

## **Analysis and countermeasure of income tax adjustment income**

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*Abstract: Nowadays, China's economy is growing rapidly, residents' income has increased significantly and living standards have been improved continuously. At the same time, however, the income gap between China's residents continues to expand, and the increasing income gap will affect social stability and hinder economic development. Under the circumstance that our country's tax system is not perfect, the individual income tax adjustment income distribution is entrusted with the heavy responsibility. Based on this, this paper analyzes the experience of income tax adjustment income in developed countries based on the current situation of China's income, and provides countermeasures for the individual income tax adjustment income of our country.*

*Keywords: Personal income tax, income distribution gap, countermeasures and suggestions*

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### **1. INTRODUCTION**

For forty years, the reform and opening in China has greatly promoted the development of our country's economic and financial market, making our country all the economic and financial system more reasonable, greatly to mobilize all social strata. With the development of national economy, the per capita disposable income of Chinese residents has also been increased correspondingly. The changing of our economic system, also has brought some obvious problems at the same time, it is accompanied by local economic development caused by different problems such as per capita disposable income of our country, urban and rural income gap is more and more big. At present, China's individual income tax accounts for only 5.9% of the total tax revenue of the country, and it is obvious that China's individual income tax does not play a significant role in the overall tax increase of our country. Nowadays in our country on how to narrow the income gap between residents of the system is not very perfect, for the property tax system and is not very clear, to the requirement of social security tax is not clear. In this case, we will be on the adjustment of the individual income tax as the residents' income gap and reducing a means, namely in the integral keep does not affect the normal consumption, according to the income to determine its tax and thereby reduce the income gap between residents.

With the prosperity and development of the international and Chinese economy, the income of the residents is divided into two levels, which has become a problem that the government must face and consider. Through the reform of China's personal income tax system, it can reduce the phenomenon of the gap between rich and poor in China to a certain extent, and reduce the large influence of income. Compared with abroad, China's personal income tax levy a relatively short time, and the system is not very perfect, some places still need further improvement, some of the current execution of the policy system or with the current economic situation in our country is not consistent, therefore, we study the effect of individual income tax to our country residents' income gap has very important significance.

## **2. THE INFLUENCE FACTORS OF INDIVIDUAL INCOME TAX ADJUSTMENT INCOME DISTRIBUTION GAP**

### **2.1 Taxation mode of personal income tax**

At present, there are three main ways of collecting personal income tax in China, including classification taxation, comprehensive taxation and classification and comprehensive taxation. The classification tax model says that the same taxpayer will calculate the tax amount according to different tax rates because of the different income obtained by the different types of labor. This model is relatively efficient to use, but it needs to be fair. Comprehensive tax is the tax subject within a certain period, will make a summary of all its individual income, select a unified index on the base of deduction, the rest according to the regulation of progressive tax rate to calculate the actual should pay amount. It is generally applicable in most developed countries to achieve the goal of adjusting the income gap in such a way as to achieve the goal of fairness. Comprehensive tax classification model, we call it the dual or unregular, against an entity, we first according to the categories of income of different tax rates, different part according to the different classification of different tax rates, but others were used as a collection of comprehensive income tax mode. This kind of collection method still exists in the concrete use process, has caused the trouble to the tax collection and management.

### **2.2 Taxation unit of personal income tax**

There are two main types of individual income tax collection, which is to tax the individual. The other is to combine all the income of a couple's family with a family tax. These two kinds of taxation units are different, so it also plays a different role in adjusting the income distribution gap. In our country, we adopt the income tax collection model which is based on the individual, and the unified tax rate and expense deduction are not taken into account when the actual households of the taxpayers are set up.

### **2.3 The deduction standard for personal income tax**

The deduction of expenses mainly includes standard deduction and sub-item deduction. The standard deduction refers to the amount that is deducted by the taxpayer in a lump sum. Itemized deduction refers to the deduction of each expenditure itemized by the taxpayer within the prescribed scope. In our country at present the deduction standard set combines the breakdown rate and norm to deduct, classified according to the different nature of the income

tax subject to deduct, its levy object mainly is the wage income, and this kind of expense deduction standard object for tax tax burden level influence mainly depends on the progressive tax rate, and all levels of the gap between its size. Since our country started to impose individual income tax, influenced by the overall economic environment the expense deduction standard has experienced constant change, we see the individual income tax in our country residents' income gap adjustment indeed plays a more important role in the process.

