

The Present Situation and Future Path Choice of China's Tax Reduction Policy —— Based on AD-AS Model

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Abstract: Tax reduction and fee reduction, that is, reducing tax burden and rate, will stimulate taxpayers' production and consumption, promote economic growth and expand tax base, and form a virtuous circle. "Based on the present and looking forward to the long-term", the Chinese government has issued a series of tax reduction and fee reduction policies in view of the actual situation that domestic enterprises are facing high costs and thin profits and fierce international competition, and the local implementation of tax reduction and fee reduction policies has a direct impact on local economic development. This paper analyzes the scale and structure of tax reduction and fee reduction in China at present, combs the basic logic of tax reduction and fee reduction with AD-AS model, and analyzes the reasons for the continued implementation of tax reduction and fee reduction policy in the future based on the current situation of tax reduction and fee reduction in China in recent years.

1. Current scale of tax reduction and fee reduction

From the statistics of the State Administration of Taxation, we can see that in 2019, China's tax reduction and fee reduction were 2.36 trillion yuan, and in the first three quarters of 2020, the tax reduction and fee reduction exceeded 2 trillion yuan.

2. Tax reduction structure analysis

(A) Tax structure

Table 1: Year-on-year growth rate of national annual public budget revenue and tax revenue from 2017 to 2019

index	Year-on-year growth rate in 2018	Year-on-year growth rate in 2019
General public budget revenue	6.2%	3.8%
tax revenue	8.3%	1.0%
Tax revenue _ enterprise income tax	10.0%	5.6%
Tax revenue _ personal income tax	15.9%	-25.1%
Tax revenue _ domestic vat	9.1%	1.3%
Tax revenue _ VAT on imported goods	6.2%	-6.8%
Tax revenue _ consumption tax on imported goods	-6.1%	7.0%

(Data source: It is calculated by sorting out the financial data of the national macro annual database of the statistical database of China Economic Net)

It can be seen from the data in the above table that in 2019, China's national general public budget revenue increased by 3.8% compared with 2018, and the national tax revenue growth rate was 1%, that is, due to the implementation of a larger tax reduction and fee reduction policy in China in 2019, the growth rate was low; Due to the increase in the deduction of corporate income tax R&D expenses in China, coupled with the impact of the decline in profits of enterprises engaged in the secondary industry, and the adjustment of the state's VAT threshold for small-scale taxpayers and the increase in incentives and standards for small and low-profit enterprises, China's corporate income tax increased by 5.6% year-on-year in 2019, down 4.4% from the growth rate in 2018; Due to the improvement of the basic cost reduction standard for personal income tax, the state implemented six special additional deduction policies, and the personal income tax decreased by 25.1% in 2019; Due to the step-by-step reduction of the VAT rate, it was lowered from 16%, 10% and 6% to 13%, 9% and 6%. In 2019, the domestic VAT increased by 1.3% year-on-year, which was 7.8% lower than the growth rate in 2018; Due to the reduction of the VAT rate at the import link, the VAT on imported goods decreased by 6.8% in 2019, showing a negative year-on-year growth rate.

(B) VAT tax reduction industry structure

Table 2: Scale and range of VAT reduction in different industries

industry	Scale of tax reduction in 2019	Tax reduction in 2019
Value-added tax in manufacturing and related links	592.8 billion yuan	24.1%
Construction value-added tax	25.7 billion yuan	5.2%
Transportation value-added tax	4.4 billion yuan	6.7%

The scale of VAT reduction in manufacturing industry and its related links is the largest, followed by VAT in construction industry and transportation industry. In addition, the VAT tax in modern service industry and life service industry has also decreased.

The adjustment scheme of increasing or decreasing the tax burden of different industries and taxes in China is the inevitable way to maintain the dynamic balance of fiscal revenue and expenditure, and it is also an important path choice for the smooth implementation of tax reduction and fee reduction policies, which plays a supportive role in the stable development of China's economy.

3. Analyze the basic logic of tax reduction and fee reduction policy with AD-AS model

Table 3: Symbol Description

t	Government net tax revenue
y	Actual output or income
k_t	Tax multiplier
r	interest rate
i	investment

(A) Tax cuts caused the demand curve to move to the right

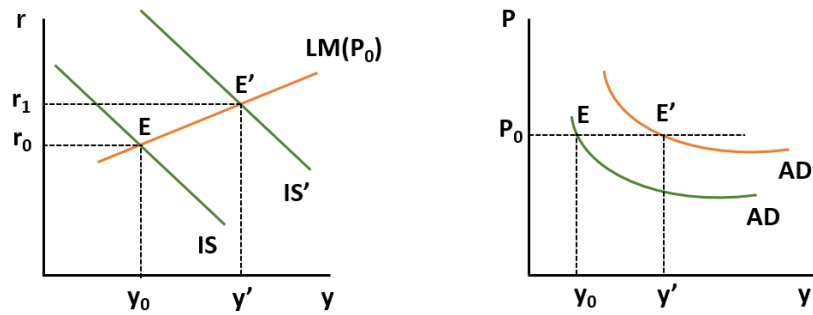


Figure 1

IS curve as shown in the above figure: $y = c(y-t) + I(r) + g$, the government's net tax revenue t decreases through the fiscal policy of tax reduction, and the increase value δy of real income y is the product of tax multiplier K_t and δt , and its curve moves to the right; Under the original price level, a new equilibrium is formed, interest rate R rises and income Y increases; At the same price P_0 , the income y increases and the demand curve AD moves to the right.

