
Panoramic Survey and Analysis Led to by “Cao Dewang’s Proposal”: How to Reduce and Rationalize the Burden on Chinese Enterprises?

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Abstract: *Regarding to Cao Dewang’s proposal on the comparison of corporate burden between China and the USA, this paper emphasized making a panoramic survey and analysis, and thought that the proposal was important, but Cao’s conclusion was improvable. In terms of regular taxes, the measures and levels of tax reduction are basically incomparable between China and the USA due to the obvious differences in the tax system structure. From the perspective of internationally comparable macro tax burden, the level of tax burden is not high in China, but the administrative fees and social security contributions outside the tax are obviously higher. Besides, the hidden burden problem of the enterprises is quite serious. Therefore, the reduction of regular taxes is not the whole or even the most important part for reducing the burden on enterprises in China. In addition, the paper also specifically analyzed the burden factors such as labor costs, electricity costs, tolls, land and plant costs and financing costs, etc., made international comparisons and then put forward policy design recommendations. Finally, the paper pointed out that in addition to reducing taxes and reducing burdens, China had to consider the institutional construction of improving certain taxes and increasing the items of taxation, which was mainly in the field of direct tax reform. In the process of constructing a modern tax system for the realization of modernization, building the direct tax system is a major historical task and test in China.*

Key words: *Cao Dewang’s proposal, panorama of corporate burden, direct tax reform*

In December 2016, the words of Cao Dewang, chairman of Fuyao Glass, aroused heated debate in society. When talking about investing and setting up factories in the United States, he emphasized the contrast of corporate

burden between China and the USA. Actually, what he discussed is how to rationalize the taxes, fees and other distribution mechanisms in the national income distribution system. Thus, it can be positively expressed as the following proposition: “Analysis on the ‘panoramic view’ of Chinese and foreign taxes, fees and other corporate burdens and related reforms”. The relevant investigation is briefly described as follows.

1. The proposal of Cao Dewang is important, but his conclusion is improvable.

The corporate labor costs, electricity costs, natural gas costs and tolls in logistics compared between the US and China by Cao Dewang, and other related costs of plant, land, and various financing, customs clearance, and accessories are actually not directly related with taxes, or not within the range of the concept of tax. He considered all these items and then made a conclusion: China’s comprehensive tax burden was 35% higher than that of the United States. This needs to be clarified: is he talking about taxes or the sum of taxes and other burdens? Obviously, he has actually considered the latter in whole, but his conclusion was improvable. As a researcher, we should explore the “panoramic view”, that is, all the burdens of the latter including taxes and other costs.

2. There is indeed a vote by feet in the global development competition, and the relevant corporate burdens are by no means limited to taxes. But we can discuss first with tax cuts.

It was understandable that Cao Dewang felt wronged due to a hot debate in society that he wanted to run away. In fact, he had planned to set up factories in the US as early as 20 years ago. When it was imperative to go out at the new stage, he was willing to go out to expand the production capacity and also thought it

feasible in practice. The capacity of professional automobile glass has to follow the production capacity of automobiles. Both the capacity in China and that in the US are increasing. He has to keep up with both sides.

But it is not groundless that the entrepreneurs concerned by society will run away. In the process of global development, in fact, there are competitions in which different entities will vote with their feet to promote the flow of factors and achieve resource allocation. In this regard, Cao Dewang raised such an important issue of corporate burden that has attracted widespread attention. After forming extensive discussions in the society, we should take advantage of the opportunity to trigger a rational understanding, better and clearly grasp[and analyze the actual situation, and then strive to put forward constructively some countermeasures that should be taken as soon as possible.

Chinese companies generally reflect the situation of heavy burden. Compared with other economies, there are both commonality (almost all enterprises have tax aversion, allege heavy tax burden and propose tax cuts) and individuality (compared with other economies, China's corporate burden is heavier and more complicated). Under the background of globalization, companies' voting with their feet will improve the attractiveness of China's investment environment and reduce corporate burdens. Apart from taxes, there are many other factors to be considered. Thus, we can first discuss tax reductions.

