

An Assessment of China's New Round of Reform of the Fiscal and Taxation Systems

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Abstract: *Based on the Decisions of the CPC Central Committee on Some Major Issues Concerning Comprehensively Deepening Reforms and the Overall Plan on Deepening Fiscal and Tax Reforms, this paper presents a systematic assessment of the progress of China's new round of fiscal and tax reforms from November 2013 to October 2016 with the following findings. Reform of the budgetary management system has yielded initial results yet remains in the preliminary stage. While progress has been made in reforming indirect taxes, the reform of direct taxes is slow and presents a major obstacle. Despite breakthroughs, the progress of public finance reforms remains slow and impedes reforms on other fronts. Fiscal and tax reforms are uneven and should be implemented in coordination. Fiscal and tax reforms should more vigorously support overall reforms.*

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The “new round of fiscal and tax reforms” in this paper refers to China’s fiscal and tax reforms since the release of the *Decisions of the CPC Central Committee on Some Major Issues Concerning Comprehensively Deepening Reforms (hereinafter the “Decisions”)* adopted at the Third Plenary Session of the 18th CPC Central Committee on November 12, 2013. This paper’s assessment follows two reference systems: the overall arrangements of the Decisions on deepening fiscal and tax reforms, and the *Overall Plan on Deepening Fiscal and Tax Reforms* adopted by the Politburo of the CPC Central Committee (hereinafter the “*Overall Plan*”).

This paper is structured as follows. Part 1

defines the basic characteristics of the modern fiscal and tax system in accordance with the *Decisions* and the *Overall Plan*. Parts 2, 3 and 4 evaluate the three components of fiscal and tax reforms - reforms of the budgetary management system, the tax system, and the public finance systems, and comprehensively assess the relationship between overall fiscal and tax reforms

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and reforms in specific areas. Part 5 offers concluding remarks and policy recommendations.

1. Evaluation Criteria: Basic Characteristics of the Modern Fiscal and Tax System

1.1 New Concepts and Strategies of Fiscal and Tax Reforms

The Decisions has made the following statement on the objectives of fiscal and tax reforms: “Public finance is the foundation of national governance and a science-based fiscal and tax system provides institutional assurances for optimizing resource allocation, maintaining market integration, promoting social fairness and achieving long-term national security. It is thus necessary to improve legislation, clarify administrative affairs, reform the tax system, stabilize the tax burden, increase budgetary transparency, raise efficiency, develop a modern public finance system and give play to central and local initiatives” (CPC Central Committee, 2013). This statement reveals at least three prominent characteristics of the new round of fiscal and tax reforms in China:

(1) Fiscal and tax reforms from the perspective of national governance

China’s previous fiscal and tax reforms were carried out based on the understanding that public finance was an economic concept and the fiscal and tax system was a component of the economic system. The new round of fiscal and tax reforms considers public finance as a concept of national governance and the fiscal and tax system as a component of the national governance system. This important and profound change implies that fiscal and tax reforms have been elevated to the level of national governance. China’s new round of fiscal and tax reforms must pursue the objective of modernizing the national governance system in coordination with reforms in economic, political, cultural, social and environmental spheres.

(2) Fundamental and supporting role of fiscal and tax reforms

China’s previous fiscal and tax reforms were carried out based on the functions of public finance and the fiscal and tax system in the economic

sphere to optimize resource allocation, adjust income distribution and bolster economic stability. Yet China’s new round of fiscal and tax reforms is carried out based on the brand-new functions of fiscal and tax and public finance systems as the “foundation of national governance” and “institutional assurances to optimize resource allocation, safeguard market integration, promote social fairness and achieve long-term national security”. This important change for the first time gives an appropriate definition of fiscal and tax reforms. China’s new round of fiscal and tax reforms must play a fundamental and supporting role in modernizing national governance.

(3) Fiscal and tax reforms from the perspective of modern fiscal and tax civilization

China’s previous fiscal and tax reforms were intended to develop a basic fiscal and tax system framework compatible with a socialist market economic system. The new round of fiscal and tax reforms is designed to develop a modern fiscal and tax system that supports the modernization of national governance. This important change puts fiscal and tax reforms seamlessly in sync with modern fiscal and tax civilization. The new round of fiscal and tax reforms must seek to modernize China’s fiscal and tax system.

