

# *The Promotion of Tax Optimization to the Effective Implementation of the "Three-child" Policy*

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**Abstract:** With the acceleration of the process of population aging, the structural imbalance of China's population has begun to emerge, which will have an impact on China's economic, political, social and cultural development that cannot be ignored. On May 31, 2021, China officially proposed to implement the "three-child" policy to actively respond to the problem of population aging in China. However, in the face of the continuous decline of fertility rate, China's current tax policy not only cannot effectively reduce the cost of marriage and childbirth, but also can increase the cost of marriage and childbirth, resulting in the inhibition effect of married fertility. How to use tax means to solve the birth dilemma, improve the social fertility will, smoothly promote the implementation of the three-child policy is the main purpose of this paper.

## 1. Introduction

Since the reform and opening up, according to China's national conditions and economic development, the fertility policy has been divided into four stages: from 1982, the population growth has been strictly controlled, the family planning policy has been implemented, and the late marriage, late childbirth, fewer and better births have been advocated, so as to control the population in a planned way, and China has achieved remarkable results; In 2013, the single two-child policy was implemented; In 2015, the two-child policy was fully implemented, the one-child welfare was deleted and the two-child subsidy was provided, and the population development strategy was continuously improved; On May 31, 2021, the Political Bureau of the CPC Central Committee proposed to implement the policy of allowing one couple to have three-child and corresponding supporting measures, actively respond to the current situation of population aging, and promote the development of China's population structure to a more optimized and balanced direction. In 2020, China's birth population was 12 million, a record low after a brief rebound in the fertility rate after the full liberalization of the two-child policy, which also shows that China's low-speed population growth trend for decades has not been fundamentally improved. The decline in the marriage rate, the low proportion of women of childbearing age and the high cost of childbearing have greatly affected the specific promotion of the three-child policy, while economic factors cannot be ignored in reducing people's desire to bear. Nowadays, with the improvement of ideological level and education level, people are more and more aware that procreation is not only about "birth", but also about "education"

to a greater extent. [1] Economic development, inflation and the cost of childcare have been rising. How to raise education and how to improve its quality have become the real concern of people, which also reflects the sense of responsibility of contemporary parents. This paper mainly studies how to provide practical preferential subsidies through tax optimization to effectively reduce the tax burden of contemporary parents, increase disposable income, help promote the effective implementation of the three-child policy, and promote the optimization and improvement of China's population structure. Different from previous scholars' in-depth research on personal income tax and birth incentive, this paper also covers corporate income tax, value-added tax and real estate tax with high social concern, which can effectively avoid the ineffective or uneven reduction of personal income tax caused by the failure of some remote areas or economically underdeveloped areas to achieve the personal income tax exemption, and ultimately result in little effect on the incentive of fertility. [2]

## 2. Dilemma in the implementation of the "three-child" policy

First, the desire to have children continues to decline. Influenced by traditional ideas, after the policy of two and three births was released, rural women occupied the leading position. However, the health security and medical level in rural areas are limited, and there are still many deficiencies in the safety and security of mothers and infants. In urban areas with developed economic and medical level, women are open-minded, highly educated and very liberal about the issue of inheritance, so their sensitivity to the introduction and progress of fertility policy is still in a sluggish state. Second, the "reproductive dilemma" of women in the workplace is very serious. The latest monitoring report released by the National Bureau of Statistics shows that the proportion of women employed in China is more than 40%. In 2018, the proportion of women employed in the whole society was 43.7%. The impact of women holding up half the sky is more prominent. Although it has not reached half of the total, the ability and contribution rate of social employed women in China to participate in economic and social development have significantly improved compared with the past. For women in the workplace, having one child will cause career interruption for at least half a year to one year. If having two or three-child, the time affected will be as long as two or three years or more. The best time to have children is also the golden stage of career development. In addition, in the workplace, the default unequal treatment of women who have not had children entering the workplace and those who have children returning to the workplace makes it difficult to have both at work and childbirth, more women in the workplace choose to marry late and have only one child. Third, the cost of childbearing remains high, and the economic pressure of the younger generation is high. The cost of mother and child products and education is increasing day by day, the completeness of supporting services related to maternity security is low, and the imbalance between supply and demand is increasingly prominent. In order for children to enjoy better educational resources, from early childhood education centers, kindergartens and primary schools, families spend time, energy and money to seize places, and queue up all night often occurs. Economic factors are one of the most important factors that affect the fertility intention of childbearing age families.

