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Study on Equity in the Reform of Taxation and Fee System in Rural China

Abstract

In a broad sense, rural taxation and fee system in China means the generality of all kinds of laws, regulations and policies on tax and fee in the field of rural country. In a narrow sense, it mainly means that general parlance of all laws, regulations and policies on agricultural tax, special agricultural product tax, township-pooling funds, village-picking-up fees, various local fundraising and fines in the countryside. In this book it is focused on the latter.

Reform on the taxation and fee system of rural China is a difficult and complicated systematic project, which is an important adjustment on income distribution in the rural country and is the key point whether it is successful that rural reform can be deepened. Therefore the reform on the rural taxation must obey certain principles and have a clear reform goal. Here the author thinks that reform should be kept on the present economic efficiency, which means the GDP of China grows and develops at the stable speed; then based on the equity principle to do reforms of rural taxation and fee system. The final goal is to break the “dualistic taxation structure” that city and country are separate and to give the same treatment to urban households and rural ones.

The reason that the author chooses equity principle to be the clue to

research is as follows. Firstly equity is the taxation principle, which is the principle to design and carry out the tax policies and systems. Secondly equity is also basic principle to measure the phenomenon of society and economy. So the author thinks that all adjustments of social benefit relationships can be measured by the equity principle in the reform of rural taxation and fee system of China.

The thoughtfulness to research the taxation reform is as follows. Above all, the importance to research equity problems is put forward through the research on transition of rural taxation and fee system in China. In succession the concept, theories and criterions on equity are discussed which can be used in the analysis. Based on the foregoing content, the author passes judgment on whether it is equitable that the rural households bear the burden of tax and fee. The conclusion is that it is unfair that rural households bear the burden of tax and fee. Why is it unequal? The author looks for the reasons from government revenue and expenditure and democracy construction. At last several reform cases are evaluated from the point of view of equity and then a new framework of rural taxation and fee system is brought forward.

I

In the book the first emphasis is put on the analysis on the concept of equity, theories of equity and criterions to judge whether the distribution of tax and fee and the social equity is equitable. All these contents are the bases to analyze whether the rural taxation and fee system is equitable.

The author analyzes the viewpoints of different genres of welfare economy about the equity. Each genre has the strongly subjective ideology on the evaluation of equity. The weight that the Libertarianism endows

the equity is zero. The weight that the Utilitarian gives the equity is uncertain. The weight that Rawls and Socialism endow the equity is higher than others. The author analyzes the connections between the individual utilization and social welfare and the effects that the taxes put on the social welfare. By the analysis, the author proposes that the reform can improve the efficiency of resource allocation and give the equitable treatment for the poor at the same time by the means of Pareto improvement and Rawlsian improvement. If Pareto improvement and Rawlsian improvement can be improved at the same time, then the policies of social economy will come to the first-best stage. So the author thinks that at the precondition of stable economic efficiency governments should do their best to improve social equity and give more equity to the poor.

The author analyzes whether the farmers take the fair treatment from the three aspects—opportunity equity, process equity and outcome equity. The important standards to measure whether the farmers can take the fair opportunity are to judge whether the farmers have the fair opportunities to be educated and to choose the employment freely. Under the “dualistic social structure”, the system of household registration and residence permits and the system of education cause the unequal farmers’ opportunities. As outcome equity, the author thinks it should be judged from the result of income distribution whether the outcome is fair. In the book, five main methods are introduced which are Quintile Share, Gini Index, Variation Coefficient, Theil Index and Atkinson Measurement. Among them, Gini Index is mostly often applied. In general, the income distribution inside the countryside and in the all country is unequal.

In this part the author analyzes the tax principles—horizontal equity and vertical equity. Horizontal equity means that the households that own the same paying ability should pay the same taxes and the households

that own the different paying ability should pay the different taxes. The higher the income of the household is, the more the taxes should be paid. The lower the income of the household is, the less the taxes should be paid. Under the limit of the data, the author proposes to evaluate whether the tax burdens that the households bear are equitable by the standards of total incomes and total expenditures.