1.2 Creating a Modern Fiscal and Tax System

China’s new round of fiscal and tax reforms is different from previous reforms in the sense that the objective of reforms is to develop a modern fiscal and tax system. China should draw upon the successful practices of typical market economies and lessons from transition economies and take stock of its own experiences in fiscal and tax reforms and development.

Based on the above understanding, the *Overall Plan* described the modern fiscal and tax system as follows: “a unified, complete, standard, open, transparent and efficient modern public finance system conducive to optimizing resource allocation, safeguarding market integration, promoting social fairness and achieving long-term national security” (Lou Jiwei, 2014). This statement is an important summary of the basic characteristics of the modern public finance system and may also serve as the evaluation criteria

of a new round of fiscal and tax reforms or the development of the modern fiscal and tax system.

More specifically, China's new round of fiscal and tax reforms encompasses the following three components: budgetary management reform, tax reform and public finance reform. If we use the basic characteristics of the modern public finance system as the objectives of reforms, we may follow a combination of objective-oriented and problem-oriented approaches in identifying the characteristics of subsectors.

1.3 Focus on Three Aspects

Based on the reform priorities set out in the *Decisions and the Overall Plan*, the objectives of the modern public finance system and the progress of fiscal and tax reforms, we will focus on the following three aspects in our study:

(1) Has a reform framework been established?

The answer depends on the progress of fiscal and tax reforms as set out in the *Decisions* and the *Overall Plan*, the issuance of regulatory documents, the coordination of reform priorities and the creation of a basic framework for the modern fiscal and tax system.

(2) Are reforms designed in line with the direction of the modern fiscal and tax system?

The answer depends on the design and the enactment of reform schemes and whether reform schemes reflect the basic characteristics of the modern fiscal and tax system.

(3) What is the role of fiscal and tax reforms in supporting overall reforms?

The answer depends on the implementation of reform policies and whether these policies effectively promote the modernization of national governance, support reforms in other areas and serve major strategic priorities established by the CPC Central Committee and the State Council.

2. Reforms of Budgetary Management System: Progress and Problems

2.1 Reform Objective: to Create a Comprehensive, Standard, Open and Transparent Modern Budgetary Management System

On the basis of a combination of objective-oriented and problem-oriented approaches, the *Decisions* and the *Overall Plan* have established the following objective for reforming the budget management system: to create a comprehensive, standard, open and transparent modern budgetary management system.

This objective can be explained at the following levels. Firstly, all government revenues and expenditures must be subject to the rule of law. Secondly, all government economic activities must be subject to the supervision of the People's Congress (China's legislature) at all levels and public oversight to ensure the accountability of executive powers (OECD, 2004; Gao Peiyong, 2014). Thirdly, greater importance should be attached to improving efficiency in the allocation and management of public funds. Lastly, China should contain national fiscal and tax risks and prevent the derivation of financial risks and social governance risks from fiscal and tax risks to achieve long-term national security.

2.2 Reform Progress: Initially Developing a Basic Framework of the Modern Budgetary Management System

In the new round of fiscal and tax reforms, reform of the budgetary management system is the earliest and most intensive reform and is also the most successful. The most important progress is the implementation of the newly-revised *Budget Law*, which came into effect in 2015. The new *Implementing Rules for the Budget Law* are under public consultation. In coordination with the new *Budget Law*, the State Council promulgated the *Opinions on Enhancing Local Government Debt Management* (Guofa 2014 No. 43), the *Decisions on Deepening Reform of the Budgetary Management System* (Guofa 2014 No. 45), the *Circular on the Approval of the Ministry of Finance's Reform Scheme for Government Consolidated Financial Reporting System on an Accrual Basis* (Guofa 2014 No. 63), the *Opinions on Reforming and Improving Central-Local Transfer Payment System* (Guofa 2014 No.71) and the *Opinions on Implementing Mid-Term Financial Planning Management* (Guofa 2015 No.3). The General Office of the

CPC Central Committee forwarded the *Opinions on Improving the Mechanism for the Reporting of the Rectification of Prominent Problems Found in Audit to the National People's Congress Standing Committee*. The Ministry of Finance also released relevant documents based on these reform priorities.

