China's Tax Policy

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Abstract

Taxation systems serve as essential instruments for facilitating income redistribution and ensuring fiscal sustainability within any economy. While China's current tax policy is characterized as progressive, it has demonstrated shortcomings in effectively addressing its growing income inequality. Conversely, Finland's highly progressive taxation framework is structured to significantly reduce income disparities while simultaneously securing robust government revenues. This report aims to analyze the redistributive impacts of China's existing tax framework and examine the potential implications of implementing Finland's tax brackets. By applying Finnish tax rates to the income distribution of China, the report assesses variations in government revenue, income equality, and economic behaviors. Additionally, the study explores the ramifications of closing the revenue gap through modifications in government expenditure, the accumulation of debt, or alterations in social transfers, thereby providing a thorough perspective on the advantages and disadvantages of transitioning to a more progressive taxation system. We commence with the presentation of tax tables and the Tax Formula, detailed below. Utilizing China's income data, we subsequently calculate the redistributive effects of taxation, emphasizing government revenues, public spending, and income distribution.

(Annual taxable income x Tax rate) - Quick deduction

Table I

Annual taxable income (CNY*) (1)	Tax rate (%)	Quick deduction (CNY)
0 to 36,000	3	0
Over 36,000 to 144,000	10	2,520
Over 144,000 to 300,000	20	16,920
Over 300,000 to 420,000	25	31,920
Over 420,000 to 660,000	30	52,920
Over 660,000 to 960,000	35	85,920
Over 960,000	45	181,920

Source: [China, People's Republic of - Individual - Taxes on personal income](#)

Percentile	Before-Tax Income (CNY)	Tax Liability (CNY)	After-Tax Income (CNY)
p0-10	125.74	3.77	121.96
p10-20	10,049	301.47	9,747.53
p20-30	19,058.31	571.75	18,486.56
p30-40	28,683.95	860.52	27,823.43
p40-50	39,246.59	1,404.66	37,841.93
p50-60	50,739.84	2,553.98	48,185.86
p60-70	64,070.30	3,887.03	60,183.27
p70-80	81,154.14	5,595.41	75,558.73
p80-90	110,277.54	8,507.75	101,769.79
p90-100	1,203,934,801	541,588,740.45	662,346,060.55

To determine the post-tax income, I analyzed the pre-tax national income for China from 2010 to 2023 and established a representative value for each income percentile (where p0 represents the lowest wealth and p100 is the highest). Subsequently, I utilized the tax tables and formulas available to compute the after-tax income. Tax liabilities vary according to the income brackets within each percentile group, which I calculated by multiplying the applicable tax rate by the representative income for that bracket. It is evident that tax liabilities escalate for each income group, with higher percentage burdens on lower income brackets, reflecting China's progressive tax system. The total revenue generated amounts to 541,588,740.45 CNY.

Demographic Characteristics of Taxpayers by Income Categories

The income distribution across percentiles reveals distinct demographic characteristics influenced by factors such as marital status, dependents, age, gender, and occupation. Lower percentiles (p0-30) predominantly consist of young adults aged 20-30, often single and newly entering the workforce. These individuals typically possess lower educational qualifications and are employed in blue-collar or entry-level white-collar positions. Conversely, middle percentiles

(p30-70) are largely composed of married individuals, with or without dependents, aged 30-50, who occupy mid-level professional roles or manage small businesses, and generally exhibit moderate to high educational attainment. The upper percentiles (p70-90) include senior professionals, business executives, and highly educated individuals, mainly married and aged 40-50. At the very top (p90-100), households are characterized by high-income earners, often older than 50, with multiple dependents, typically holding positions as entrepreneurs or corporate leaders.

The tax burden in this progressive tax system increases markedly with income levels. Lower percentiles incur minimal taxes, thereby retaining nearly all their income, while the top 10% (p90-100) experience an effective tax rate of 45%, significantly contributing to government revenues. The middle-income group (p40-70) manages a moderate tax burden, reflecting the system's objective to provide income protection for lower earners while ensuring redistribution from higher earners. However, the substantial taxes remitted by the top percentile highlight the pronounced inequality in pre-tax incomes, underscoring the need for redistribution mechanisms to address economic disparities among demographic groups.

The progressive tax structure mitigates income inequality (evidenced by Gini coefficients) but relies heavily on the top percentile for tax revenue.

Pre-Tax Gini coefficient	0.4414
Post-Tax Gini Coefficient	0.4280
Kalwani Index	0.4250
Average Effective Tax Rate	0.0344

Data From CHIP Calculations

The pre-tax Gini coefficient (G_0) quantifies income inequality prior to taxation, recording a value of 0.4414, which reflects a moderate level of inequality. The post-tax Gini coefficient (G^+) evaluates income inequality subsequent to taxation, indicating that tax reforms have a modest effect in reducing the Gini coefficient, thereby contributing to the alleviation of inequality.

China's tax structure encompasses 25 distinct taxes classified by their respective functions. This includes turnover taxes such as the Value-Added Tax (VAT) and Consumption Tax, income taxes like Corporate Income Tax and Personal Income Tax, and resource taxes including Resource Tax and Urban Land Use Tax. Property and behavior-related taxes comprise Real Estate Tax, Land Value Appreciation Tax, Vehicle and Vessel Tax, Stamp Duty, and Deed Tax. Environmental taxes consist of the Environmental Protection Tax, while agricultural and land taxes involve the Farmland Occupation Tax. Customs duties incorporate Customs Duty and Tonnage Duty, with specialty taxes comprising the Tobacco Leaf Tax and Urban Maintenance and Construction Tax. Notably, lesser-known taxes such as the Environmental Protection Tax, which is levied on polluting entities, and the Farmland Occupation Tax, applicable when agricultural land is repurposed for development, underscore the government's commitment to sustainable development and resource management. Additionally, non-tax levies such as education surcharge bolster funding for infrastructure and educational initiatives.

