

Evaluation of China's Taxation Centred on Indirect Taxes (Estimations Using the Input-Output Table)

Xuemei Shen

This study evaluates the impact of recent indirect tax reform in China. It applies the 2007 input-output table to evaluate the price consequences of indirect tax reform. Using consumption profiles, it is possible to impute the incidence of taxes paid by individual income group. The indirect tax policy changes are expected to affect the revenue of central and local governments. Substituting VAT for business tax will lead to a significant decrease in government revenue. In the Twelfth Five-Year Plan, the VAT underwent reform. It will be probably difficult to maintain the high growth rate of taxes that China is seeing now. Compared with the tax burden of countries in the OECD, the tax burden here is relatively low. It is similar to consumption taxes, while the percentage of personal income tax is extremely small. Therefore, it is desirable to compensate for tax revenue decreases due to VAT reform by the revitalization of personal income tax in the future.

Introduction

China's current tax system has been in place since the tax-sharing reform of 1994. There are three turnover taxes: a value-added tax (VAT), a business tax (a kind of sales tax, hereafter referred to as a BT), and a consumption tax. In 2008 the revenue from VAT and BT was 24.5 billion yuan, which made up 40 per cent of tax revenue, while personal income tax accounted for 6.9 per cent and company income tax 10 per cent of the total tax revenue. Thus, the taxation system is centred on indirect taxes.

After the reform, the Chinese VAT became similar to the EU-type VAT. However, two characteristics distinguish it from the latter. First, in order to reduce investment, a GNP-type VAT has been introduced in China. Second, while the VAT in the EU is generally applied evenly to service sectors, the labour service is excluded from the taxable sectors. A BT rather than a VAT is levied on service industries including transfer of intangible assets and construction.

After the Lehman Brothers global financial crisis in 2008, the government instituted tax reforms to alleviate the burden on companies. The first reform was changing from a GNP-type VAT to a consumption-type VAT in 2009. The second reform was done during the Twelfth Five-Year Plan by extending the

Xuemei Shen, Researcher, International Center for Chinese Studies (ICCS), Aichi University, Hiraike-cho, Nakamura-ku, Nagoya, Aichi 4538777, Japan, Email: zhu-snow@hotmail.co.jp.