According to the data of China's Fertility Cost Report 2022, the average cost of raising children aged 0 to 18 in China's families is 485000 yuan, and the average cost of raising children aged 0 to college graduates is 627000 yuan. The cost of urban households is about 630000 yuan and that of rural households is about 300000 yuan, while the cost of first-tier cities such as Beijing, Shanghai and Guangzhou will only be higher. According to the data of the National Bureau of Statistics, the per capita GDP in 2019 was 70300 yuan [3], which means that raising a child to the age of 18 is 6.9 times the per capita GDP. China ranks second in the global childcare cost rankings. It can be seen that the cost of childbearing and rearing has become the main factor affecting the fertility will and the effective implementation of the fertility policy. In addition, the "421" population structure in China

has brought about the problem of young people supporting four old people, which has a noticeable impact on the birth of three-child. Therefore, from the tax point of view, in terms of personal income tax, corporate income tax, value-added tax, property tax and other taxes, optimizing income adjustment and policy subsidies can relatively increase the disposable income of families, reduce economic pressure, improve fertility happiness, and reduce anxiety caused by fertility. Fourth, the marriage rate has declined. According to the statistical bulletin on the development of civil affairs in 2021 issued by the Ministry of Civil Affairs of the People's Republic of China, 7.643 million couples were legally registered in 2021, down 6.1% from the previous year. The marriage rate was 5.4 ‰, down 0.4 percentage points from the previous year. The reasons for the current situation are as follows: First, China's population structure has changed, moving towards the elderly population structure, and the problem of population aging is serious. The implementation effect of the family planning policy has been obvious before, and the number of young people has decreased compared with the past; Second, the gender ratio is unbalanced, and there are more men than women in the marriageable population; Third, the cost of marriage has risen in recent years, and the sense of ceremony and romance pursued by young people has caused certain economic pressure; Fourth, in a fast-paced society, competition is fierce, employment pressure is high, and the instability of work and busy life leave young people less disposable time; Fifthly, with the advancement of modernization and the exchange and development of Eastern and Western cultures, the concept of marriage and childbearing in the West is widely popular among young people, and the concept of marriage in this generation has undergone revolutionary changes.

### **3. Optimization of tax policy design**

#### **3.1. Individual tax preference should strengthen comprehensive development and give consideration to special families**

Since 1994, China has issued some preferential policies on birth tax, such as (Guo Shui Fa [1994] No. 089), which stipulates that the one-child allowance and childcare allowance do not belong to the subsidies and allowances of wage and salary nature, or the income that does not belong to the taxpayer's own wage and salary income items, and are not taxed. According to the document (CS [2008] No. 8), the maternity allowance, maternity medical expenses or other allowances and subsidies of the nature of maternity insurance obtained by women who have given birth in accordance with the maternity insurance measures formulated by the people's government at or above the county level in accordance with the relevant provisions of the State shall be exempted from individual income tax. According to GF [2022] No. 8, the relevant expenses of the taxpayer for caring for infants and children under 3 years of age shall be deducted according to the standard quota of 1000 yuan per month for each infant. It can be seen that China clearly recognizes the fertility effect caused by the reduction of individual income tax, which shows that the high birth rate is more sensitive to the reduction of family tax (Laroque and Salanie, 2005), and is more susceptible to the incentive of the reform and optimization of individual income tax. Nevertheless, the incentive effect and intensity of China's individual income tax on fertility still need to be expanded in the long term. We should continue to strengthen the supporting support of individual income tax to reduce the impact on the income of childbearing families.[4]

First of all, although there is a special additional deduction for children's education, continuing education, medical treatment for serious illness and other special expenses related to children's education. However, the special additional deduction standard of individual income tax failed to adapt to the current situation of China's economic development. The deduction standard of 1000 yuan per month for each child is difficult to take into account the expenses related to children's education. According to the above mentioned parenting costs, the deduction standard amount is low, and the