Tax reduction is obviously a popular move in response to social demands. There are 18 types of regular taxes in China. The key issue is what tax can be cut and how much shall be cut.

Table 1 List of the Taxes in China (18 Types)

Tax Category	Items of Taxation
Turnover taxes (3 types of taxes)	value-added tax, consumption tax, customs duties, urban maintenance and construction tax
Income tax (2 types of taxes)	corporate income tax, personal income tax

Property taxes (3 types of taxes)	real estate tax, vehicle and vessel usage tax, vessel tonnage dues
Specific purpose taxes (6 types of taxes)	stamp duty, land appreciation tax, farmland conversion tax, deed tax, vehicle acquisition tax, environmental protection tax
Resource tax (2 types of tax)	resource tax, urban land use tax
Agricultural taxes (1 type of tax)	Tobacco leaf tax

If the decision-makers are to stabilize or reduce the macro tax burden and meanwhile gradually increase the proportion of direct taxes, then it means that the general direction is to reduce the tax burden of indirect taxes (mainly the first category in Table 5).

3. While reducing indirect taxes in China, consideration should be given to increasing the proportion of direct taxes. The tax reduction are basically incomparable between China and the USA, and merely coping should be prevented.

While reducing taxes, it is necessary to maintain the entire government system's expenditures to fulfill a series of social goals, such as the improvement of people's livelihood, the guarantee of social policies, the financial input of the targeted poverty alleviation for 70 million poor people, and all the inputs used to maintaining the social security (from housing security to education, medical care, employment, and pensions). The predictable fiscal expenditure will be continuously increased. Under the pressure of the gap between the revenue and expenditure, China's fiscal deficit rate has increased to 3% in 2016 and 2017. It will not be impossible to increase this deficit rate in the future, but which needs to be more cautious.

Although the taxpayers are unwilling to increase taxes, selective tax increases are actually the supporting issues of the reform that must be addressed under the prerequisites of reducing the turnover tax that can be reduced, maintaining an appropriate level of macro tax burden, optimizing the tax structure and strengthening the function of direct tax redistribution to curb polarization. To reduce the macro tax burden, the requirements for increasing the proportion of direct

taxes through tax reform should be relaxed a bit. But increasing direct taxes is a very difficult problem in the reform after all. Even if it is taken, the estimated increase in income will inevitably a relatively slow variable that must be matched with a quickly downwardly adjusted variable (that is, reducing indirect taxes) to provide a source of income to fill the gap (e.g. increasing government debts), which in turn will encounter more tightening constraints.

The popularity of Cao Dewang's proposal is related to the tax cuts of new US President Trump. Trump's tax cuts were basically the same as those of Reagan, which were to reduce the main sources of financial resources of the US federal government – personal income taxes, and also the corporate income taxes that were mainly collected by the state governments. They were tax reductions under the concept of direct tax.

In China, in the case of direct taxes, personal income tax is almost insignificant (accounting for only about 6% of total tax revenue in recent years), and corporate income tax has been reduced a lot (The standard tax rate has been reduced to 25%. The tax rate for high-tech companies has already been discounted to 15% earlier. The tax rate for small and medium-sized enterprises (SMEs) has been cut down by half to 12.5%. In addition, there are accelerated depreciation and research and development deductions. Many local governments provide tax exemption for the first two years and half tax reduction for the following three years.) There is very limited room for continued tax reduction. And just talking about indirect tax reductions, it has become the blind imitation with ludicrous effect in the pro-cyclical framework (when the economy is a little overheated, it will continue to heat up, but when the economy is a little cold, it will drop only a little and will stimulate the distortion behavior of the local governments, that is, supplementing the losses of taxes with non-tax income), which will not only have the function of automatic stabilizer, but also contribute to some contradictions in our country (extensive development, regressive allocation, price fluctuations, etc.).

Then under the above comprehensive analysis, what

shall be considered specifically for Chinese corporate tax reduction? There are two main directions as follows.

