancient times to the present, tax scholars are agreed that the amount of tax collected should hew closely to how much a taxpayer should pay according to the law. In other words, paying either more or less than that amount, especially if this is done arbitrarily, should be the exception and not the norm. Right now, under the economic new normal characterized by a gradual drop in fiscal revenue coupled with rise in fiscal expenditure, tax cuts should be undertaken with great caution. Still, structural tax cuts designed to serve specific government objectives are quite necessary. In contrast to across-the-board tax cuts, structural tax cuts are meant to optimize the tax structure, and may raise the tax for some while cutting for others, while improving the economy as a whole. The first order of business is to adopt structural tax cuts meant to support the development of small and micro business enterprises, which play an important role in creating jobs, promoting innovation and facilitating social stability. It is now high time to help them grow with preferential tax policies that ease their tax burdens. But doing so can achieve more than boosting these enterprises themselves, it can also upgrade their role in the economy as a whole, and by extension promote economic growth in general. Another structural tax cut that is urgently needed include those designed to improve regional coordination and integration. Since the beginning of reform and opening up, the development gap among regions has been growing, hurting the nation as a whole. Therefore, preferential tax policies targeting the severely underdeveloped regions in central and western China and industries such as agriculture and energy in which these regions have natural advantages are badly needed. Of course, as was pointed earlier, all taxpayers should fulfil their tax obligations in accordance with law thoroughly.

5.3. Substantive change from tax plan and tax task to tax collection by law

The 4th Plenary Session of the 18th CPC Central Committee marked the beginning

of the implementation of the rule of law across the entire land. Taxation in accordance with the rule of law will also go from mere theory to practice. On February 5, 2015, the State Administration of Taxation issued *Notice on better regulating tax collection practices and rules of management for purpose of improving the quality of tax revenue*. The Notice makes it clear that it is imperative for tax collection agencies to follow the rule of law, and resist the temptation to tag on extra burden during times of slower growth. All manners of tax collection irregularities are to be prohibited and guarded against. Such efforts reflect the increasing sway the law of economy-centric decision about taxation is holding in the government. At the level of practice, there can sometimes be tension between the specific requirements and restriction to which local collection agencies are subject and the tax law. Phasing out the institution of “tax plans” can help strengthen the reign of the rule of law in the country’s tax practices. Meantime, delegated legislation should be kept to a minimum, which can help define more clearly the scope of application for tax laws and regulations. Bargaining and *quid pro quos* between tax collectors and taxpayers must be strictly prohibited. Moreover, tax plans, when they are made, should be organically managed and non-rigidly executed to cohere increasingly with the demands of the rule of law. We are confident that it is only a matter of time before a new tax order is in place.