The progress can be summarized as follows:

(1) Establishing the basic concepts of the modern budgetary management system

The new round of fiscal and tax reforms has clarified that the Budget Law is intended to regulate government revenue and spending and tighten budgetary constraint; all government revenues and expenditures must be brought under budgetary management and supervision; all government revenues and expenditures must be standard and transparent; and the budget cannot be adjusted after approval by the People's Congress without completing the statutory process.

(2) Establishing a fully covered government budget system comprising the "four budgets" and increasing the openness and transparency of budget and final accounts

The new round of fiscal and tax reforms has developed a government budget system with clear positioning and division of work comprising the "four budgets" and clarified the mechanism of interconnection; brought 16 government funds under general public budget management and allocated a growing amount of state capital operating budget into the public budget; and subjected budget and final account openness to more detailed requirements with a greater degree of openness. The new *Budget Law* has further stipulated the procedures and powers of the People's Congress and its standing committees in budget formulation, review and approval, implementation and adjustment, and increased supervision by the People's Congress.

(3) Orderly implementation of institutional reforms

The following reform initiatives are under way: The Ministry of Finance is drafting the National Public Finance Planning 2016-2018 to create a cross-year budget balancing mechanism; the relevant detailed rules on the consolidated financial reporting system on an accrual basis

have been published and formulation of pilot programs started in 2016; the share of general transfer payment has increased, particularly transfer payment to ethnic minority areas, remote areas and poor areas; administrative measures for special transfer payment have been revised, the creation, adjustment and exit of transfer payment items have been clarified, and the performance management of special transfer payments has been enhanced; a mechanism for reporting the rectification of prominent issues found in audit has been reported to the Standing Committee of the National People's Congress (NPC) and the first report was made at the end of 2015; the linkage between major expenditures and the growth of fiscal and tax revenue or GDP have been straightened out and regulated. These reform initiatives represent top-level design to address the real problems in China's budgetary management system and follow the general requirements of the modern budget management system and have achieved certain results.

(4) Creation of local government debt management and risk early warning systems

The new *Budget Law* and relevant supporting documents stipulate that local governments may raise debts only in the form of government bonds. All financing platform companies are required to terminate their government financing function. Relevant policies are being drafted to propel the market-oriented transition of these financing platform companies. Local government bonds are divided into ordinary and special bonds. In addition, local governments must follow clear requirements on the annual limit of bond issuance, approval procedure, fund propose, budget management and risk management. In 2015 and 2016, the NPC approved the increase of local government bond issuance limit and the swap of local government debts proved successful. The Chinese government is developing a debt risk early warning and emergency response mechanism and supervising high-risk regions to resolve debt risks by raising funds from various channels. Reforms have strengthened the management of local government debts and reduced their interest payment burden and

prevented and resolved local government debt risks to some extent.

(5) Releasing, although later suspended, a plan for the standardization of tax incentives

The plan for standardizing tax incentives was released at the end of 2014 yet was suspended soon after the release due to concerns for stabilizing economic growth. Guo Fa [2015] No. 25 stipulates that the standardization of tax incentives should be suspended.

2.3 Problem Analysis: Reform of the Budgetary Management System Is in the Preliminary Stage

According to various reform priorities of the Decisions and the Overall Plan, China's reform of the budgetary management system remains in the preliminary stage and is largely an ongoing project.

(1) The four budgets lack coordination

The new *Budget Law* sets out the requirements for the formulation of the four budgets and requires the creation of an integrated budgetary management system. Yet at the operational level, the four budgets are far from being integrated and follow different management standards and levels of details. While some government funds are already under the general public budget, most are still under the separate management of various government departments. The four budgets are not consolidated into one single budget, which makes it hard to evaluate China's actual fiscal and tax revenues and expenditures. A prominent example is that there is no such concept of "fiscal and tax deficits" that covers all government revenues and expenditures. This seriously impedes the policy effect of macroeconomic regulation.

