

# **Taxation Policy and the Economy of China**

**A Unique Overview of the Past, Present and Future of  
Taxation Policy in the People's Republic of China**

**Author / Zhang Wei**



# Education Policy and the Economy of China

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Taxation Policy in the People's Republic of China

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# **Views on Taxation Policy and the Economy of China**

Several years ago, I promised to write a preface for a book planned by Zhang Wei entitled “Taxation Policy and the Economy of China”. I am most pleased to see that this important book is now in print.

Back in 2001, Zhang Wei wanted to go abroad to study at a renowned university. At that time in our lives, I was the Director at the State Taxation Administration, a body for which Zhang Wei worked as Director of General Affairs. Zhang Wei believed that this academic opportunity would allow him to further his education and spare the time to sort out his thoughts on the subject of taxation. I supported his idea and found a chance for Zhang Wei to enroll in Yale University as a visiting scholar at the Law School. After 18 months at Yale, Zhang Wei returned to the Taxation Administration, his Law School graduate certificate proudly tucked under his arm. Furthermore, he came back with a solid draft of an English book on taxation that proved impressive beyond my expectations.

The subject matter of this book is most interesting to scholars of the taxation world. The relationship between the economic structure and the tax system is a relatively simple subject. The increasing ratio between the economy and taxation is 0.8 to 1.0 in developed countries with mature market economies. Basically, that means that tax increases account for 8% to 10% of GDP growth. However, in an emerging country like China, which boasts a growing socialist market economy in which agriculture plays a critical role,

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the relationship between the economy and taxation differs greatly from patterns established in the West.

When considering the relationship between the economy and taxation, I often turn to a term called the “tax economy”. This refers to the fact that tax comes from the economy and the economy is the basis for tax. Economic development and expansion determines the amount of tax revenue and economic structure determines the tax revenue system, which in turn influences the economic structure. In any economy, tax is the key means by which to allocate economic returns. Tax plays a key role in adjusting the process of production and consumption, and tax is the method by which to adjust income allocations between the government, enterprise and individuals while at the same time coordinating interests among all those groups.

Among the many relationships between the economy and taxation, Zhang Wei focuses on one, the relationship between PRC economic development and the tax system. To demonstrate this relationship Zhang Wei evaluates volumes of economic and taxation data to develop a circulation model. America finance expert Richard A Musgrave produced a similar model in the 1984s. However, the difference is that the Zhang Wei model is tailored for Chinese economic characteristics and with this model readers can judge PRC tax revenue from economic growth levels. Upon creating this model, Zhang Wei uncovered a close relationship between each tax and total tax revenue.

This book uses all kinds of data on tax revenue generated over the last decade to prove an important theorem. From behind this wall of data, Zhang Wei manages to demonstrate the relationships between each tax within the economic structure. Finally, based on logic inference and the demonstration of the foregoing relationships between tax and the economy, taxation rules and policies can be derived. What should impress readers is that building or improving a system must not be based purely on theory, but on reality and practice. After all, the aim of building a proper taxation system is to solve problems incurred in the economic realm.

Currently, I am the Minister of the Treasury Department and Zhang Wei

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transferred to the CCPIT to start a new job as the Vice Chairman. Although we are not working together at the moment, I will always take the time to show appreciation for his dedication to the business and taxation world.

*Jim Renqing*

## 我愿意为《中国经济和税收政策》说几句话

几年前,我答应为张伟的英文著作《中国经济和税收政策》写序,现在这本书终于问世了,值得庆贺。5 年以前,张伟同志有一个心愿,到国外的大学读读书,静下来思考一些问题。我时任国家税务总局局长,他是办公厅主任。我答应了他的要求,并创造机会让他去美国耶鲁大学法学院做访问学者。一年半后,他带着一本法学院的法学硕士毕业证书,还带着一本英文书稿返回工作岗位。这本英文书稿是我始料不及的。

我读了这本书。经济和税收之间的关系,原本是一个简单的命题,在市场经济成熟的国家,经济和税收的增长关系大体稳定在 0.8—1 左右。但是在发展中国家,特别是中国这个以农业为基础的大国,发展社会主义市场经济,有特殊规律,它有别于欧美的市场经济。我一直强调的一个观点“税收经济观”,税收来源于经济,经济是税收的基础。不仅经济的发展和增长决定着税收收入的增长速度,而且经济结构也决定着税收收入的制度结构。因而反过来又影响经济。市场经济条件下,税收作为介入经济分配的最重要手段,它在调节生产和再生产过程,在调节国家、企业、个人收入分配,在协调三者利益等等诸多方面都发挥着重要的作用。