First, the structural tax reduction of replacing the business tax with value-added tax has been fully covered in the framework since May 1, 2016. There are still some problems in the details, which need to be investigated and studied to find solutions, and implemented to improve the design and implementation of the measures. If the conditions are met after several years, the standard tax rate of value-added tax will not be ruled out for a more significant downward adjustment (this may not be feasible in the near future). Second, the standard rate of corporate income tax can be further reduced from 25% to about 20% - this is at most an adjustment between fine-tuning and mid-adjustment. For the corporate income tax of small enterprises, the tax threshold can be improved again, which can only reduce the tax of a company by one or two thousand Yuan a month at best and may not be much help for the company. The company's R&D expenditure can enjoy the preferential policy of corporate income tax exemption up to as high as 175%, which can also be further improved after discussion. But it is no longer a vigorous tax reduction measure. From the above, we can see that within the framework of China's regular taxes, the room for tax reduction is greatly limited.

4. From the perspective of internationally comparable macro tax burden, the tax burden in China is not high. Considering all the burden factors, reducing regular taxes is not the whole or even the most important part of reducing the burden on enterprises in China.

According to the IMF standard caliber, the macro tax burden in China is roughly equivalent to the average macro tax burden of the developing countries, which has been less than 35% in recent years and is significantly lower than the average macro tax burden of developed countries. ^{[1] [2]}

However, we should at least take into consideration the administrative fees, social insurances and housing funds, and a variety of comprehensive cost factors that

are formed by hidden rules out of the rules in the policy environment (many costs are hidden costs that the enterprises have to bear). Then at least, the following should be emphasized.

4.1 Overcoming the difficulties in reducing administrative charges and restructuring larger government departments

The administrative fees need to be reduced, and the key of which is how is it to be done.

In China, administrative charges have been consolidated and cleaned up for several years. After relevant departments have repeatedly stated that they have cancelled and reduced those that can be done, the burden on Chinese enterprises is still significantly higher than that of other economies. Wahaha Group has reported more than 500 various charges, which have been verified by the relevant departments and merged to more than 300 items that have also been called "as many as the hairs on an ox". The background behind this is the various departments with public authorities, which have certain vested interests. The approval authority of the department is often followed by a clear right to collect charges and a hidden right to set rent. Many specific charges are brought along with the "exercise of power" in the hands of public authorities.

How to reduce the burdens of the administrative charges? A problem is how the entire government structure can complete a reborn, a thorough transformation, namely implementing the reform of a larger and flatten government system. But in fact, the reform of a larger government system has taken only a few steps across the two governments in succession, and cannot even combine the national tax and local tax, which has a technical solution without any hard obstacles. This is a difficult problem for the government with real public authorities to cut the administrative charges when the reform enters the deep-water zone.

4.2 To reduce the burden level of social insurances and housing funds in China, it is essential to solve the institutional problems of social security funds system and mechanism.

There is room and basic consensus regarding to the

reduction of the social insurances and housing funds. But it needs to be done with reform.

If the overall planning of basic pension care is not in place in the whole society, and the social security and housing fund discussed currently are to decrease, then what shall we do if some local governments have too much payment pressure? If the provincial restrictions are broken to achieve overall planning of the whole society, then the impossible will become possible as at least more than thirty (actually more) pools (social security fund pools) have become one. The function of mutual aid will be greatly improved immediately, and the reduction of social insurances and housing funds will naturally be realized. The potential adjustment function of the entire pool system can bear the adjustment of reducing the social insurances and housing funds. Without the reconstruction of the pool, the problem cannot be solved. It is such a simple problem, but it is also a tough task in the reform that touches the vested interests.

4.3 The hidden burden of enterprises is quite serious in China.

One of the features for the burden on Chinese enterprises is the heavy hidden burden. For example, the establishment of an enterprise requires at least dozens of chapters, and it needs to build good relationship with various departments. Then there will be inevitably a series of hidden costs and comprehensive costs. When the enterprise enters operation, it has to maintain good relationship with dozens of bureaus and commissions with public authorities throughout the year. These costs cannot be said to be absent abroad, but compared with China, it may be quite different.

4.4 Therefore, the reduction of regular taxes is not the whole or even the most important part of reducing the burden on enterprises in China.