(2) Openness and transparency require top-level design

Judging by the current status, China's budget openness is inadequate and not transparent. Firstly, although the new *Budget Law* specifies the criteria of openness, some local government revenues and expenditures are yet to meet this requirement or follow inconsistent standards. Secondly, local governments are reluctant to make such information open to the public and tend to follow the minimum statutory requirements. Thirdly, legal requirements have certain loopholes

unfavorable to budget transparency. For instance, there is no requirement on the disclosure of basic information about fiscal and tax expenditures on such items as personnel and projects. As a result, the public cannot properly supervise the government and its departments.

(3) Inadequate off-balance-sheet information

The budget report should fully reflect the economic activities of the government and attach a few annexes to disclose information that cannot be included in the official budget forms. Except for a few budget statements, China's budget report only offers a few explanations on the statements and lacks off-balance-sheet information (Wang Xiuzhi, 2015). China should develop at least the following two types of off-balance-sheet information: firstly, debt and capital expenditure budget to fully disclose the size and structure of capital expenditures and debt financing; secondly, tax-type expenditure budget to better manage and disclose tax incentives.

(4) Local debt management system needs optimization

According to the new *Budget Law*, the NPC determines the total amount of local debts and only provincial governments are allowed to issue local government bonds to the public. A few questions deserve our attention. Firstly, how to reasonably determine and distribute the amount of debt issuance and meet local needs on the basis of risk control? Secondly, how to avoid protracted management chains, inefficient debt fund allocation and inconsistencies with local realities? Thirdly, should local government debts keep rolling or be repaid within a certain timeframe? Should local government debts be converted into central government debts or resolved by local governments themselves? The lack of clarity in the long-term institutional arrangements of local government debts has resulted in chaos of public expectations. Fourthly, local financing vehicles are not adequately straightened out. How to define the nature of development finance of China Development Bank and Agricultural Development Bank of China and particularly special construction funds? What are their long-term impacts on government debts? All these questions must be clarified.

(5) Budgetary and public finance management need to be strengthened

The newly-released reform initiatives require a solid foundation of budget and public finance management. For instance, government accounting on an accrual basis should replace budgetary accounting to support consolidated government financial report. According to local surveys, basic budgetary data are incomplete and fail to reflect a lot of information. Current reforms only make adjustments to budgetary statements rather than revamp the system. In addition, improvements must be made to mid-term budgetary system and budgetary performance management to straighten out the linkages between major expenditures and the growth of fiscal and tax revenues or GDP to strengthen the foundation of management and ensure consistency with the governance model.

3. Reform of Tax System: Progress and Problems

3.1 Reform Objective: Creating a Fair, Unified and Resilient Modern Tax System

According to the *Decisions* and the *Overall Plan*, reform of the tax system aims to create a fairer, unified and resilient modern tax system. This objective encompasses at least the following implications. Firstly, to strike a balance between fairness and efficiency and ensure fairness and justice in the distribution of the tax burden. Secondly, to optimize the structure of the tax system as a major objective in reforming the tax system. Thirdly, to attach greater importance to the combination of tax neutrality and non-neutrality and give greater prominence to the regulatory role of taxation. Fourthly, to promote social fairness and justice given the reality of unequal income and asset distribution in China (Gao Peiyong, 2015a) to achieve good national governance.

3.2 Reform Progress: Reform of Indirect Taxes Is Relatively Smooth but Reform of Direct Taxes Is Rather Slow

This round of reforms includes the following components (“six taxes and one law”): to initiate the reforms of six types of taxes, including VAT, consumption tax, resource tax and environmental

tax as indirect taxes, as well as personal income tax and property tax as direct taxes. In addition, the Law on the Administration of Tax Collection should be amended in coordination with relevant reforms.