#### **2.4 Tax rate of personal income tax**

The tax rate has a very important influence on the burden of individual income tax. The correct choice of tax rate has great influence on whether the income tax can be used to adjust income gap. In this paper we mainly discuss the proportional tax rate and progressive tax rate. Rate refers to according to the form of percentage, at the time of the tax in accordance with the proportion given a certain taxes, it is not affected by the size of the whole tax base amount per unit of the base pay is fixed. The progressive tax rate is based on the increase of the tax base, and the increase of the tax base of each tax base increases with the increase of the level. The progressive tax rate increases with the increase of the tax base, which shows that the tax burden of the taxpayer is commensurate with its income level, and it can better regulate the income of residents.

### **3. THE CURRENT SITUATION OF INCOME DISTRIBUTION GAP IN CHINA**

#### **3.1 The current situation of income distribution gap between industries**

The inter-industry income gap we study here refers to the gap between the average income wage of workers in different industries in cities and towns. In the early stage of China's reform and opening up, the salary of employees is not regulated by the market, but is allocated by the national government, so the income distribution gap between the industries is relatively small. At the beginning of the reform and opening up in 1978, coal and water production and supply industry belongs to the highest industry average wage, the worker pay low wages is the social service sector, the ratio between the two is 2.16:1. In the mid 1980s, China's market economy system was reformed, but it was still early development, and the income gap between different industries was not very large. In 1990, the social economy made great progress, mining industry and agriculture, and the ratio between them was 1.76:1. 1994 for tax system reform in our country, at this time, the rapid development of social economy, the financial industry become the income of the highest industry in our country, the agriculture, forestry and fisheries is still relatively low income group, two industry average income ratio is 2.38:1. By the year 2000, the average income gap between China's high and low industries reached 2.63:1, and it can be found that the gap between them is gradually increasing.

During the period of "11th five-year plan", communication, railway, coal industry such as the average income has appeared in a certain degree of rise, increased by 32%, compared with those of the tenth five-year financial insurance industry worker average income has increased by about 35%, party and government organs and social organizations worker income growth reached 23%, the ratio of the highest and the lowest average wage industry increased

significantly, and in 2007 reached 6.23:1. In 2016, it was as high as 10.23:1. The income gap between different industries became more and more obvious. With the progress of science and technology, to "much starker choices-and graver consequences-in" period, the industry income gap is more serious, the financial insurance industry, the computer information technology, the geological exploration industry worker average wage is currently out of the three industry wages, food, agriculture and forestry industry average wages in the final few, high and low industry income gap began to seriously.

### **3.2 The current situation of income distribution gap between regions**

Assume that the central region is 1, at the beginning of reform and opening up, the Middle East in the west of our country urban per capita disposable income in the proportion of 1:1.1:1.01, in 2007 regions in proportion to 1:1.46:0.97, topped a 1:1.88:0.79 ratio in 2016, visible gap is in a process of gradually increase. And the same in China's rural residents income, in the beginning of reform and opening up that proportion of 1:1.09:0.91, in 2007 reached a 1:1.52:0.79, topped 1:1.65:0.67 proportion in 2016 through the statistical data, we can easily see, both average income of urban residents and rural residents' average income, the things in the three areas of the gap between per capita income is in has been expanded, taken together, the provinces are of the highest income in the eastern region, while income incurred in the western region.

## **4. INTERNATIONAL EXPERIENCE AND REFERENCE OF INCOME TAX ADJUSTMENT INCOME GAP**

### **4.1 Individual income tax system of the United States, Britain and Australia**

#### **4.1.1 The system of individual income tax in the United States**

In terms of tax payment mode, the United States currently adopts the income tax collection system of comprehensive income tax. The most important feature is that the tax base is relatively broad, which reflects the principle of "quantity can afford". Followed by the tax model to include all personal income in excess progressive tax rate is calculated in the table, in this way can better supervision at the same time also can reduce the cost, well according to the principle of tax capacity. In terms of taxation, the scope of taxation is relatively large, and there are few exemptions from the tax exemption, unless the local laws stipulate some items that can be exempt from tax. From tax rates, for personal income tax, levy's level 6 super progressive tax rate, according to whether the taxpayer to start a family to consider joint tax, according to people of different identities by tax rates is not the same.

