

Adaptability Adjustment of China's Fiscal and Taxation Policies under "New Normal"

—Based on Korea's Experience

Yuanqing Han

Jinan University, Guangzhou, China

Email: 814132194@qq.com

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Abstract

In recent years, the economic development of China has gradually showed the different characteristics from the past and has entered the new normal. Under the new normal, China's economic growth trends and characteristics have undergone the great changes, the economic growth is in transition from high-speed growth to the medium-high-speed growth, and the economic growth model will be transferred from relying on exports and investment to relying on being driven by the domestic demand, the key for economic growth will be transferred from the factor driven to the innovation driven. At present, the main task of China's economic development is to adapt to new normal. As an important means of national macro-control, fiscal and taxation policies have their own problem of inadequate system supply. This thesis intends to study the deficiencies of China's fiscal and taxation policies under new normal, and propose the suggestions for the adaptability adjustment of fiscal and taxation policies. The study finds that under new normal, there's difficult economic transition due to the insufficient supply of China's fiscal and taxation policies in terms of the income, encourage innovation and environmental protection, and it is urgent to supplement and adjust China's existing fiscal and taxation policies. Based on the reference to beneficial experiences of adjustment of Korea's fiscal and taxation policies, combined with the actual situation of China, this thesis puts forward that the fiscal and taxation policies in China under new normal should be improved greatly from the aspects of tax structure, fiscal and taxation support of the scientific and technological innovation and fiscal and taxation policies of environmental protection, and others.

Keywords

New Normal, Fiscal and Taxation Policies, Korea, Adaptability Adjustment

1. Introduction

China's economy into new normal is mainly caused by changes in factor endowments. After the reform and opening up, China's economy has experienced the stage of more than 30 years of rapid growth [1], which is rare in the world. From 1979 to 2010, the average Gross Domestic Production (GDP) growth rate reached 9.9%, which was close to double-digit. After China's accession to the World Trade Organization (WTO) in 2001, GDP growth rate had maintained the high double-digit high value for many years, which was called as the miracle of the world economy. But after 2010, there's very obvious momentum shift in China's economic growth, GDP growth rate in 2010 was of 10.6%, and it fell to 9.5% in 2011, a decrease of 1.1%, the decline was very obvious, GDP continued to decline in 2012, and it fell to 7.8%, a decrease of 1.7% lower than the previous year, the decline was more obvious, GDP in 2015 fell to the lowest point in recent decades, which was 6.9%¹, the economic growth rate was minimum in nearly two decades, economic downward pressure was increased further. There are a lot of factors leading to the declined economic growth speed in China, from the demand perspective, since the international financial crisis in 2008, there's the decline in external demand, and the decline in export growth rate driving China's economic growth. In addition, unreasonable income distribution pattern and expanded income distribution gap in China leads to the declined household consumption growth. From supply perspective, it's mainly due to China's population structure has undergone the great changes, the growth rate of 15 - 59-year-old working-age population has been in decline year by year and reached its peak recently, the process of the population aging has been significantly increased. The "demographic dividend" supporting China's economic growth for a long time will be gradually lost, and the labor cost shows the trend of constant increase. This means a fundamental change in China's factor endowment.

In May 2014, after Chairman Xi Jinping proposed "new normal" expression for the first time when he studied in Henan², Central Economic Work Conference proposed to take the initiative to recognize new normal, to adapt to new normal and lead new normal. The modern fiscal system has become a pillar of national governance. Under the background of China's economic growth enters into new normal, it's of great significance to discuss the demand of fiscal and taxation policies will be faced by China under its new normal, using the effective fiscal and taxation policies to promote economic structure transformation and upgrading, while promoting China's economic development to adapt to new normal as soon as possible.

2. Connotation and Features of New Normal of China's Economic Development

From the epistemological point of view, the economic "new normal" is essentially about realistic description and theoretical characterization of long-term phenomenon and historical features of a stage of economic development. The object of cognition is the

¹Data source: National Bureau Statistics (<http://data.stats.gov.cn/ks.htm?cn=C01>).

²Data Source: People.cn (<http://theory.people.com.cn/n/2014/1210/c136457-26180143.html>).

“normal” phenomenon of holism in a historical stage determined by the objective regularity of economic development. The so-called “normal” phenomenon, in fact, is the universality, “most” or “high probability” phenomenon occurs over a long period of time. Economic “new normal” is a new stable state, namely, it is to transfer China’s long-term “high-speed, high consumption and high pollution” economic development into “medium-high-speed, low consumption, less pollution” economic development.