So far, the following achievements have been made:

(1) Implementation of business tax to VAT reform on the full scale

In 2012, China initiated the pilot programs of business tax to VAT reform, which was rolled out on a nationwide basis as of May 1, 2016. As a result, business tax has ceased to exist. This reform accomplished the reform priorities of expanding and transforming VAT to reduce market distortions and promote service sector development - these objectives were left over from the tax reform of 1994. China is in the final stage of creating a modern VAT system that meets international practices and reflects its own national conditions. This is the most wide-ranging tax reform in China since 1949.

(2) Resource tax reform has progressed smoothly

In 2014, China completed the *ad valorem* collection reform of coal resource tax and adjusted the applicable tax rates for crude oil and natural resources. As of July 1, 2016, China launched reforms to increase the scope of resource tax collection, replace fees with taxes and implement *ad valorem* collection reforms¹. Resource tax reform will effectively give play to the leverage of taxation, promote the sustained and healthy development of resource sectors and propel economic restructuring and transition of the development pattern.

(3) The scope of consumption tax collection is gradually expanded

In 2015, batteries and coating materials were included in the scope of consumption tax collection. The ensuing increase of fuel oil consumption tax burden three times aroused a great deal of controversy as well (Wang Dehua, 2015).

(4) Implementation of institutional reforms on tax collection and management

The *Law on the Management of Tax Collection* is currently under public consultation. The *Scheme on Deepening the Reforms of State*

Tax and Local Tax Collection and Management Systems promulgated by the General Office of the CPC Central Committee and the General Office of the State Council have adopted the principle of cooperation yet non-combination between state tax and local tax and called for rationalizing the division of tax collection and management responsibilities, innovating tax payments service mechanism and transforming tax collection and management methods.

In general, the reform priorities of “six taxes and one law”, business tax to VAT reform and resource tax reform as set out in the *Decisions* and the *Overall Plan* are near completion. Consumption tax reform is partially initiated with details yet to be announced. Reform of tax collection and management has been initiated but the revision of laws has yet to be completed. Reforms of environmental tax, personal income tax and property tax are currently under deliberation.

3.3 Problem Analysis: “Bottleneck” Barrier to “Lame Advancing”

The goal of China’s current round of tax reform is to “gradually increase the ratio of direct taxes” on the basis of “stabilizing the tax burden”. This implies that China aims to optimize its tax structure by reducing the share of indirect taxes and increasing the share of direct taxes. Following this objective, China has already initiated business tax to VAT reform and resource tax reform as indirect taxes in its three-year tax reform process. However, no substantial progress has been made in the reforms of personal income tax and property tax as direct taxes.

Such a “lame” or unbalanced advancing of the reforms has come to “bottleneck” barriers for the current round of tax reforms. This situation is closely related to China’s tax and national conditions.

(1) Misperceptions about indirect taxes

Due to historic and other reasons, most people in China are aware of direct taxes but not

so much aware of indirect taxes. For instance, personal income tax and property tax have drawn much greater public attention as compared with VAT as an indirect tax. In addition, the high proportion of indirect taxes is regarded by many as an advantage of China’s tax system. Under such a misperception, not only is China’s success in previous tax reforms attributed to the high proportion of indirect taxes but the stability and reliability of China’s tax revenues are also regarded as the benefits of indirect taxes. Given the perceived advantages of indirect taxes, the benefits of direct taxes received little public attention.

(2) Inertia of tax arrangements

While the collection of direct taxes takes away part of their income, taxpayers are less aware of the collection of indirect taxes. Different from many other countries, indirect taxes in China have been mixed with the prices of goods and services and are thus less perceptible. Naturally, the public is highly sensitive to changes in direct taxes and insensitive to changes in indirect taxes.

(3) Weaknesses in tax collection and management

China’s tax collection system is designed primarily for the collection of indirect taxes rather than direct taxes. It is designed to collect taxes from cash flow rather than inventory. Without a doubt, these weaknesses present barriers to the collection of personal income tax and property tax. In addition, various departments with vested interests are reluctant to share information, inhibiting the improvement of tax collection and management.