The author also analyzes how to trade-off between the efficiency and the equity. The author designs the model to show the assembled stages of efficiency and equity under the static or dynamic conditions. The author thinks the society will be stable only if the members of the society accept the stage despite the efficiency is prior to the equity, or the equity is prior to the efficiency, or to give attention to both. Otherwise, it will be unstable and social economic policies will be changed. Presently rural society of China is short of equity. So the author proposes that the reform of rural taxation and fee system should change towards the favorable direction to the rural equity.

II

In succession the author reviews the transition of rural taxation and fee system and evaluates the inequitable problems in the reform of rural taxation and fee system.

It is a process to continuously adjust the income distribution inside the country and between the urban and rural areas. The relationships between the households are hugely changed from the household economy implemented in the early stage after the building of new China to the collective economy. In this phase rural taxation and fee system was also correspondingly changed. This great change could be reflected by the change of taxation statute from the "Temporary Statute on Agricultural taxation in

the New Liberated Areas" to the "Statute on Agricultural Taxation of the People's Republic of China". However, after that with the system transition of country, the rural taxation is not changed from the collective system to the household responsibility system. In the twenty five years from the process of reform and openness, the rural taxation is still the "Regulation on Agricultural Taxation of the People's Republic of China". Although there are some new regulations to be come on, the basic law to rural taxation is not changed. So it is said the buildings of system and regulation drop behind the practice of reform of rural taxation and fee system.

It is found that the some equity ideology can be used for reference in the "Temporary Statute of Agricultural Taxation in the New Librated Areas". For example, agricultural tax was levied on the per capita average agricultural income of the agricultural population of the rural household. The tax rate is progressive, which conceals the equity thought of agricultural taxation. The function of the progressive tax rate to adjust the inequity of agricultural income distribution is greater than that of the proportional tax rate.

During the researches to the transition to rural taxation and fee system, we can find not only the equity but also the efficiency was embodied in the taxation and fee system which were constituted by the governments. But in the process of factual development of social economy, the goal to seek the economic efficiency often covered the importance of equity. The result was that equity principle could not be performed better.

Till now the development of the national economy of China is to the stage that the agriculture should be sustained by the industry and the country should be born by the cities. The pattern of income distribution must be regulated. Governments must take some measures to adjust the relationships of income distribution from the point view of equity. Therefore

the author advances that the rural taxation and fee system can be reformed at the dominance of equity principle based on the fixed economic efficiency.

III

In this part the author analyzes whether tax burdens that the rural households bear are equitable. In this part the author takes two different data. One is the data from "National Rural Social-economic Survey Data Collection" which is the survey results from the Fixed Rural Observation Villages. The other one is from the survey data done by Professor Loren Brandt and other professors in China. Through the analysis, the author thinks the distribution of rural taxation and fee system is very unfair.

From the absolute tax burdens of rural households, they increase in all three areas (eastern, western and middle areas). But the burden values are closer to each other. After 1993, the absolute burden value in the middle area exceeded the burden value in the eastern area. Although the absolute burden value is lower than those in other two areas, the increase of tax burden is linearly increased rapidly. The average increase rate of tax burden in the western area is as 1.735 times as the average increase rate of income. But the average increase rate of tax burden in the middle area is as 1.418 times as the average increase rate of income and it is as 0.1444 times as the average increase rate of income in the eastern area.

Among the five different income groups, the absolute tax and fee burden of the household in the highest income group is continuously decreasing, and in the other four income groups the burden values are always increasing. The burden gaps between the households are more and more narrow. All these analyses show that all the burden gaps are incessant lessen, which is based on the unequal increase of income in five in-

come groups. The average increase rate of tax burden in turn is as 1.80, 2.32, 1.43, 0.72 and - 0.26 as the average increase rate of income from the lowest income group, the second-low income group, the medium income group, the second-high income group to the highest income group. Through the analyses, we find that tax burdens that the rural households bear disobey the tax equity principle and the distribution of tax and fee is unfair.

Form the burden rates of rural households, we can know that the higher the income of the rural household is, the lighter the tax and fee burden is. The lower the income of the rural household is, the higher the tax and fee burden is. In the area where the economy develops rapidly, the burden is lighter than that in the areas where the economy develops slowly. In the areas where the non-agricultural industries develop fast, the tax and fee burden is lighter than that in the area where the agriculture is the main industry. The tax and fee burden is regressive and so it is very unfair.