The first obvious characteristics of economic growth new normal is the constant slowdown in economic growth, China’s economic growth rate is gradually transferred from annual growth of nearly double-digit to medium-high-speed and even the growth at a moderate speed. It can be seen from China’s economic data in recent years that there’s very obvious economic growth rate of decline in China, which is mainly due to: from the demand perspective, the international economy as a whole is still unstable, showing slow recovery, and therefore there’s the insufficient the overall demand, which to a large extent has affected China’s export situation. In recent years, China’s total import and export growth rate has shown the single digits, and it was 2.4% in 2014³, there’s even the negative growth of the import and export growth rate in 2015, which has great difference compared with the previous double-digit growth in import and export growth rate. For a long time, China’s rapid economic growth has been benefited from the rapid development of foreign trade, and its downturn trend has a great negative impact on China’s economy. In addition, China’s domestic demand has great potential and expansion in the domestic demand has become China’s choice of economic growth, but China has slow growth in consumer demand, China’s final consumption rate dropped from 62% in 2001 to 49.1% in 2010, reaching a minimum, followed by a series of measures to stimulate the consumption, and finally there’s some increase in the consumption rate, which was 51.4% in 2014³, but there’s slow increase rate. The most important factor affecting consumption is the distribution of income, the irrational distribution of national income, and widening income inequality have led to the decline in consumption rate. From the supply perspective, the changes of China’s labor force and other factors of endowment are the internal factors of continuously economic downturn. After 2001, the proportion of the labor force aged 15 - 64 years in China increased year by year and reached a peak of 74.5% in 2010³, which declined continuously after 2010, and was down to 73.4% in 2014. At the same time, there’s declining birth rate of China’s population, according to the relevant data, the proportion of population aged 0 - 14 in China declined continuously from 22.5% in 2001 to 16.5% in 2014, while the aging population was rapidly rising, and the aging population rose from accounting for 7.1% in 2001 to 10.1% in 2014. Thus, China’s labor force is shrinking constantly, China’s economic development advantages of the long-term “demographic dividend” will gradually disappear, which shows that China’s factor endowment is undergoing fundamental changes. The rapid increase in the labor costs will be a heavy burden on China’s labor-intensive industries, industrial advantages will gradually disappear. At the initial stage of 2008 financial crisis, the problem of excess capacity brought about by

³Data Source: China Statistical Yearbook 2015 (<http://www.stats.gov.cn/tjsj/ndsj/2015/indexch.htm>).

China's strong stimulus plan was very serious, and it took certain time for the consumption of stock. Second, China's economic growth model is the emergence of new development. China's economic growth should gradually bid farewell to the past mainly by the old model of investment and exports, and turn to be mainly driven by consumption. After reform and opening up, China's rapid economic growth depends on investment and exports, but China's economy has currently developed to a certain stage, the driving role of investment in the economy is limited, while investment will cause the excessive production capacity and local financing platform debt and other serious consequences. As for the export, since advantages of China's "demographic dividend" gradually disappear, and the mode of constant expansion of labor-intensive product export by relying on labor cost advantage will be unsustainable. Therefore, under economic new normal, China's economic growth needs to be driven by relying on consumption. Finally, under the new normal of economic development, the driving force of China's economic development will be changed accordingly. The previous approach of China's economic development relying mainly on the industrial expansion formed by factor accumulation is infeasible, with China's industrialization, the urbanization has entered a new historical stage, environmental protection and resource conservation, urbanization and changes in factor endowments, the traditional labor-intensive needs to upgrade towards capital-intensive and technology-intensive industries (such as labor-intensive industries), which requires the realization of endogenous growth of China's economy, and therefore, it is necessary to change the production function to expand the production frontier, which must rely on the promotion of total factor productivity (TFP), namely it is to vigorously promote institutional change while promoting the technical progress and achieving the innovation-driven.

3. Problems of China's Insufficient Supply under the New Normal

Under new normal of economic development, there are great changes in trend and characteristics of China's economic growth, and the economic growth rate will be in transition from high-speed growth to medium-high-speed growth, and the mode of economic growth will transfer from depending on driven by export and investment to relying on driven by domestic demand, and the key for economic growth will transfer from factor driven to the innovation driven. However, under the "new normal", as the important means of the national macro regulation and control, fiscal and taxation policies have the problem of insufficient supply. In the following content, the author will discuss the problem of insufficient supply of China's fiscal and taxation policies from three aspects of the income distribution, innovation-driven, and environmental protection.