(4) Adversity of economic slowdown

The current round of tax reforms coincided with China’s economic slowdown, which makes it difficult to carry out reforms that may reduce revenues and disrupt social stability. Publicity on tax reforms focused on the policy effects of tax cuts while relatively ignoring the importance of reforms’ effects through improving the tax structure and income distribution. As a result, tax cut appears to be the standard for all tax reforms in the current environment of public opinion. This environment has inhibited tax reforms in many ways. In particular, the reforms of personal

¹ http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201605/t20160510_1984605.html.

income tax and property tax have been repeatedly delayed.

4. Fiscal and Tax Reform: Progress and Problems

4.1 Reform Objective: Promote Central and Local Initiatives

The Decisions and the *Overall Plan* depict the blueprint for fiscal and tax reforms with the objective of promoting central and local initiatives. This objective can be explained at the following levels. Firstly, fiscal and tax reforms must “give play to the initiative of all stakeholders” (Xi Jinping, 2016) in modernizing national governance and balancing vertical and horizontal relationships. Secondly, we should give greater play to the initiative of local authorities. This requires the fiscal and tax system to be designed in a way that offers incentives to local authorities regarding the division of fiscal and tax and administrative powers and spending responsibilities. Thirdly, clarifying the relationship between government and market is the foundation for balancing central and local relations. In this sense, the fiscal and tax system should be reformed to develop the check and balance between local and central governments to ensure the proper functioning of a unified market.

4.2 Reform Progress Is Slow and Effects Are Yet to Be Seen

(1) Developing a transitional plan for the sharing of central and local government revenues

Under the pilot programs of business tax to VAT reform launched in 2012, local governments are entitled to 100% of VAT paid by pilot companies. As of May 1, 2016, the increment of VAT revenues should be shared between central and local governments at the ratio of 50/50 with the base number of 2014 as a transitional plan for the coming two or three years². This transitional arrangement helps compensate for the local fiscal and tax shortage after the business tax to VAT reform and accommodates central and local interests.

(2) Releasing guiding opinions on the reform

of central-local division of fiscal and tax powers and spending responsibilities

According to the *Guiding Opinions on the Reform of Central-Local Division of Fiscal and tax Powers and Spending Responsibilities* (Guofa [2016] No. 49), by 2020, China should accomplish reforms in major areas and develop a standard and clear framework for the division of central-local fiscal and tax powers and spending responsibilities³. This document has also refined the principles and requirements on the division of administrative powers and spending responsibilities adopted at the Third Plenary Session of the 18th CPC Central Committee in 2013. Reforms should focus on the fiscal and tax powers of government at all levels to provide basic public services and increase the fiscal and tax powers of the central government⁴.

4.3 Problem Analysis: the Directions of Reforms Remain Vague

(1) Design of public finance reforms lacks specificity

In the new round of fiscal and tax reforms, progress in adjusting central-local fiscal and tax relations is slow by all standards. The basic principles for adjusting central-local fiscal and tax relations are abstract and general, leaving specific questions unanswered. For instance, which types of tax should have a greater proportion for local governments? Which public services are cross-regional for which central and local governments should share administrative powers?

(2) The directions of fiscal and tax reforms remain unclear

This round of fiscal and tax reforms is intended to “promote central and local initiatives”. However, there is no clear answer as to how to achieve this objective. As a reform outcome, the plan on the division of administrative powers

² http://www.gov.cn/zhengce/content/2016-04/30/content_5069490.htm.

³ http://www.gov.cn/zhengce/content/2016-08/24/content_5101963.htm.

⁴ http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/201608/t20160826_2403506.htm.

and spending responsibilities is reduced into the division of fiscal and tax powers and spending responsibilities. Guofa [2016] No. 26 Document only presented a transitional arrangement for the coming two or three years. Beyond this timeframe, there is no clear guideline to follow. Giving play to local initiative requires stable central-local fiscal and tax relations. However, the directions of China's fiscal and tax reforms remain unclear.

(3) Central and local governments have yet to build consensus on a reform plan

The lack of clarity in future reform directions stems from the fact that the central and local governments have not yet built consensus on fiscal and tax reforms. China's tax reform of 1994 established the "tax sharing system", which is now replaced with a sort of "revenue sharing system". How to develop new consensus on the future direction of fiscal and tax reforms is a difficult but important question (Gao Peiyong, 2015b).

