# Research on the Reform of China's Fiscal and Tax Policies in the New Era

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**Abstract:** the Advancement of the New Era Process is Intensifying the Competition for Liquidity Capital among Countries, and the Global Tax Competition Will Continue. Facing the Global Tax Competition, China's Choice and Response is of Great Significance. Firstly, Based on the Basic Facts of Global Tax Competition in the New Era, This Paper Analyzes the Potential Impact and Countermeasures of Global Tax Competition Based on the Research of Tax Competition and Tax Cooperation in Academic Circles. Considering That the Domestic Economic Growth is Slowing Down, There Are Still Some Problems Such as Imperfect Social Security Mechanism, Uneven Income Distribution, and Serious Environmental Pollution. Facing the Increasingly Fierce Global Tax Competition, China Does Not Have the Conditions of “Competition Against Competition”, So It is Very Difficult to Respond to Tax Cuts of Other Countries in a Competitive Way. to Balance the Relationship between the Strategic Objectives of Domestic Development and the Pressure of Global Tax Competition, We Need to Deepen the Reform of Domestic Tax System and Promote International Tax Cooperation: to Improve the Progressiveness of Personal Income Tax, Set Up Inheritance Tax, Gift Tax, Differential Value-Added Tax Rate, and Improve the Value-Added Tax of Polluting Products; to Actively Play the Role of Tax in Building a Common Prosperity, Open and Inclusive World Can Advocate the Establishment of the World Tax Cooperation Organization and the Construction of the Tax Information Sharing Database.

## 1. Introduction

On December 23, 2017, President Trump of the United States Formally Signed the Tax and Employment Act, Marking the Formal Implementation of the Tax Reform of Trump Government. the Reform is the Largest Tax Change in the United States in the Past 30 Years[1]. Its Main Measures Include: Reducing the Corporate Income Tax Rate from the Current 35% to 21%, Reducing the Level of Personal Income Tax, and Improving the Deduction Standard of Inheritance Tax. the Sharp Fall in Marginal Tax Rates in the United States Had an Immediate Impact on Global Capital Flows. More Importantly, in Order to Cope with the Impact of the Us Tax Reform and Avoid the Outflow of Domestic Capital, More and More Countries Have Started Tax Reform, and the Level of Global Tax Competition Has Suddenly Increased. At the Same Time, the Global Tax Competition Will Also Lead to the Problem of Decreasing Efficiency and Worsening Income Distribution, So There Are Also Negative Consequences[2]. from the Perspective of Efficiency, Tax Competition Reduces the Government's Ability to Obtain Income from Liquidity Factors, Which Leads to the Decline of Government Revenue, the Corresponding Decline of the Supply Capacity of Public Goods, and the Samuelson Condition Provided by Public Goods Cannot Be Met. from the Perspective of Income Distribution, the Decrease of Tax Rate Has Obvious Benefits to the Increase of Return on Capital, But the Consequence of the Decrease of Tax Revenue is Either the Decrease of Expenditure Items, or the Increase of Other Taxes, or the Increase of Debt Amount. All Three Situations Will Lead to Changes in Income Distribution[3]. Multinational Companies and a Small Group of Wealthy People Are More Likely to Share the Benefits of Global Tax Competition. Existing Research Evidence Shows That Other Groups, Especially the Vulnerable Groups of Society, Have to Bear the Cost of Global Tax Competition. Therefore, the Global Tax Competition Will Lead to the Imbalance, Unfairness and Unsustainability of Economic and Social Development. the Tax Competition Should Be Divided into Two Parts. We Should Not Only See the Promotion of Tax Competition, But Also See That It Will Reduce the Government's Ability to Provide Public

Goods, Worsen Debt, and Worsen the Government's Ability to Improve Income Distribution, So as to Worsen the Inequality of the Whole Society.

## 2. Reexamination of China's Tax Policy in the New Era

After Combing the Potential Impact and Practical Theory of Tax Competition and Tax Cooperation, We Will Turn to the Analysis of China's Tax System[4]. under the Framework of Public Finance, We Can Examine Our Tax Policy from Two Aspects of Demand and Supply. Public Finance is to Deal with Market Failure, Meet the Public Demand for Public Goods, and Deal with Inequality. as One of the Basic Financing Means of Public Finance, the Scale and Structure of Taxation Must Be Adjusted According to the Function and Orientation of the Government, That is, According to the Stage of National Development and the Change of People's Demands[5]. At the Same Time, from the Perspective of Public Capital Supply, the Scale of Tax Should Also Take into Account Alternative Financing Means Such as Public Debt. the Structure of Tax, the Size of Tax Base and Tax Rate Should Also Match the Demand for Tax Capital and the Degree of Tax Distortion.