(a) Adjusting the insufficient fiscal and taxation policies in the income distribution to reduce the overall spending power of residents

In the past 30 years, although there's very rapid economic development in China, the development is extremely imbalance, the development in the eastern part is generally better than that in the west, and the development in coastal areas is faster than that in

the mainland. In this regard, there will be a big gap in people's income, the gap between the rich and poor has been widened, and the marginal propensity to consume has been continuously reduced [2]. As a result, the relevant data show that China's consumption level as a whole has been declining. As the most important tool to regulate income distribution, the insufficient supply of fiscal and taxation policies is the main cause of the shortage of effective consumption demand, which is mainly manifested in the serious imbalance of the relative ratio of direct tax to indirect tax⁴. In 1994, China's direct tax accounted for only 13.8% of the total tax revenue⁵, indirect tax accounted for 73.0%, and this situation matched the status of China's commodity economic development at initial stage. International experience shows that with the continuous improvement of the level of economic development, the role of indirect tax is in constant decline, the relative proportion will continue to decrease accordingly, the proportion of indirect tax in China in 2013 dropped to 51.5%, direct tax was 26.2%, there's still the large gap at the imbalanced state.

Direct tax has a more obvious adjustment function of the income redistribution, while the main taxes in the indirect tax are often "regressive", and therefore the indirect tax does not have the function of adjusting and narrowing the income gap, the imbalance of the relative proportion between direct tax and indirect tax will make the fiscal and taxation policies adjusting the income distribution become insufficient. First of all, there's the insufficient income redistribution of personal income tax in China's direct tax, on the one hand, China's personal income tax accounts for a too small proportion of the total tax, and the proportion was of 5.9% in 2013⁷. On the other hand, China is with insufficient function in personal income tax system to adjust income distribution. The individual income tax system adopts the classified collection approach, compared with the comprehensive collection method, and the latter has the stronger function in the adjustment of the income distribution. Secondly, China is in serious lack of a complete property tax system, property tax is indispensable for future economic development in China. In addition, there's a serious shortage of financial supply in China's social security, at present, China has established a basic system of the public services, but it still has too much difference compared with the demand of the ordinary demand in terms of the social security, health care, and education system, many people have been unbearable for the heavy burden. At present, China's social insurance fund-raising is still in the form of "fee", there's low security in social security fund, there are many situation of the employers and individuals do not pay, unpaid, and interrupted payment.

(b) Undesirable effect of fiscal and taxation policies supporting the industrial restructuring and technological innovation, which has affected innovation-driven ascensions

In the past 30 years, China's rapid economic growth has been relied on low-end manufacturing. However, with the gradual disappearance of "demographic dividend"

⁴Note: Direct tax = corporate income tax + personal income tax + property tax (referring to real estate leasing property tax); Indirect tax = consumption tax + value-added tax + business tax + customs duty and value-added tax and consumption tax levied on behalf of import part + city maintenance and construction tax.

⁵Data Source: China Statistical Yearbook 2014 (<http://www.stats.gov.cn/tjsj/ndsj/2014/indexch.htm>).

advantage in China, the low-end manufacturing industry has also gradually lost its advantage, and China's economic development needs to adjust the industrial structure by relying on innovation-driven. In recent years, China's fiscal and taxation policies have increased the support of the industrial restructuring and technological innovation, but the effect is not satisfactory, this is mainly because these policies are mostly concentrated in the output link, and the set conditions are more stringent. There's insufficient support for R&D investment in early stage of science and technology, and R&D activities, especially the lack of support for the failed corporate R&D test and risk investors, this has reduced the enthusiasm of enterprise research and development in early stage. As shown in **Table 1**, compared with Korea and other OECD countries, the share of R&D in China is in significantly lower proportion to GDP. In 1998, this proportion of Korea's reached 2.16%, while China's was only 2.09% in 2014, China's proportion of R&D expenditure to GDP was not only far behind the proportion of that in Korea, which was also lower than average level of member countries of the Organization for Economic Cooperation and Development at the same period.

Table 1. Proportion of R & D of Related Economies and experiment expenditure to GDP (%) during from 1998 to 2014.