Consensus is important in the sense that any reform initiative must be supported by local governments. Without consensus, it would be difficult for a reform program to be implemented without resistance.

5. Concluding Remarks: Fiscal and Tax Reforms Must Support Overall Reforms

China's reforms of the budget management system, tax system and public finance system are carried out in parallel and must be coordinated with each other. The new round of fiscal and tax reforms must be evaluated in the context of overall reforms.

5.1 Fiscal and Tax Reforms Are Falling Behind Other Reforms

As discussed previously, reform of the tax system is intended to regulate central-local fiscal and tax relations and is currently under deliberation. The three components of the new round of fiscal and tax reforms are not simply parallel to each other. In fact, they are closely interconnected. The slow progress of fiscal

and tax reforms inevitably impedes the overall reform process, creating a bottleneck that hobbles reforms on other fronts.

Firstly, the slow progress of fiscal and tax reforms has impeded the implementation of business tax to VAT reform, which requires adjustments in central-local fiscal and tax relations in sync with changing local tax sources.

Secondly, the slow progress of fiscal and tax reforms has compromised the standardization and transparency of non-general public budget. Despite the implementation of the newly revised Budget Law almost two years ago, its supporting document *Implementing Rules of the Budget Law* is still under public consultation.

Thirdly, the current status of fiscal and tax reforms fails to reassure local governments about central-local fiscal and tax relations. This has inhibited the implementation of macroeconomic policies.

Obviously, it is of great importance to bring about synergy of the reforms of the tax, budgetary management and public finance systems. Yet the slow progress of fiscal and tax reforms has become an impediment to overall reforms, which must be addressed as soon as possible.

5.2 Fiscal and Tax Reforms Should Support Overall Reforms

The new round of fiscal and tax reforms is another fundamental priority and must support overall reforms. We should recognize the positive progress and gaps in China's fiscal and tax reforms.

Firstly, fiscal and tax reforms should proactively support reforms in such sectors as justice, education and science and technology. In supporting judicial reforms, administrative and spending responsibilities should be moderately concentrated at the central level. A funding mechanism for judicial and public security systems should be created and compensation for judges should be reformed. Guofa [2015] No. 67 Document requires improving the educational spending assurance mechanism for urban and rural compulsory education and initiating transfer payment for compulsory education. The central government is revamping the management of

science and technology programs to improve efficiency. Vertical management has been adopted for environmental agencies below the provincial level.

Secondly, we should proactively advance supply-side structural reforms. In 2016, the central government allocated 100 billion yuan as incentives and subsidies for the re-employment of workers laid off as a result of programs to “reduce capacity, inventory, leverage and cost and compensate for weak areas”.

Thirdly, we should undertake supporting reforms related to agriculture, the countryside and farmers. Since 2015, China has initiated pilot reforms of agricultural subsidy and significantly increased fiscal and tax expenditures on poverty alleviation, agricultural development and countryside infrastructure⁵.

Fourthly, we should reform the government investment system. China has vigorously promoted the public-private partnership (PPP) model for infrastructure and other sectors to increase investment efficiency and expand the scope of private investments and has achieved certain progress in PPP demonstration projects. Explorations have been made to create government investment funds to support industries.

Fifthly, the progress of social security reforms is slow. As an important element of national governance modernization, the social security system deeply influences budgetary management, central-local fiscal and tax relations, fiscal and tax risks and even the design of the tax system. Therefore, reform of the social security system is a major priority of institutional reforms. While the Decisions laid out the reform objective of “creating a fairer and sustainable social security system”, progress in social security reforms has been slow. Not only is pension reform program still under deliberation, there has been no significant reform initiative regarding medical insurance and the public health system. Social security reforms must keep abreast with

and be supported by fiscal and tax reforms. ■

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⁵ http://www.mof.gov.cn/zhengwuxinxi/zhengcefabu/201604/t20160425_1963571.htm.