### 2.1 Current Situation of China's Tax System

Table 1 Financial Ratio Correlation Coefficient

| | F1 | F2 | F3 | F4 | F5 | F6 | F7 | F8 |
|---|---|---|---|---|---|---|---|---|
| F1 | 1.00 | 0.55 | 0.18 | 0.06 | 0.36 | 0.22 | 0.09 | 0.48 |
| F2 | 0.55 | 1.00 | 0.01 | 0.04 | 0.58 | 0.30 | 0.12 | 0.89 |
| F3 | 0.18 | 0.01 | 1.00 | 0.54 | 0.14 | -0.01 | 0.02 | |
| F4 | 0.07 | 0.04 | 0.54 | 1.00 | 0.13 | 0.07 | 0.02 | 0.07 |
| F5 | 0.36 | 0.58 | 0.14 | 0.13 | 1.00 | 0.24 | 0.30 | 0.72 |
| F6 | 0.22 | 0.30 | -0.01 | 0.07 | 0.24 | 1.00 | 0.03 | 0.25 |
| F7 | 0.09 | 0.12 | 0.02 | 0.02 | 0.30 | 0.06 | 1.00 | 0.19 |
| F8 | 0.49 | 0.90 | 0.05 | 0.07 | 0.72 | 0.25 | 0.19 | 1.00 |

China's current tax system has been continuously reformed and developed since the reform and opening up in 1978. Before the reform and opening up, China's financial revenue mainly comes from the profits of state-owned enterprises, and tax is not the main financing way of financial function. Enterprise income tax is only levied on a small number of collective enterprises and individual businesses, and turnover tax occupies an important position in China's tax system for a long time. These two aspects lead to the following characteristics of our tax system: first, our tax system is still dominated by indirect taxes such as value-added tax and consumption tax. The indirect tax as the main body of the tax system leads to the direct payment of tax accounts for the vast majority of the total tax revenue[6]. Although in the traditional tax burden theory, enterprises and individuals will share the tax burden according to the elasticity, in the actual economy, because of the price stickiness, information asymmetry and other factors, enterprises may not be able to transfer the tax burden, or may over transfer the tax burden. Whether it is to increase the burden of enterprises or individuals, it is a distortion of economic efficiency and social equity. Secondly, it is difficult for our tax system to solve the problem of income inequality. A series of studies have shown that indirect tax has a regressive nature, which will worsen the income distribution of residents. In addition, China's income tax, especially the personal income tax, is relatively low, so it is difficult to implement the function of automatic stabilizer, and the progressive nature of personal income tax is not strong, and a single low tax rate of 20% is imposed on capital income such as dividends and property transfer, which is not conducive to improving income distribution. Third, the proportion of tax revenue in GDP is relatively low[7]. This means that the government fails to make full use of tax tools to adjust economic fluctuation and redistribute income, and there is room for strengthening government functions. Different from the current situation of China's tax system, OECD countries' tax revenue mainly has two aspects to draw lessons from[8]: on the one hand, OECD countries' tax revenue accounts for a higher proportion of GDP, which reflects the current situation that the main OECD countries have relatively complete social security and rich social welfare services; on the other hand, the income tax of the main OECD countries, especially the personal office Income tax accounts for a higher proportion of GDP.

### 2.2 Tax System Reform from the Perspective of Public Demand and Capital Supply

The optimal tax system is not immutable, and the current tax system in China is not the optimal setting in a given development stage[9]. Based on the new characteristics of China's development in the new era, we should re comb the functions of the tax system and find out the direction of tax reform from the perspective of the demand and supply of public finance

## 3. Policy Choice for Global Tax Competition

In terms of investment, China, as a country with a large population and a large economic scale, is easily at a disadvantage compared with small countries such as “tax havens” in tax competition. At the same time, China's tax competition policy may not be able to solve the problem of FDI inflow and capital outflow. Tax competition may not play a strong role in promoting investment. But in terms of promoting innovation and economic growth, tax competition may bring positive effects. A large number of literatures believe that tax competition can promote the implementation of innovation and other risk behaviors, and it can also improve the quality of innovation achievements. Research on BRICs countries shows that the prosperity of business activities and the development of globalization can stimulate economic growth by stimulating innovation and investment and promoting the flow of factors. Tax competition is an important tool to promote innovation and reduce the distortion of factor supply. 4.2 as the largest developing country in the world, there are many common interests between China and other major economies in the world. At the same time, our country is actively promoting the construction of “one belt and one road”. Quite a number of enterprises, capital and technology need to “go out” to play the role of economic construction on the larger world stage. Adopting competitive measures is not conducive to enterprises' overseas investment. In the case that competitive strategies are not feasible, allowing other countries to reduce tax rates will also have negative fiscal externalities. In this case, advocating international tax cooperation and establishing a new system of international tax cooperation to alleviate or even eliminate global tax competition are the dominant strategies of our country.

## 4. Conclusion

The process of globalization has enhanced the competition for mobile resources. By reviewing the basic facts of global tax competition, this paper finds that global tax competition does exist and is deepening. In the past few decades, the corporate income tax rates of all countries have experienced a continuous decline. In 2017, President trump of the United States submitted a tax reform plan to reduce the overall tax burden, which further intensified the global tax competition. The reform of the tax system will affect the domestic financial policy, enterprise investment and the people's livelihood. Based on China's growing influence on the global economy, the response to tax competition is more likely to trigger a chain reaction of governments and global markets. This paper considers the potential impact of each strategy and the requirements of domestic reform and development, and obtains the appropriate strategy to deal with global tax competition. China cannot ignore the global tax competition. With the development of China's market economy, the relationship between China's economy and the world's economy has become increasingly close. On the one hand, under the pressure of external tax competition, Chinese enterprises may transfer their assets overseas, causing capital flight; on the other hand, external tax competition will affect the investment location of enterprises, making the enterprises that should have settled in China transfer to other countries. In order to ensure the domestic economic stability, China should respond to the tax competition.

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