The discussion on reducing the burden on enterprises actually needs to start from the tax reduction and then naturally expand to how to rectify and improve the business environment of the entire market according to the actual situation, especially expand to how to curb

the rent-seeking and disguised bribes, etc. caused by various hidden rules. In recent years, some companies have reported another kind of burden in disguise: the government officials are neglectful of their duties. It is also a burden. If the government stalls for time, the company may be dragged to death. Isn't this a burden? What shall we do for these constraints? We should follow what General Secretary Xi Jinping repeatedly said "breaking the barriers of solidified interests" to promote substantive reforms. There are principles, but how to do it? This is a very practical issue under the concept of "Chinese characteristics".

5. How to deal with labor costs, electricity costs, tolls, etc.?

In the following, more types of corporate burdens shall be discussed.

5.1 Can the labor costs be reduced?

China now has a comparative advantage over the United States in this regard, but it has become a disadvantage when compared with Southeast Asia and other regions. It should be noted that the increase in labor costs has been in line with the phase transition when China enters the mid-income stage in these years. The big trend is that labor costs will continue to rise in the future, in other words, it will continue to reduce its support to China's economic growth brought by the comparative advantage of low labor costs. Positively, this is the time that the workers, especially low-end workers (crude workers, strong workers and migrant workers, etc.) have experienced "shortage of migrant workers, difficulty in recruiting and expensive labors" and improved their bargaining ability in the market environment when China's economic development has entered the mid-income stage and passed the "Lewis Turning Point". It means that the workers reach a new state of sharing the fruits of reform and opening up. Negatively, after China experienced changes in development stage, the old comparative advantage and the support of the power system were sliding, which represented severe challenges brought by the changes in industrial structure. Thus, it is imperative to improve the total factor productivity with supply-side reform to realize the upgrading and transformation of the power

system to hedge against downward factors. The overall level of labor costs is determined by the market, not by corporate decision makers.

5.2 Electricity costs must be reduced by reform, but China cannot compete with the United States on electricity prices.

Cao Dewang mentioned that electricity costs in the United States were half that of China. Is it possible for China to continue to reduce it? The reform of the power sector can partially solve this problem, and the reform of the power sector is a difficult problem. If the positioning of the electricity returns to the positioning of commodity in the reform of the power sector, the competitive mechanism select automatically, then the cost of electricity may be driven down by the potential release of the reform. This is worthy to be realized.

However, China's basic energy endowment is quite different from that of the United States. For a long time, about 70% of China's electricity supply will still be coal-fired thermal power. There are many practical "externalities" of the coal, and its clean use is the most difficult. The comprehensive cost of coal-fired power generation (especially the social costs caused by environmental pollution) has not been well reflected in China's electricity prices. In the case of quite limited alternative fossil energy and underdeveloped renewable energy of "distant water being unable to quench near thirsty", China must prepare in a long period of time to use the coal as the main energy and break through the clean utilization of coal regardless of the costs. Thus, facing its own typical situation of Hu Line half-wall pressure-type triple difficulties overlapped by energy, environmental pressure and challenges, China should take extraordinary measures to support sustainable development and green development effect that is suitable with the national conditions.^[3] Then, to reduce the threat of smog and environmental pollution, the most reasonable approach for China should be to implement appropriate high electricity price policies, forcing the enterprises to do everything possible to develop energy-saving, consumption-reducing and emission-reducing process, technology and products that are conducive for green

and low-carbon development, thus solving the historical test of breaking through this extraordinary situation under the driving force of economic pressure. As a country with the largest population of nearly 1.4 billion people, the Hu Line half-wall pressure-type triple overlap pattern has resulted in the typical national conditions of China in terms of green development that no other economy can compare. Properly high electricity price leads to relatively little coal burning by economic means. Although the absolute amount of coal consumption in our country cannot be reduced immediately, we can make efforts to control the absolute amount while reducing the components and proportion of the relevant pollution contained in each unit output. It is a correct choice for the construction of the mechanisms by taking economic means to reduce coal consumption and electricity and energy consumption to control pollution under the special national conditions of China.