support for child rearing (including education) is limited, which is far from reaching the degree of alleviating the economy. The deduction amount should be strengthened. At the same time, the deduction should also reflect the differentiation of children and the inclination of specific situations. It is difficult to fundamentally reduce the tax burden of taxpayers at different levels and reflect the principle of tax fairness. In this regard, we can refer to the progressive tax rate of individual income tax, consider the actual tax paying ability of the taxpayer, take the income and expenditure of the taxpayer, the number of children and the different age groups of children into consideration in the design of deduction, adopt the differential deduction standard and set the maximum amount. The progressive deduction method can be adopted with reference to the progressive tax rate. The number of children is large, the income is small, the deduction is large, the reward is large, and the tax payment is small. On the contrary, less deduction, less preferential treatment and more tax payment. Progressive deduction should also be reflected in children and differentiated. Moreover, some surveys show that the deduction limit for multiple children is not simply the sum of the same deduction amount. Only by increasing the preferential treatment can the sensitivity of fertility will be increased to the policy, thus stimulating fertility. But at the same time, we should also pay attention to the rationalization of the scope and standard of deduction, and we should not blindly reduce taxes and thus lose the efficiency of taxation. In the deduction preferences of the existing policies, there is still a lack of consideration for different family structures and special families, such as the difference between single-parent families and two-parent families, and the family situation of disabled children. On the basis of the existing deduction, an additional deduction limit is given. At the same time, beware of the occurrence of fake divorce in order to obtain tax exemption, which requires our tax officers to fully investigate and verify whether the situation is true or not when registering special family status.

Second, there are few reduction and exemption policies related to childcare expenditure in China's individual income tax deduction. The current individual income tax policy does not set up special additional deduction items related to expenditures incurred during childbirth. With social progress and the improvement of people's living standards, people also put forward higher requirements for the quality of childbearing period. Women's expenses from the main stages of pregnancy preparation, pregnancy, delivery and post-natal care are also increasing. However, it is an important aspect of our current tax system that the necessary expenditures for these births cannot be deducted from the individual income tax. At the same time, China only makes special deductions for the care expenses of infants under 3 years old. But in real life, the expenses of infants and children in the process of growing up and rearing are far more than these, and the expenses of daily life account for more than half of the family income.

Third, the current individual income tax payer in China is based on individual income, without taking the family into consideration as a complete economic unit. The widening of the income distribution gap is mainly reflected in the difference in the overall income level of families. Therefore, in order to improve the fairness of income distribution, redistribution can be adjusted on household tax income. For example, full-time mothers have no income, but they are the main force of family life and childcare. If they are taxed according to the total income of the family, it will not only be more fair, but also effectively improve the disposable income of the family, thus playing an incentive effect of supporting fertility and parenting. Therefore, according to the age of children, the number of children, the health status of family members, family marital status and other different circumstances, different deduction policies can be adopted to give more tax support to special families, maintain the fairness of tax revenue, narrow the gap between rich and poor, and reflect the care and attitude of the government. Due to the economic development and rising prices, we should establish a dynamic adjustment mechanism for the deduction of special expenses of individual income tax in order to adapt to the actual situation. Second, the income earned by women during pregnancy and their children are still nursing will be exempted from individual income tax, and the income earned

during childbirth will be exempted from tax. The stimulation of childbearing and the implementation of the three-child policy can be easily achieved not only by increasing the publicity of the benefits of childbearing at the media level, but also by really implementing the treatment incentives, so as to truly make people feel at ease with childbearing and education, release greater demographic dividends, and bring long-term benefits to the whole society.

### **3.2. The value-added tax of related products is changing to the direction of "expanding the scope and reducing the rate"**

China has a large population base and complex national conditions. There are not a few families whose income is less than 5000 yuan in the economically underdeveloped central and western remote areas. If they do not reach the individual income tax threshold, they cannot enjoy the special deduction of this part. For these families, we also need to take safeguard measures. VAT has always been the largest tax category in China, accounting for more than 60% of China's total tax revenue. VAT can affect the price of goods and services, change the consumption structure of Chinese residents, and change the income distribution effect (Yue Ximing et al., 2021). The level of its tax burden will directly affect the cost of living of families with children. As for the characteristics of value-added tax, its main tax bearers are not merchants and service providers in the process of circulation, but our consumers. This also shows that the tax rate of value-added tax and its reduction policy will affect all aspects of our lives and are closely related to our lives. If we do a good job in the design and planning of value-added tax on fertility, it will certainly be conducive to the promotion of the three-child policy. The study found that the high tax rate of child-bearing households' preference for goods and the differences in the structure of consumption expenditure make the actual VAT burden borne by child-bearing households heavier than childless households (Xiong Huijun et al., 2022). However, up to now, China's value-added tax related policies include: due to the long-term implementation of the family planning policy, China has imposed value-added tax on pregnant and lying-in women's related goods, baby supplies, post-natal services, etc., which has increased the economic burden of the family, and exempted the value-added tax on contraceptives and appliances. For the care and education services provided by nurseries and kindergartens, the elderly care services provided by the elderly care institutions, the nursing services provided by the welfare institutions for the disabled, the marriage introduction services, the medical services provided by the medical institutions, and the education services provided by the schools engaged in academic education, the value-added tax is exempted. It can be seen from this that China's tax relief in value-added tax related to childcare is very limited, and the coverage is small, and the incentive effect on childbearing is very small. [5]