From the structure of tax and fee in the burdens that the rural households bear, the quantities of fee that the rural households bear overrun those of agricultural tax. The proportion of fee to the cash income of the rural household is higher and this kind of situation will affect the disposable cash income of rural households. Usually the marginal utility of cash to the low income family is bigger than that to the high income family and therefore this structure between fee and tax shows that the system of tax and fee is unfair.

Based on the analysis of sample households in 2000, we find that the burden rates are different which are determined on the level of household, village or county. If the burden rate is fixed on the level of village or county, the burden will be unequal because this kind of method hides

the differences between the rural households. In the practice, the burden rate of township-pooling funds and village-picking-up fees is confirmed on the level of village. So it is unfair. The author suggests that the burden rate should be fixed on the household. It will be equitable for every household according to the different situation of every household to make certain the burden rate.

IV

The author analyzes the reasons that rural taxation and fee system is unfair from the view point of the government revenue.

At first the author analyzes the particularities of agricultural taxation from the characters of agriculture and rural household. The characters of practicality, instability and high levy-cost of agricultural tax ask for the special means to impose the tax on agriculture for the governments.

With the development of social economy, the statue of agriculture in the national economy is decreasing. After the taxation reform in 1994, the agricultural tax becomes the tax of the local governments. So on the contrary to the macro-economy in which the statue of agricultural tax is decreasing, the independence on the agricultural tax for the local governments is becoming tighter. Therefore in the reform of rural taxation and fee system impelled by the central government, the benefits of the local governments are stroke. So the local governments have no impetus to do reforms. On present the local governments have no self-governed legislative of taxation and cannot get the enough financial sustain. The reform is difficult to be carried through. The tax and fee burdens of farmers are always increasing in the repeats of lessening the burdens of farmers.

The fee is the important part of farmers' burden and is also the important source of government's revenue. It squeezes out the statue of agri-

cultural tax in the governments' revenue.

After the tax reform in 1994, the economic benefits of local governments and their branches are strengthened. Under this situation, the organs of the local governments are overstaffed. The functions of the local governments cannot be changed clearly. The finance of the local governments is the "food finance" and no excessive funds can be brought out to develop the local economy and other social welfare. So the fee becomes the important source to fetch up the financial gap. The other reason is that the central government cannot give the enough help by the means of transfer payment which is still not a right system in the framework of public finance in China. It is not clear of the division of the rights to collect the funds and rights to supply the public goods and services between the central and local governments.

In the items of all fees, the properties of township-pooling funds and village-picking-up fees are not clear. There are also other collections of fees which are not legal, which are called mix-up collections of fee that are one of the roots of corruption.

When the governments reform the rural taxation and fee system, the limits of the functions and powers of all levels' governments should be allocated clearly and the burden can further be distributed between the central government and the local governments, inside the local governments and inside the households. The standard that governments impose the tax and fee on the taxpayers is whether there is the direct relationship between the beneficiary of public goods and services and the taxing behavior. If there is, usually the user fee should be taken. If there is not, the tax should be levied by governments to be the costs of providing the public goods and services.

V

The supply of the public goods is the important content of the expenditure of governments' finance. In the broad rural area, the main forms of public goods include the public engineering, country roads, rural communication, public education, agricultural scientific researches, social security, administrative fee of service and undertaking fee of enterprise, and social order and maintenance of the law.

The sort of public goods is relative to the limit of the fiscal expenditure of the governments. To the pure public goods, their costs of building, management and maintenance should be paid by the fiscal funds entirely. To the non-pure public goods, their costs should be distributed reasonably according to the principle under which the beneficiary should pay the burden.

There are several levels of public goods and services because the governments are on the different levels. So when we confirm the service limit of the public goods, we must rationally allot the fiscal rights and affair rights that the governments should own. As long as it is logical, the taxation and fee system is likely to be equitable.

Main unfair expressions are that on the one side the farmers bear the expenditure which should be paid by the governments; on the other side the farmers bear the burden of the tax and fee, but they cannot take the public goods which should be provided by the governments. All these show that the rights and obligation are unequal. For the farmers, they are unfair.

In the rural areas there are several public goods which should be provided by the finance, but their burdens are taken by the farmers. For example, the expenditures on the nine-year obligatory education in the

rural area, family planning, commando training and so on are taken by the farmers. In fact they should be taken on by the governments. The fiscal deficiency of the local governments is one of the important reasons which the governments charge the fee from the farmers.