5.3 China should not compete with the United States in tolls.

For a long period of time, China could not do anything like tolls on highways as the United States, because we had to rely on loans and PPP for financing to form the mechanism of accelerating infrastructure construction by means of tolls, which is one of the characteristics from catching up to catching-up in the process of China's modernization. Although it has made the people unsatisfied, it is clear that the people in general benefit from this. The key is to increase the degree of transparency of the charging mechanism and let the society monitor it together so that the money can be used in a rolling way to support the accelerated construction and upgrading of the infrastructure. It must be acknowledged that there will be a certain amount of manual maintenance and management costs, which should not be excessive. It should not be treated as a consolidation of vested interests by a small number of people without transparency. Then the interests of small groups and private interests may lead to many deviations contradicted with the maximization of public interests. This involves the reform of institutional mechanisms.

5.4 The maladies of excessive vehicle fines on the highway is mainly a matter of government administration, not a problem of taxes and fees.

Freight vehicles on China's highway network have faced a paradox for many years. On one hand, the owner cannot make money without overloading the freight due to various tolls and fines. On the other hand, the government's public authorities continue to form the basis for fines of violations and the source of income from fines due to universal overloaded trucks, thus strengthening management enthusiasm. How did this vicious circle form? In short, it is a malformed game in which the penalties and payers fall into a spiral rise, as the rule of law and the transparent supervision mechanism are not in place. The solution of this problem is obviously irrelevant to the tax system and tax reform. The key is how to establish relevant good laws, realize transparent law enforcement and rectify the government to deal with a whole set of institutional arrangements for road freight.

6. How to deal with the cost of land, plant and financing?

6.1 The reduction of land and plant costs involves the construction of basic institutional systems and the realization of preferential policies.

In terms of corporate land use, of course, the cost should be controlled as much as possible. But generally when the economic development of a region goes up, the land price will rise accordingly. Land-use companies need to give consideration, and there is no certain rule for the specific price level, which is generated in the market competition through the flowing of the factors. The point is why the short-term behaviors of the local governments that have the conditions to raise their income levels through land leases in recent years cannot be effectively curbed? Why do we have to singly rely on land lease income? Compared with the United States, there is also a portion of government revenue equivalent to land rent, but the main and most important thing is that the local government in the United States has a source of property tax revenue that has been established after the formation of real estate through land development.

This direct tax steadily constitutes the main bulk revenue of local governments year by year, so that they don't have to rely on land leases to "get enough money at once". If the mechanism is optimized, the relevant land prices and the prices of real estate such as factory buildings formed on the land will be more stable, and the "land king" will not frequently appear, and the related land burden of enterprises will not be increased. In the past, the Chinese did not realize that this is an inevitable characteristic of modern society and modern nation, thus we have no choice but to actively approach these "basic institutional construction" such as real estate tax. "Accelerating real estate tax legislation and promoting reforms in time" put forward by the Third Plenary Session of the Eighteenth Central Committee of the CPC has shown its unusual difficulty in practice after years of practice. This can only be achieved by overcoming the difficulties.

As for Cao Dewang's land and factory costs occurred in the United States offset by the subsidies from state government, there is also corresponding preferential policies in many places in China (especially the mid-western region). But if there are no other supporting conditions, the investment attraction will be not successful as investors will not only consider the cost of real estate.

6.2 How to consider the cost of financing and other aspects?

The financing cost of Chinese enterprises is high or low. But in general, for a large number of private enterprises and small and micro enterprises, the financing is difficult and expensive. It is a very important burden that affects the development of these enterprises.

The Wenzhou Runaway Incident in previous years (a batch of local large-scale private enterprises have run away to avoid disasters brought by broken capital chain) shows that since the low-interest loans of formal finance have actually been marginalized, a large number of quasi-finance and black finance of usury-style high-cost financing has played its protagonist. The hidden rules have forcibly replaced the clear rules. After the world financial crisis, it was precisely the

vulnerability of the abnormally high financing costs of such usury that caused the capital chain to break, leading to the outbreak of a local crisis, which resulted in a runaway incident. Subsequently, the problems of hollowing out local industries in Wenzhou and hindering the development of the real economy were exposed.