Many countries in the world have reduced the living expenses of families with children by giving tax incentives to foster children, so as to promote fertility. For example, Australia gives duty-free preference to food for infants under one year of age, including milk powder for infants to eat, and Britain gives zero tax rate preference to infant clothing, children's clothing and foot supplies. In terms of China's national conditions, the large-scale use of zero tax rate preferential treatment for pregnant women and children will cause heavy financial pressure, which is unreasonable. The implementation of tax exemption will lead to incomplete VAT deduction chain, which is prone to double taxation, leading to an increase in the tax burden of some enterprises, which is not conducive to the maintenance of the principle of tax fairness. China can implement both "expansion" and "rate reduction": in terms of commodities, reduce the tax rate of articles related to pregnant women and children to 5%, and reduce the tax rate of daily necessities to 6%; In terms of services, the scope of tax exemption should be expanded to include services provided by professional institutions such as prenatal training, post-natal care, early education centers, and childcare, so as to reflect the preference of the policy for encouraging fertility.

### 3.3. Promote corporate income tax and establish a women-friendly workplace environment

The CPC Central Committee and the State Council printed and distributed the Decision on Optimizing the Fertility Policy and Promoting the Long-term and Balanced Development of Population (hereinafter referred to as the Decision), which pointed out that "standardize the recruitment and recruitment behavior of employers such as government agencies, enterprises and institutions, and promote women's equal employment", "regard maternity friendliness as an important aspect of employers' social responsibility, and encourage employers to develop measures conducive to the balance of work and family relations of employees" and other measures. From the perspective of enterprises, the cost of maternity insurance, maternity medical expenses of female employees during maternity leave and replacement costs are mainly borne by enterprises. The resulting costs make many enterprises have hidden discrimination against women in recruitment and disguised dismissal of female employees. According to the WDI database of the World Bank, China's female labor force participation rate in 2021 was 62%, ranking among the top 20 countries in the global economic aggregate in 2021, far higher than the world average of 46%. However, many enterprises' restrictions on women's development and unfriendly regulations on childbirth not only reduce women's desire to have children, but also bring difficulties for women who have given birth to return to work. Therefore, effective reform of corporate income tax and reduction of the cost of childbearing borne by enterprises through tax means and preferential policies will help alleviate the concerns of women in the workplace and improve the willingness of female employees to bear children. It can also enhance the enthusiasm of enterprises to employ women, facilitate the elimination of gender discrimination in the workplace, change the male selection tendency in the recruitment and employment of enterprises, alleviate the plight of women under the conflict between fertility and employment, and better achieve the goal of family work balance proposed by modern society. Finally, we will promote the effective implementation of the "three-child" policy and promote the long-term balanced development of China's population. At present, China's tax preferential policies do not fully consider the increased fertility costs of enterprises due to the birth of female employees. Most of the suggestions require enterprises to actively fulfill and bear the costs of female fertility, but do not provide any incentive financial policies and other measures to support enterprises. In this case, enterprises will still choose to do whatever they can, and the dilemma of fertility cannot be changed.[6]

Facing the current situation, China's tax policy can start from the following aspects. The first is to reduce the burden of enterprises' fertility costs through tax rebates, and to subsidize the wages, social security contributions, maternity allowances and alternative employment expenses of women during pregnancy and maternity leave undertaken by enterprises in the form of tax rebates. The second is to actively encourage enterprises to absorb female employees. According to the size of the enterprise, the state will give the deduction proportion. If female employees reach the specified proportion, their enterprise income tax will be deducted according to the corresponding proportion. Third, in recent years, the demand for assisted reproductive services in China has increased rapidly due to the problem of infertility in some childbearing age groups and a trend toward younger age. However, the market is in short supply, and the cost of assisted reproductive services is soaring, bringing economic pressure to families unable to have children. After the relevant qualified enterprises are strictly reviewed, they can be given pre-tax deduction of corporate income tax to reduce the cost of service provision, so as to "rest assured" that the "cannot be born" families. Fourth, strengthen the support of supporting measures, increase the reduction and exemption of corporate income tax for childcare institutions, and solve the problem of infant care difficulties.