Inside the villages the funds to provide the public goods for the villagers are raised from the farmers. To keep the equity on the rights to enjoy the public goods and the obligation to pay the fee for the farmers, the author proposes that the farmers pay for the public goods by the democratic decision-making.

In this thesis the author gives a case on the supply of the small irrigation works. In this case the author analyzes the relationships between the governments, village committee and the farmers in the system arrangement of supply of the public goods and how the farmers bear the costs of the public goods and enjoy the benefits from the public goods. Finally the thesis analyzes how to realize the equity on the rights and obligations of the farmers.

VI

Process equity is one of the important criterions to embody social equity. To realize the process equity, we must strengthen the construction of democracy. Democracy is the important guarantee. Reform of rural taxation and fee system requires us to reform the governments of villages and towns and organizations of villager self-governance and brings farmers into play to control the behaviors to aggravate the farmers' burden and attain the aim to lessen the burden.

As a frail group of society, the farmers always stand the inferior position among the relations of all kinds of benefits. In the process that governments make various rules, the strength that farmers affect the govern-

ment decisions is most weak. So, to strengthen the construction of democracy is advantageous for the farmers to enhance their power in the games. Presently the contents of rural democracy construction focus on the villager self-governance. It is not still extended to grass roots governments of villages and towns.

The main contents are "democratic election, democratic decision-making, democratic management and democratic supervise". These embody the process equity in the process to form public affairs. Villager self-governance is important to normalize the levies of various fees and it is beneficial to guarantee the reform of rural taxation and fee system.

VII

Transfer payment is the important aspect in the framework of public finance. And it is also the most important expenditure of the governments. Transfer payment can advance the social equity.

The reason to transfer the fiscal funds is that there exist the differences of the fiscal revenue between the governments. For the governments whose revenue is short, transfer payment can offset the gap of fiscal revenue and expenditure and safeguard the normal operation of the governments.

The reform of rural taxation and fee system made the fiscal revenue of the grass root governments largely decreased. The normal operation of the governments and the supply of the rural public goods are severely affected. So we can say transfer payment is very important to the rural tax-fee reform.

In the rural reform of taxation and fee system, the local governments make the measures on the transfer payment of fiscal revenue which adapts to the local situation. The detailed measures in Zhejiang Province can

give us some references.

The expenditure of the rural education is in the majority of the expenditure of the grass root governments. After the governments' revenue is lessened, the rural education is impacted more. Based on the reform on the rural education, the governments must put the rural education in the framework of public finance and guarantee the input to the rural education. So the author suggests to set up system of transfer payment on education and to give the rural residents the equal opportunities to be educated.

IX

The author analyzes several cases on the experimental units of rural taxation and fee system.

Through the analyses we found there were some unfair problems in these cases. For example, the kain is affected by the price. However the market price was varied, the governments always took the measures in favor of the governments to levy tax and didn't think about the farmers' benefits. In other case, the village-picking-up fee was changed to the taxation, which disobeyed the non-tax character of the village-picking-up fee. In the reform of Anhui experimental unit, all the burdens of tax and fee are taken in the agro-lands, which aggravated the burdens of the households who are dependent on the agriculture production. In all the reform cases the differences between the rural and the urban don't be thought about and the inequity is still there.

In the book another problems on the equity are discussed. For example, is it the land or the man to bear the burdens of the tax and fee? Is it grain or cash to be levied? Is should the agricultural tax and agricultural special product tax be canceled?

The author suggests to cancel the agricultural tax and the agricultural special product tax and to hold the contract fee of the agro-land. According to the equity principle, the future framework of the rural taxation and fee system should be based on the land tax and income tax of household.

In the present land system in the rural areas, the contract fee of the agro-land embodies the relationships of benefit distribution between the farmers and the village committee. The land tax is the earning tax of the land properties and it embodies the equitable relationships between the rights and the obligations of the village collective organization. Income tax of the household is imposed on the net income of the households over the jumping-off point, which guarantees the basic needs of agricultural production and family subsistence and think about the differences of the households in different areas at the same time. Therefore we can say it is more equitable to levy the income tax.