There are also positive cases and worthy innovation breakthroughs, such as the small loans provided by Alibaba. Without the support of specific government policies, Alibaba mainly relies on modern information technology. It does not require mortgages or meeting for processing. It is zero manual operation in the processing procedure. In the work, the software system makes risk control based on big data and cloud computing. The online application for small loans can quickly determine the specific support objects, and then small loans are continuously provided at a interest rate slightly higher than the official level. This is a real contribution to the financing of small and micro enterprises.

China's entire financial system should strive to diversify the supply of financial products during the reform and form a seamless supply system, so as to achieve full coverage of multiple types of demand on the demand side and enable policy finance (such as inclusive finance, green finance, small and micro finance, financial support for targeted poverty alleviation, etc.) operate in a healthy and sustainable manner. In the process of full competition and financial deepening, the financing costs will be reduced to make usury marginalized and squeezed out of the market. This is the solution that depends on supporting reforms.

7. In addition to reducing taxes and burdens, we also have to consider increasing some burden of taxes and the items of taxation - taking the construction of a direct tax system as an example.

In the course of China's tax reduction, there is also an objective task of reforming the tax system by increasing tax burdens and the items of taxation. The "gradual increase in the proportion of direct taxes" required in the reform and deployment of the Third Plenary Session of the 18th CPC Central Committee is an

unavoidable aspect of increasing taxes and the items of taxation.

7.1 Personal income tax is a typical direct tax, which burden shall be reduced and increased respectively in the reform.

The reduction of personal income tax is at the low and mid-end, and its increase is at the high-end. The key is to achieve combination and classification, plus the necessary special deductions, which are levied on an annual basis for households. This is the general direction for the development of personal income tax that has been discussed for several years. There is still a long way to go for China in the reform of personal income tax. When starting the next round of amendments to the personal income tax law, wage income and other incomes should be stacked and combined to implement an excessive progressive tax rate. Capital gains from the direct investment can be treated separately (in principle, as a proportional tax), which means that direct investment is encouraged. Special adjustments and special deductions such as family support coefficients and the monthly payment interest burden on housing mortgages should also be added in accordance with international practice and the public's requirements. The construction, operation and collection management of the supporting personal income tax information system are also challenging.

7.2 It is necessary to establish the family real estate tax from nothing in China, which needs to overcome severe difficulties.

From a global and long-term perspective, real estate tax in China's housing tenure link is another imperative direct tax system to be constructed, which is a fundamental system reform task with multiple positive effects. It is also the historical test that we must withstand in the process of establishing the long-term mechanism for the healthy development of the real estate sector and modernizing the whole tax system and the entire society. The reform of real estate tax is a typical example of tough difficulties in the supply-side reform. In a narrow sense, this reform is to solve the problem of establishing tax on the holding of consumer housing in real estate in China. There have been pilot

reforms in Shanghai and Chongqing. The Third Plenary Session of the 18th Central Committee required to "expedite real estate tax legislation and promote reforms in a timely manner", which by so far has not been "speeding up". Real estate tax has unique significance for the shared development and income redistribution that China now attaches particular importance, which has not been solved for a long time. From the objective needs of building a modern economic system, real estate tax reform should be put on the agenda as soon as possible. As a direct tax, in addition to raising government revenue, it is particularly important that the role of taking much from those who are rich in taxation will occur in accordance with the principle of ability to pay, allowing social members with luxury homes and multiple homes to make more tax contributions, which will then be used by the government to help vulnerable groups, strengthen the construction of affordable houses and promote social welfare when the funds enter the state treasury. This kind of "taking much from those who are rich" is not to let the people who get rich first get hurt, but to let them give up some material benefits properly at the level of their development and enjoyment. It is essentially a "win-win" tax that promotes social harmony. After many years of property tax simulation pilots and the implementation of real estate tax reform pilots in Shanghai and Chongqing, the obstacles of real estate tax reform should be eliminated and the reform should be promoted as soon as possible. The path is to implement the guidance opinions of the Third Plenary Session of the 18th Central Committee on "accelerating real estate tax legislation" as soon as possible on the track of "tax legalization". Once the legislation is completed, implement it in the first-tier and second-tier cities with large pressure of rising house prices. First of all, legislation must be made first, and the most important thing is to conduct the first hearing. The drafts that have been made by the relevant departments for many years are provided to the public to solicit opinions from the whole society. Secondly, in setting the tax rate, the tax base and tax rate should be determined based on factors such as the value of the property (the market's shadow price). A zero tax rate

