

The Trend of Tax Policy in China from the Perspective of Local Tax Policy--Taking Yiwu County as an Example

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Abstract: Tax revenue and economic development interact with each other. China's economy has been developing, and China's tax policy is reforming as well. Taking Yiwu County as an example, this paper compares and analyzes the local tax policies of Yiwu, the tax policies of the central government now and the central tax reform documents. It is found that the local tax policy of Yiwu seems to be contradictory with the central tax policy in some places, which means that tax policy in China in recent years is moving towards perfection and strictness while the proportion of actual commercial tax in Yiwu has decreased to some extent. However, after reading and comparing the documents of the CPC central government on taxation in recent years, like *"The Opinions on Further Deepening the Reform of Tax Collection and Administration"* proposed by the Chinese central government in 2021, and understanding the direction of tax reform, and finally find that it generally conforms to the direction of the tax reform of the Chinese government.

Keywords: Tax policy, Economic development, Yiwu County, Direct tax

1. Introduction

At present, the design and implementation of China's fiscal and tax policies are facing many challenges. As the society developing, problems such as unreasonable structure of local fiscal revenue, low efficiency of implementation of the tax policy and unbalanced regional economic development have been appearing increasingly. Meanwhile, in 2021, the General Office of the CPC Central Committee and the General Office of the State Council printed "the Opinions on Further Deepening the Reform of Tax Collection and Administration", showing the attitude of China's central government towards the reform of the tax system. Therefore, it's of great theoretical and practical significance to study the influence of local fiscal and tax policies on regional economic development and to explore their optimization strategies.

This paper mainly compares some specific economic tax policies and current national policies of a county-level city with rapid economic development, and discusses some discussions. The impact of tax revenue on the economy is beyond doubt, so it is indeed important to study the impact of tax policy on the local economy. However, since this article mainly discusses the tax revenue for enterprises, the significance of this paper is mainly reflected in the following aspects: (1) Tax policy affects economic growth by influencing the investment and consumption behavior of enterprises and individuals. Reasonable tax policies can stimulate investment, promote consumption, and promote economic development. (2) Tax policies affect the employment costs of enterprises, and thus affect

the employment. Lower corporate taxes could increase job opportunities, while high taxes could lead to layoffs or fewer hiring. (3) Tax policies can guide resources to specific industries and promote industrial upgrading or transformation through tax incentives or penalties for different industries. (4) Tax policies affect the tax burden and profits of enterprises, and then affect their competitiveness, which means that low tax burden may enhance the market competitiveness of enterprises, while high tax burden may weaken their competitiveness.

In general, studying the impact of tax policies on the local economy can not only help to understand the effects of the policies, but also provide support for the government to develop more effective policies and promote sustainable economic development.

2. China's Tax Reform

2.1. The Background of the Tax Reform

First of all, reviewing the history of Chinese tax reform since the founding of the People's Republic of China, it can be seen that China has been carrying out tax reform. After the reform and opening up, China has several tax reforms, which mainly include "changing profits to income tax" in 1983 [1], "changing profits to income tax" in 1984 [2], "tax reform" in 1994, tariff reform after joining the WTO, "the second round of tax reform" in 2006 [3], and "further deepening the reform" in 2021[4], which are above mentioned. Through tax reform, China's tax revenue level has been largely promoted, which not only refers to the level of tax collection and administration of government, but also refers to the total size of tax revenue [5].

To sum up, China's tax reform process is as follows: the government reformed the tax system in the period of planned commodity economy from 1978 to 1993. The government reformed the early socialist market economy from 1994 to 2000. The tax-sharing reform in 1994 is more important. After this reform, China has basically formed such a tax pattern: central, local and central and local tax sharing. Tax system reform is of great significance to China's tax system construction, after which China's tax system has become more streamlined. Since 2004, there has also been tax reform in recent years, including deepening reform in 2021.

2.2. Local Tax Policy

As mentioned above, after the tax-sharing system was built, tax has been divided into three categories. Central taxation is controlled by the central government, while local taxation can be flexibly adjusted by local governments. The local tax mainly includes the following categories: local business tax, urban maintenance and construction tax, house tax, land use tax, etc. The establishment and adjustment of these taxes directly affect the local fiscal revenue, so it plays an important role in the regional economic development. Among them, the local business tax is relatively more flexible, more adjustable. Therefore, the specific tax policies of many different places across the country will vary greatly.

Yiwu County is a regional free trade park (China (Zhejiang) Pilot Free Trade Zone) set up by the Chinese government in Zhejiang Province. Therefore, on the one hand, Yiwu is representative as a pilot city itself. On the other hand, the business atmosphere here is very good and there are many companies, which means there are a lot of research samples. In addition, the tax policy here can also be well compared with the central policy. Therefore, this paper selects Yiwu as a sample to discuss.

3. Yiwu's Tax Policy

The paper has done some work on this. On the one hand, this paper searched for China's legal tax policies and Yiwu's local tax policies. On the other hand, this study communicated with some local

businessmen to learn about the actual situation here. According to China's tax policy, it can be seen that taxes are generally paid in proportion, and like individual income tax, companies that earn more need to pay more taxes in proportion. But there are some differences between the two policies. Here are some examples.