在这些关系中,张伟选取了一个角度,即经济发展与税收制度之间的关系,而这种关系的论证是依据大量的经济数据和数据模型完成的。首先,建立一个经济—税收循环模型。美国财政专家马克洛夫斯基在 20 世纪 80 年代曾经建立过一个分配模型,张伟所建的是有中国经济生活特点的,读者可以在经济循环链中找出任何一个税种税收收入点。其次,每一个税种都和总量有一种增长关系。这本书几乎囊括了十几年的各税种收入增长数据,每一组数据的背后都引出了彼此关系论证。第三,在这样推导的基础上,才有了税收制度法规和税收政策。给读者

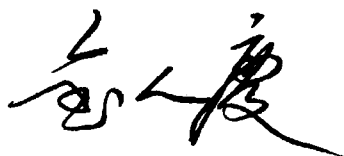


## 我愿意为《中国经济和税收政策》说几句话

的印象是,一项制度的建立哪怕是一项制度的完善不是空穴来风,而是迫于实践,又回到实际,建立制度的目的就是为了解决经济生活中发生的问题。

现在我已到财政部工作,张伟同志也调到新单位。但是我一直在关心、关怀着他的成长。

是为序。

A stylized handwritten signature in black ink, consisting of three characters: '陈' (Chen), '兴' (Xing), and '序' (Xu).

2006 年 3 月

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## PRC Economy and Tax System

**T**ax has always been a most complex concept to explain and to administer in the context of the ongoing evolution of the economic system of the People's Republic of China. In large part, taxation policy is viewed by the senior leaders of China as a means of stabilizing and adjusting the economy in a quest to promote economic expansion. Essentially, taxation is a powerful means for the initial distribution and redistribution of national economic output. The size of taxation revenue pools and their composition determines the volume of production and consumption within the various economic sectors. In this manner taxation is inevitably correlated to GDP and the relationship between taxation and GDP is of significance in the development of a sound and equitable economic system.

As China continues to move forward with its challenging socialist market economy experiment the importance of tax policy is increasing on a daily basis. However, the creation of a smooth and equitable tax structure is no easy feat. China's tax regulators are faced with a myriad of challenges in implementing a system that must make sense in the context of a socialist market economy. Over the years, tax collection has been plagued by fraudulent practices, loopholes in the tax structure and poor administrative practices. This must change if China is to reach its great potential as the world's largest econ-

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omy in the coming century.

The essence of coordinating tax revenue and GDP growth is the elasticity of taxation. The elasticity co-efficient of tax revenue in Western developed countries is around 1. In other words, there is a relatively steady and balanced growth between tax revenue and GDP. This is not so in the developing world. International comparisons between taxation and GDP indicate the share of taxation to GDP shows discrepancies in different countries or regions. Nonetheless, after an intense study of world taxation methods, China is prepared to find the most suitable solution to serve the needs of its people and enterprises in the years ahead.

### **History of PRC Taxation**

The China taxation story extends back to the genesis of the People's Republic in 1949. This was a time when tax policy was not unified and the country suffered from numerous different tax categories and levies in its new and old liberation areas. In mid-1950 a series of adjustments were carried out to consolidate the balance of public finance and support the restoration and development of production. The underlying basis of this reform was the decision not to levy income tax on salaries and bonuses. The government did create an inheritance and city property tax by combining its land and house property tax. In addition, tax items were reduced, tax rates adjusted and levy procedures simplified.

In 1951, the central government enacted the Principles for Implementation of the National Taxation Policy. This was done in accordance with taking public and private interests into account to benefit labour and capital while forming a policy of mutual assistance between city and rural areas as well as internal and external exchanges. The 1951 reform stipulated that the country would levy tax in a unified manner under 14 categories. These included: commodity, commercial and industrial (including vendor, merchant, small retailer and income tax), salt, tariff, salary and returns, income on de-



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posit interest, stamp, inheritance, business transaction, slaughtering animals, land, property, special consumption (banquet, entertainment, restaurant and hotel) and application of license plates. The categories specified levy targets on the amount of circulation and income of products in cooperation with other categories. This reform created new taxes on various segments such as production, marketing, income, property, trading, certificates on property rights and so on.

### **1953: Revision**

As the state's economic situation improved the function of taxation became more important to ensure financial revenue. Under the principles to ensure taxation and to simplify procedures in late 1952 the state began to investigate the revision of the tax system. By the end of 1952, a revision program was put forward and in January 1953 it was implemented by the state. The main contents of the revision were to levy a commodity circulation tax by selecting 22 commodity items that the state could produce or control and to levy a commodity tax on these items. In addition, the state restructured the goods tax, merged the stamp and commercial and industrial taxes on listed goods and surcharges on commodity taxes were used to adjust the rate of the commodity tax. The central government unified business tax rates by merging the income tax and its surcharge into one category. In another reform, the government cancelled a special tax on consumption and rectified the tax on business transactions. After this revision of the taxation system the categories of industrial and commercial tax were reduced to 12.

### **1958: Remodelling the Tax System**

After the socialist transformation of the means of production was complete in 1956 a profound change took place in the ownership structure. China was ready for the systematic implementation of a new tax based on the char-