can be applied to the area of housing that meets the basic needs of life, and a standard local tax rate can be applied to the area of housing that exceeds the housing standard, so that high-income groups can also assume more taxes while enjoying large-area housing. Third, we must pay attention to the integration and supporting reform of all taxes and fees related to real estate in a broad sense. Fourth, it is necessary to fully authorize local governments and to implement step by step in different regions as appropriate after the completion of legislation. Taking a comprehensive consideration, although China emphasizes that it is imperative to collect the taxation of housing ownership, it is also necessary to design a feasible plan to give a deduction for the “first unit” of family housing, otherwise the society cannot accept it and the framework cannot be built. The relevant legislative procedures should be urgently initiated.

7.3 Looking from a medium and long term, it is necessary to study the collection of inheritance and gift tax.

The inheritance tax is a direct tax that cannot be transferred. In practice, it is usually designed and implemented together with the gift tax. According to statistics from researchers, at least 90 countries in the world levy this tax. In fact, there has always been the concept and room of it in the tax system in China. In the discussions on reform after the 1980s, the tax was mentioned explicitly, but it has not been levied. After many years of reform and opening up, society has undergone tremendous changes, the accumulation and growth of wealth is obvious, and the differentiation and contradictions of social classes are also very striking. As a result, the issue of inheritance tax has become a more sensitive issue in the past ten years, and has not been mentioned in official documents and public places for a long time. In 2012, the issue of “research and levy” of the tax was included in the guidance document of the relevant state departments on the reform of the income distribution system. So the society again discusses on how to deepen the relevant rational discussions. It is necessary and unavoidable. From Deng Xiaoping’s basic point of view that “the essence of socialism is common

prosperity”, and the strategic thinking of “getting rich first and then realizing common prosperity” in the process of China’s modernization, it is clear that we must agree with the value orientation of levying inheritance taxes. It is mainly reflected in regulating income and property distribution, promoting the development of charity and public welfare and rationally coordinating the relationship between getting rich first and then realizing common prosperity.^[4] Thus, it is necessary to conduct research on the levying of this tax to promote the optimization of income distribution mechanism in China. However, it is also necessary to consider a series of supporting conditions and institutional construction issues related to this tax. Compared with the real estate tax, the prerequisite requirements for its levy are inferior, such as relative complete registration, reporting, inspection and protection system of resident properties. It is necessary to conduct the reporting and publicity system of official property first. Besides, it is also necessary to fully prepare the supporting measures for the inclusive guidance and incentives for continuous entrepreneurial development of those getting rich first, the cultivation of the middle-income class, the support and regulation of the third sector, and a series of issues related to social acceptability and technology. Therefore, this reform ranks rear in the construction of the direct tax system in China. It should be a more rational choice. After fully affirming its general direction, it is necessary to conduct research, but fast-forward is unrealistic. It should be promoted steadily in a long term.

8. Brief Conclusion. It is necessary to solve the “real problems” in tackling the difficulties of the reform from the perspective of the panoramic view. The supporting reforms include the historic task of constructing a direct tax system in China.

To sum up, we must guide all the corporate burden issues mentioned by Cao Dewang and their active discussions to a more comprehensive view of the regular tax burden, the non-tax income burden, the invisible non-tax burden, and the comprehensive costs of the social environment from the perspective of the

panoramic view, avoiding blindness and argument. If only the specific perspective, such as simplistic and conceptual accusations of the “death tax rate”, is emphasized, it will obviously not be able to guide consensus and form constructive solutions.