According to the 2022 edition of China Education and Population Report, there are about 42 million infants and young children under the age of 3 in China, and one third of them have a strong demand for childcare services. However, the actual enrollment rate is only about 5.5%, which is a

significant difference from the average enrollment rate of 35% in OECD countries. If there is not enough childcare services, the couple who have jobs can only choose to hire a babysitter in addition to seeking the help of their parents. Now, with the change of concept, many parents also yearn for a free old age after working hard all their lives, instead of being still hampered by family trivia, heavy housework and baby crying at night. However, due to the shortage of nannies in the market, and regardless of the quality of nannies, the employment cost has soared, even exceeding the salary of one parent. The consequence of not making ends meet is that some people have to make concessions and compromises in family and work. Usually, it is the mother who takes the responsibility. This in turn causes women to suffer from returning to the workplace. If it goes on like this, it will fall into a strange circle of women's difficulties in employment, work and resumption. The government can improve the structural imbalance of childcare service system, strengthen the supply capacity of childcare service, stimulate the investment and development of childcare industry, expand the optional range of childcare institutions, and improve the quality of childcare service in benign competition by rewarding and reducing the income tax of childcare enterprises and institutions, and implementing a preferential tax rate of 20%. At the same time, the Decision also pointed out that "supporting qualified employers to provide childcare services for employees".

Governments at all levels should respond to the call of the central government, actively encourage enterprises to assume the responsibility of employee childcare, provide tax compensation for companies that provide employee childcare services internally, and allow relevant expenditures and daily maintenance costs to be deducted before corporate income tax. Alleviate the concerns of families with children and the difficulties of child care, liberate the time of employees, help employees put down their childbearing concerns and smoothly return to the workplace, thus alleviating the social problem of "punishment at the mother's job". In addition, although China is currently exempt from value-added tax on the income of community care service institutions, when calculating the taxable income, it still needs to be reduced by 90% to be included in the total income, and the support is too low. The tax relief should be increased in the design, otherwise the childcare costs transferred to families with children will still only increase. It is worth noting that the above tax policies need to establish a long-term mechanism to remove the concern that tax costs will rise due to policy changes when enterprises enjoy preferential treatment. Through the above measures, we will make greater efforts to promote the construction of a women-friendly enterprise income tax system in China, and provide universal, basic, and comprehensive fertility protection for promoting the implementation of the three-child policy.

### **3.4. Improve the diversified and comprehensive supporting measures of other taxes**

In terms of real estate tax, we should send a friendly signal to families with two or three-child, reduce the real estate tax of families with children, and lower the threshold of house purchase. For improved housing purchase or rental, China should provide tax exemption or tax reduction support according to the number of children, so as to effectively reduce the economic pressure of families with children. The tax-free area of the house property tax should reflect the institutional preference and advantages for families with three-child. It is suggested to have one more child, and the tax-free area of the house should be increased by 20 square meters. For high-income groups, China can consider levying inheritance tax, strengthen the standardization of wealth inheritance of high-income groups, and ensure the reasonable and legal inheritance of wealth, so as to improve the fertility desire of families of high-income groups. In terms of car purchase tax, the Chinese government can give the three-child family a car purchase tax exemption policy after strict examination of family data, and provide the three-child family with comprehensive security and convenience policies for life services, so as to effectively implement the preferential policies and make people think and dare to live. Only

in this way can we promote the implementation of the three-child policy in China.

#### 4. Conclusion

For the country and society, fertility has the characteristics of long-term public interest. Further improving and strengthening the tax support policy on childbearing is conducive to improving the tax compensation mechanism for childbearing costs, so as to share the economic burden of families with children, thus enhancing the social fertility will and releasing the family fertility potential. Finally, we will improve the aging population structure of our country, slow down the aging process of the population, promote intergenerational harmony, enhance the overall vitality of society, and stimulate the demographic dividend.

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