How Does the Chinese Government Facilitate Income Redistribution?

The Chinese government undertakes income redistribution through an extensive network of social transfers, primarily facilitated by its social security framework, which aims to mitigate inequality and provide financial assistance. Essential components include:

Pension Insurance has a wide array of groups through various schemes such as Urban Employee Pension Insurance, the integrated rural and urban retirement pension schemes (URRPS), and state-sponsored pensions for civil servants. The benefits across these schemes vary significantly, with rural pensions generally being the lowest. Medical Insurances comprise of Urban Employee Basic Medical Insurance, the combined Urban and Rural Residents Basic Medical Insurance (URRBMI), and programs like the New Cooperative Medical Scheme (NCMS) for rural populations. Reimbursements are contingent upon medical expenses and hospital classifications, often to the advantage of wealthier beneficiaries. Social Relief (Dibao Programs): These minimum income guarantee initiatives target urban and rural poverty, and their effectiveness depends on local fiscal capacities, leading to disparities in benefits. Rural-Specific Schemes: Subsidies and rural development programs are designed to address the disparities between urban and rural areas, reflecting a commitment to equitable regional growth. This comprehensive system exemplifies China's multifaceted approach to income redistribution, incorporating both universal and targeted initiatives.

Modifying the Finnish Tax System for Application in China

To effectively implement the Finnish tax system, it is imperative to make adjustments that acknowledge the differences in per capita GDP, income distribution, and overall economic conditions between Finland and China.

Adjusting Tax Brackets:

The tax brackets and thresholds of Finland will be proportionally adjusted based on this factor in Chinese yuan (CNY). Utilizing the provided income data from China, each income percentile will be aligned with the newly adapted Finnish tax brackets.

Percentile	Pre-Tax Income (¥)	Tax Liability (¥)	Post-Tax Income (¥)
p0-10	125.74	0.0	125.74
p10-20	10,049.00	0.0	10,049.00
p20-30	19,058.31	298.40	18,759.91
p30-40	28,683.95	1,734.59	26,949.36
p40-50	39,246.59	3,701.86	35,544.73
p50-60	50,739.84	6,050.00	44,689.84
p60-70	64,070.30	9,280.00	54,790.30
p70-80	81,154.14	15,240.00	65,914.14
p80-90	110,277.54	26,320.00	83,957.54
p90-100	1,203,934,801.00	541,370,960.25	662,563,840.75

The total tax liability across all percentiles, using the Finnish tax brackets adapted to Chinese income data, is approximately **541,433,585.10 Yuan**.A significant portion of the population falls below the exemption threshold of the Finnish tax system, reducing overall revenues from lower-income groups. And, the overall revenue is higher in the Chinese system due to this.

Consequences of Revenue Changes
Decreased Revenue would lead to public spending on key programs being cut. This could encourage private-sector participation. But, there would be reduced access to essential services for vulnerable groups. If Revenue Changes are met by indebtedness, debt rises to cover There might be maintenance of social programs in the short term, but in the long run, the burden of debt and the risk of fiscal crises could become significant challenges. When revenue decreases, social transfer reductions could exacerbate inequality, leaving those dependent on such programs more vulnerable. This approach encourages self-reliance, but it weakens the support systems for vulnerable populations, which could harm the most disadvantaged.

Implications for Income Distribution
If Finland's progressive tax system were adopted, lower-income households would benefit from higher exemptions, which would promote wealth redistribution and narrow income inequality. However, the high marginal tax rates in such a system may discourage entrepreneurship and reduce the productivity of higher-income earners. Currently, China's tax system, with its flatter rates, benefits middle- and upper-income groups but perpetuates inequality for lower-income earners. While this system fosters investment and consumption, it does little to reduce the wealth gap.
The merits of the Finnish system are evident in its progressivity, which leads to a more equitable redistribution of wealth, benefiting lower-income households. The system also supports robust public services through its progressive tax structure and promotes social cohesion by reducing inequality and fostering inclusion. However, adopting this system in China presents challenges. High marginal tax rates could deter foreign investment and entrepreneurial activity, which is crucial for China's growth. Furthermore, the complexity of the Finnish tax system would be difficult to implement in China due to its larger population and significant regional disparities.

In contrast, the Chinese system is simpler and easier to administer, making it more efficient in a country with such a large population. It also promotes economic growth by encouraging investment and consumption. However, the system has significant drawbacks. It fails to adequately address inequality, leaving wealth distribution largely unaltered. Additionally, the tax base is narrow, with a relatively low tax burden on high-income earners, meaning the government misses out on substantial potential revenue from wealthier individuals.

Concluding Remarks
Adopting Finnish taxation policies in China would likely increase progressivity, benefiting low-income earners while imposing higher tax burdens on wealthier groups. This could result in increased overall revenue, assuming enforcement is effective. The redistribution of wealth would strengthen social welfare, although it could lead to economic inefficiencies if poorly managed. Balancing the benefits of Finnish progressivity with the realities of China's economic structure is

essential. A hybrid approach that adapts Finnish principles while taking into account China's unique economic conditions may be more practical and beneficial in the long run.