(B) Long-term total supply curve is the classical total supply curve

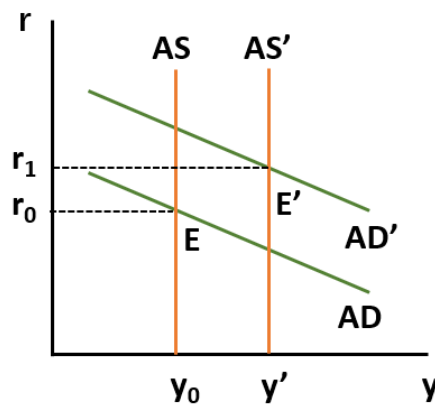


Figure 2

In the long run, China's tax reduction and fee reduction policy will encourage investment, promote the expansion of enterprise scale, improve profits, and attract foreign investment at the same time, that is, the long-term increase of investment I will cause the vertical AS curve to move to the right, thus promoting the growth of total income Y .

Based on the above analysis, it can be concluded that the policy of tax reduction and fee reduction is beneficial to reduce the burden of enterprises, realize profits, stimulate the vitality and creativity of the market, and thus help to expand employment, promote stable economic development and expand the tax base.

4. Analysis of the current situation of tax reduction and fee reduction

(A) Objective effect of tax reduction and fee reduction analysis

Table 4: Proportion of tax revenue to GDP in 2017-2019

index	2017	2018	2019
Gross domestic product (100 million yuan)	832035.95	919281.13	990865.11
Tax revenue (100 million yuan)	144369.87	156402.86	157992.2
Proportion of tax revenue to GDP	17.4%	17.0%	15.9%

Table 5: GDP growth rate and tax revenue growth rate in 2018-2019

index	2018	2019
Growth rate of GDP	10.5%	7.8%
Tax revenue growth rate	8.3%	1.0%

(Source: China Statistical Yearbook)

The tax base of tax revenue is GDP, so by comparing the growth rate of tax revenue and GDP, we can get the actual effect of tax reduction. According to the data in the table, the growth rate of China's GDP in 2018 and 2019 is 10.5% and 7.8%, while the growth rate of tax revenue is 8.3% and 1.0%. The growth rate of GDP is higher than that of tax revenue, so the tax reduction policy actually has the effect of reducing tax burden.

(B) Potential risks of tax reduction and fee reduction policy

The support of the policy of tax reduction and fee reduction should be a strong central government, and the source is to increase the fiscal deficit and reduce government expenditure. The pressure of income increase faced by the fiscal and taxation departments will increase due to the tax reduction policy. For some local governments that can't make ends meet, reducing fiscal expenditure may cause excessive fiscal deficit. Therefore, the government must pay attention to improving the efficiency of the use of financial funds.

(C) Tax reduction and fee reduction policy problems

First, there is a big gap between policy formulation and actual implementation. Some enterprises do not pay attention to the introduction of preferential tax policies of the government, or cannot understand the meaning of the policies, which leads to the fact that the policies are not actually implemented and cannot play the role of tax reduction and fee reduction policies. Second, the division of powers between the central and local governments brought about by the policy of tax reduction and fee reduction has also become the focus, and it is more urgent to deepen the system reform to match the implementation of the policy of tax reduction and fee reduction. Third, although the tax reduction and fee reduction policy has been implemented to a certain extent, the enterprise's sense of gain is not strong, and the cost tends to rise further, so a more substantial and inclusive tax reduction policy is imminent.

5. The tax reduction and fee reduction policy still needs to be implemented in the future

(A) The objective effect of tax reduction and fee reduction is remarkable

Objectively speaking, tax reduction and fee reduction can effectively reduce the tax burden of enterprises and individuals, expand consumption and investment, stimulate market vitality, promote economic growth and smooth economic operation, and achieve the original purpose of tax reduction and fee reduction.

(B) To play a significant role in the regulation of taxation

The policy of fee reduction has alleviated the phenomenon of arbitrary charges to some extent, but there is still the problem of non-standard taxation, so we should continue to implement the policy of

tax reduction and fee reduction and promote the modernization of the national governance system.

(C) The economic development environment is complex

China is still in the primary stage of socialism, and the decisive role of the market in economic development needs to be brought into full play. Tax reduction and fee reduction can not only stimulate market vitality, but also reduce government intervention in the market, which needs to be continued in the future.

(D) The impact of the world tax reduction wave

Influenced by the tax reduction thought of supply school, China can only join in the worldwide tax reduction tide, improve its international competitiveness, attract foreign investment and reduce its capital outflow.

(E) The policy problem of tax reduction and fee reduction still exists

Tax reduction and fee reduction are not big enough. Small and medium-sized enterprises still face many problems such as financing difficulties and heavy tax burden. The tax structure still needs improvement, so tax reduction and fee reduction should continue to be implemented.

(F) The sudden outbreak of COVID-19 has had a great impact

Affected by the epidemic, many enterprises have suffered losses and closed down, among which there are many large enterprises with more tax contributions. The continuation and expansion of tax reduction and fee reduction policies during the epidemic can improve confidence, increase motivation and support for enterprises to tide over the crisis.

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