It must be particularly emphasized that the key and difficulty of reducing and rationalizing the burdens lies in the supporting reforms. Do we dare to overcome the tough difficulties? Can the effective institutional supply be formed through overcoming the difficulties of the reform to build a business environment with high standard, rule of law, low burden and fair competition as well as harmonious social environment? This is the real problem for Chinese enterprises to reduce the burden and institutional costs. At the same time, reform related to corporate tax burdens and other burdens will inevitably be a slight move in one part that may affect the situation as a whole as it is directly linked to the reform of the direct tax system that natural persons and families should have in the entire society.

Direct tax, of which the tax burden cannot (or extremely difficult) be passed over, is a standardized redistribution tool that regulates the income distribution and property allocation of social members. Its proportion is currently very low in China's tax revenue, not exceeding 30%, and its role is still weak.^[5] Among them, personal income tax has actually been severely marginalized, accounting for only about 6% of the total annual tax. However, in the process of constructing a modern tax system for the modernization of China, we must learn from the common experience of the market economy to “follow the trend”, and at the same time cope with the “tax aversion” of the people and the increasingly strong vested interests in the progressive reform to complete the historic task of gradually constructing and improving the direct tax system in tackling the difficulties of the supporting reforms. Otherwise, the rationalization of China's income distribution adjustment mechanism will lag behind the objective needs of economic and social progress to an increasing degree and become empty talk. In the supply-side structural reform that China must promote, how to

accomplish this task is a historical test of tackling the difficulties.

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Authors Biography



Jia Kang, Member of the Eleventh and Twelfth National Committee of CPPCC and Member of Subcommittee of Economy, CPPCC; President of China Academy of New Supply-Side Economics; Ph.D. Advisor and

Research Fellow in Chinese Academy of Fiscal Sciences; Member of Public-Private Partnerships Expert Committee of National Development and Reform Commission; Chief Economist of Zhongguancun Public Resources Competitive Allocation Promotion Center; Consulting Advisor of the People's Government of several municipalities including Beijing, Shanghai, etc.; Distinguished Professor of several universities such as Peking University, Renmin University of China, etc.; Expert enjoying special state allowance in 1995; appraised as an academic leader at high level for the National Project “Tens of Thousands of Talents” in

1997. Attended economic symposiums respectively at the invitations of Zhu Rongji, Wen Jiabao, Hu Jintao and Li Keqiang (thus considered as one of the “Advisors for Decision-making by the Central Authorities” by the media). One of narrators on the eighteenth collective study of “Fiscal and Taxation System Reform” Topic by Political Bureau of the CPC Committee on January 8, 2010. Winner of Sun Yefang Prize, Mundell-Huang Prize and China Soft Science Special Award. Member of Expert Committee of the Eleventh, Twelfth and Thirteenth Five-Year Plan. He once held the office of the President of Research Institute for Fiscal Science, Ministry of Finance (currently Chinese Academy of Fiscal Sciences) for many years. In 1988, he was selected for the Heinz Fund project and worked as a visiting scholar in the University of Pittsburgh for one year. In 2013, he wrote *New Supply: Chinese Innovation in Theory of Economics*, initiated and established “China Academy of New Supply-side Economics” and “China New Supply-side Economist 50 Forum” (working as First President and Secretary-General). From 2015 to

2016, he wrote and published *New Supply-Side Economics, Supply-Side Reform - China New Supply-Side Economics and Crucial Challenge In Front of China: How to Escape Mid-Income Trap* (evaluated by China Book Review Society and CCTV as China Good Book in 2016) in collaboration with Su Jingchun. His book *Ten Topics on Supply-side Reform* published in 2016 was evaluated by the Organization Department of the Central Committee of the CPC, the State Administration of Press, Publication, Radio, Film and Television of the People’s Republic of China and the National Library of China as the national selected textbook. According to the statistical analysis on the big data of more than 7 million articles of 6,268 academic journals of philosophy and social sciences published in *China’s Social Science Assessment* from 2006 to 2015, Mr. Jia Kang’s publications (398 articles), total citations (4231 times) and total download frequency (204,115 times) all ranked the first, with the comprehensive index of 3429. Mr. Jia Kang is a representative scholar among the core authors of economics.