3.1. Export Tax Rebate Policy

Relying on the communication platform of the tax collection and payment, Yiwu Tax Bureau has built a channel of "direct dialogue between tax and company", which customizes the service of "exclusive tax manager" for companies, and provides whole-process policy consultation and guidance. Yiwu export tax rebate speed is very fast; the first-class and the second-class export enterprises tax rebate can be finished in three working days. In addition, the Yiwu Tax Bureau continues to deepen the pilot of digital management of export tax rebates, which can save nearly 100 million yuan for companies in Yiwu every year.

Actually, the tax refund policy is not unique to Yiwu. In 2022, China issued documents "the announcement of the state administration of taxation on further facilitating export tax rebates, promoting the steady development of foreign trade-related matters"[6], hoping to further help companies relieve difficulties and better promote the steady development of foreign trade. But the policies in many places are not in place, which means it involves many links like foreign trade declaration and customs. So it needs certain human resources, which also require costs.

3.2. Preferential Tax Policy

In 2023, Yiwu fully undertook the policies of the state and superior provinces and cities, and issued supporting policies, such as *Several Policies on Promoting High-quality Economic Development* [7] and *Yiwu Municipal Financial Support Policy Management Measures (Trial)*[8]. The measures had standardized the management of municipal financial support policies and established a more scientific operation mechanism. As a result, in 2023, more than 2.1 billion yuan had benefited companies in Yiwu, which also reduced the burden of market operating entities by more than 7.5 billion yuan.

This part of the policy is more aimed at the relatively large companies. The government actually collects lower taxes on larger companies, and provides additional help in areas such as land and loans. Of course, these enterprises, as a "return" for the local, offer a lot of employment, but also promote economic development.

3.3. Individual Income Tax Preferential Policies

According to *the Guidelines on Preferential Tax Policies for Supporting the Development of Small and Micro Enterprises and Individual Industrial and Commercial Households (2.0)*[9], we can see 50 preferential tax policies to support the development of small companies and individual industrial and commercial households. Some of these policies have directly reduced taxes. For example, the individual income tax will be halved for the part of the annual taxable income of individual industrial and commercial households not exceeding 2 million yuan, and it will be effective from January 1, 2023 to December 31, 2027.

These policies reflect Yiwu's active actions in tax revenue. However, despite these positive sides, we also seem to find that the local tax policy in Yiwu is not completely consistent with the country's current tax policy. Yiwu seems to collect fewer taxes on enterprises, but this is not entirely true.

4. Direction of the Central Government's Tax Reform

It's actually not really the case. Many people once thought that the policy of Yiwu had deviated from the policy of the central government. This study was also initially confused, although this is within the legal scope of local autonomy. By doing so, Yiwu stood out and its economy developed rapidly. But later, this paper repeatedly researched *the Opinions on Further Deepening the Reform of Tax Collection and Administration* issued by the Chinese central government in 2021[10], and found that this was not the case.

Referring to *the Review of Tax Reform and Tax Policy in 2021* [11] and *the Review of Tax Reform and Tax Policy in 2023* [12] released by the Chinese Academy of Social Sciences, people can understand it more easily. For example, in the review in 2021, "VAT should shift from production to consumption", "optimize the VAT system" and "promote the tax deduction and tax refund system"[11] are actually purposing to reduce the VAT collected from production enterprises.

For another example, in the review in 2023, we can see such words as, "increase the proportion of direct taxes, such as income tax and property tax", and "increase the proportion of natural persons paying taxes"[12], namely, the so-called optimization of the tax system structure. In fact, it is also a euphemistic way to reduce the proportion of taxes collected from companies, and to collect more tax directly from consumers. In *the Opinions on Further Deepening the Reform of Tax Collection and Administration*, due to the consistent euphemistic and brief habit of the official documents, it only uses the expression "building a tax centered on serving taxpayers". It's really hard to understand all at once.

5. Conclusion

In a word, it is not the contradiction between Yiwu's policy and the central policy. In fact, the policies of Yiwu County are in line with *the Opinions on Further Deepening the Reform of Tax Collection and Administration* proposed by the Chinese central government in 2021 [10], three years ago. Of course, this paper does not show that they are causal, but they do show a correlation.

On the contrary, the paper holds this opinion that perhaps the current tax policy of China is a bit behind the development of Chinese society. In many western countries, personal income tax accounts for the majority of the total tax revenue, while in China, VAT accounts for the majority. This paper can not really judge which way is better easily. Maybe the tax method on both sides is the best way for both countries themselves. However, with the development of Chinese society and the development of individuals, the proportion of individual income tax is also necessary. Some articles have also discussed the impact of local fiscal and tax policies on regional economic development and some optimization strategies [13]. The data of recent years also show that with the deepening reform of tax policy, the economy is also having a better development [14], which may not fully explain the strong causal relationship between the two for the time being, but at least it can be found that the two are positively correlated.

Tax and economic development are big topics, this paper just makes a superficial discussion on the direction of China's tax policy with a particular county. After all, the relationship between economic development and tax revenue is a more complex theoretical and practical problem, involving many contexts. Even for Yiwu County, the content of this paper does not cover all of its economic operations. Due to the limited objective factors, this paper cannot complete a more profound empirical study on the relationship between local tax policy, structure and economic development in such a short time. The empirical studies on these areas should be further developed in the future.

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