TAX REFORMS IN CHINA: RECENT INITIATIVES AND REMAINING CONCERNS

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Executive Summary

1. In 2016, tax relief under the Value Added Tax (VAT) reform exceeded RMB570 billion in China. Other ongoing tax reforms in China include reforms to tax structure, local fiscal capacity and tax administration.

2. Tax reforms aim to increase tax revenue in order to fulfil the demand for increasing government expenditure and supporting a more efficient allocation of resources.

3. Issues in the tax system in China include insufficient local fiscal capacity, inefficient tax structure and high tax administrative costs.

4. Several major reforms have been introduced over the years. A reform guideline for fiscal reform was released on 30 June 2014, targeting 2020 as the year to achieve a comprehensive and modern tax system.

5. In the 13th Five-Year Plan released in March 2016, tax reform was highlighted as a major area of reform. In 2016, the division of labour between central and local governments for the expenditure responsibility was addressed.

6. One major reform in recent years is the replacement of business tax with VAT. Tax rates for VAT will also be reformed in 2017 to simplify tax structure and provide more tax relief. In 2017, the amount of tax relief is estimated to reach about RMB350 billion.

7. In December 2016, Environmental Protection Tax Law was enacted, allowing local governments to start collecting environmental protection tax from January 2018.

8. Revision of rules for individual income tax collection has also been discussed. The threshold income level and the rules of tax deduction are expected to be reformed.

9. A 2016 government document announced that in the following two to three years, the share of local government in VAT revenue will be increased from 25% to 50%.

10. Various tax administration reforms including upgrading information infrastructure and improving the collaboration between State Tax Bureau and Local Tax Bureau have been implemented.

11. Challenges remain. Some ongoing tax reforms have increased the tax burden of some industries and made limited achievement in improving local fiscal capacity; the issues of interdependent reforms have yet to be fully addressed.