#### **4.1.2 Relevant system of British personal income tax**

On the current international, Britain was the first one to start a country for imposing individual income tax, income tax has the UK since 1799, after two centuries of development and gradually mature, the British tax related theory and practice is also gradually mature. From taxation pattern, the UK is classified comprehensive income tax levy system, using the tax system can not only from the source to strengthen tax collects pay to ensure timely into the state Treasury, and such a way can also show a progressive tax fairness and can afford such a

principle. In terms of taxation, British individual income tax is widely used, but the tax rate is lower, so as to maximize the fairness of tax burden. In terms of tax rate, after long-term adjustment and reform of the individual income tax structure of the country, the tax rate gradually began to stabilize, and the tax rate system of three-level excess progressive taxation was formed.

#### 4.1.3 Relevant system of Australian personal income tax

Australia's rapid rise following the development of several other countries is closely linked to the regulatory role of its own personal income tax. Collection of individual income tax from taxation mode, In Australia, the adoption of personal income tax is a comprehensive tax system, the tax system is based on individual final net income tax base, according to the taxpayer's tax ability, can intuitively reflect the overall taxpayer affordability. Will tell from the scope of tax, personal income tax exemption of income, including labor, contingent income, spending, retirement pension, and education expenditure, etc., the other goes on a percentage of the individual income tax shall be turned over. In terms of the tax rate, the individual tax threshold has been raised, and the five-level tax rate will be changed. On the one hand, it will strengthen the decision-making of the citizens, and on the other hand, it will have a great impact on the enthusiasm of the taxpayer.

#### **4.2 The experience and inspiration of the income distribution gap between the individual income tax in western developed countries**

Through the comparison of individual income tax collection in the above three developed countries, we can see that the comprehensive taxation method embodies the principle of "quantity can afford". Britain, the United States and most countries in Europe have adopted a model of comprehensive income tax collection. According to our country's specific conditions, some citizens didn't pay tax consciousness, at the same time for tax regulation means and not in time, compared with developed countries there are still some gaps, as a result, the current can't abandon the pattern of the existing tax collection of our country.

From the above three countries the tax scope, you can see that the regulation of our country at present the 11 projects have not very precise to show that the tax object, so we should increase capital income, labor remuneration income and stock exchange for income is included in the scope of tax collection, at the same time our country still has not defining the grey income tax on citizens, which should be considered in the process of tax in the late to come in, avoid grey income taxes.

From the tax rate, our country compares other several countries, the tax rate structure is complex, the tax rate level is too much. So our country's tax rate structure should be the direction of comprehensive income tax system, try to simplify the tax rate structure, try to reduce the working class and production income tax rate, improve the unearned income tax rate, and reduce the complicated hierarchical structure, it will reflect more efficient fair.

## **5. SUGGESTIONS ON IMPROVING THE INCOME DISTRIBUTION OF INDIVIDUAL INCOME TAX**

### **5.1 Adjustment of the management mode**

At present, the income tax of our country adopts the classification income tax collection mode, which is limited by the national conditions of our country then has the corresponding tax structure. However, with the development of the national economy and the widening of the income distribution gap, in such a situation, China's current taxation mode needs to be adjusted. Comprehensive model of the collection of individual income tax in the tax and tax classification comparison, combines the actual conditions of our country national condition and the tax practice experience for many years, our country should combine the two, the regular income to merge, in accordance with the unified excess progressive tax rate; Instead of regular income, it is necessary to adopt the method of classification calculation.

### **5.2 The choice of tax unit**

At present, the tax unit of individual income tax mainly consists of individual and family tax unit. Each type of tax has its own advantages and disadvantages. From the perspective of national finance, this is not a big difference between, but from the purpose of the personal income tax collection to consider, if is a family as the main body in the tax, so it will be deducted according to the family's basic needs the minimum standard, to ensure that have the same main body of economic bear ability to pay taxes and fees is the same, according to domestic actual situation, to a certain extent, reduce the burden of the family life, can adjust the income distribution gap as much as possible, as a family as the unit can be as much as possible to avoid tax evasion behavior, therefore, taken together, suitable for family object in our country.

### **5.3 Adjustment of the exemption amount**

With the growth of our nation's overall economic strength, people's living standard has increased, at the same time brings education fees, social security fees, housing costs, and so on various charges will be in constant increase. The deduction standard of 2000 yuan has not matched with the current per capita consumption level in China, so the new expense deduction standard has been increased to 3,500 yuan on September 1, 2011. In considering the deduction standard of increased at the same time, also began to increase fees, low income into account, should therefore make them enter the range of exemption of income tax, to further regulate the income distribution gap. Therefore, our country have to consider when deducted from the proceeds at the time of set benchmark entity economic bear ability, will be given the regional economic differences, the regional differentiation of taxation pattern, promote the overall fairness.

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