Year	Korea's proportion of R&D expenditure to GDP	Proportion of OECD national average R&D expenditure to GDP	Proportion of China's R&D expenditure to GDP
1998	2.16	2.05	-
1999	2.07	2.10	-
2000	2.18	2.14	-
2001	2.34	2.18	1.00
2002	2.27	2.15	1.10
2003	2.35	2.15	1.30
2004	2.53	2.13	1.35
2005	2.63	2.16	1.30
2006	2.83	2.19	1.41
2007	3.00	2.22	1.49
2008	3.12	2.29	1.52
2009	3.29	2.34	1.62
2010	3.47	2.30	1.75
2011	3.74	2.33	1.83
2012	4.03	2.34	1.97
2013	4.15	2.37	2.09
2014	4.29	2.37	2.09

Data source: OECD (<https://data.oecd.org>); National Annual Bulletin of Statistics (<http://www.stats.gov.cn/tjsj/tjgb/ndtjgb/index.html>).

(c) Imperfect fiscal and taxation policies in environmental protection has hindered the sustainable development of the economy

Over the past 30 years, economic development has caused serious environmental pollution, there's serious ecosystem damage, air, water and soil pollution have also been in very serious pollution. The main reason for such serious environmental problem is due to China's imperfect fiscal and taxation system in environmental protection. The economic incentive system of environmental protection in China mainly includes taxation means, charging means and financial means, but there is no corresponding supporting measure. Therefore, there's no desired effect. Currently, China mainly control pollution in the form of charges, which is with little effect, leading to environmental funds in China is difficult to guarantee, thus it cannot compensate for the externalities caused by pollution, so that pollution is not duly controlled.

4. Korea's Experience Reference

Both Korea and China are catching-up type of countries, and they are similar in economic development model. In the end of the 20th century, Korea also experienced the economic growth shift, during 1961-1997, the annual average growth rate in Korea GDP was of 8.85%, during 1998 to 2014, the annual average GDP growth rate turned down to 4.14%⁶, Korea has obvious "growth shift" after the rapid growth, which has a lot of similarities to the new normal of China's economy. Korea has successfully crossed the "middle income trap" after the shift of economic growth, and it has adopted relatively positive fiscal and taxation policies in the shift period of economic growth, which has promoted the rebalancing of economic structure and the transformation of growth momentum. China is in the shift period of economic growth, and it is striving to across the "middle income trap", therefore, by drawing on the experience of Korea's taxation can further clarify the current needs of fiscal and taxation policies in China. The author will make the specific elaboration of relevant experience of Korea's fiscal and taxation policies from the following aspects.

(a) Fiscal and taxation policies regulating the income distribution

Compared with China, Korea does not have the situation of serious imbalance between the proportion of direct tax and indirect tax. During 1990-1997, proportion mean of Korea's direct tax to total tax was 30.7%⁷, and the proportion mean of indirect tax was 30.7%, which was in equivalent. During 1998-2013⁷, the proportion mean of Korea's direct taxes and indirect taxes was respectively 34.0% and 27.3%. After the economic growth shift in Korea, the share of direct taxes has been gradually increased. In 1990⁷, the share of Korea's direct tax was 25.1%, and the share of its indirect tax was 31.3%, and in 2013, the direct tax accounted for 37.5%, and indirect tax accounted for 26.4%, the shift state between direct and indirect taxes is occurring and will be continue. In the economic take-off stage, Korea has established the dual-based tax structure of indirect tax and direct tax. In the course of Korea's economic growth entering the new growth stage, the direct tax has gradually surpassed the proportion of indirect tax. The

⁶Data Source: The World Bank (<http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>).

⁷Data Source: The Bank of Korea (http://ecos.bok.or.kr/flex/EasySearch_e.jsp).

author will specifically analyze the fiscal and taxation policies for Korea to adjust the income distribution from several aspects below.

(1) Korea's personal income tax system. According to the classification of OECD on personal income tax types, the comprehensive income tax system is not used by Korea's personal income tax system, but a semi-comprehensive income tax system is adopted, namely, there's slight difference in the different types of personal income applicable tax rate. Due to the tax distortion caused by comprehensive income tax system, the single tax system has the weak adjustment regarding to the income distribution, semi-comprehensive income tax system is the result of the combination of the two. In recent years, the proportion of personal income tax to total tax revenue in China has been basically maintained at above 10% over the years. In 2013, this proportion was 15.4%⁸, which accounted for a larger proportion and played an important role in regulating income distribution.

(2) Property tax system of Korea. Korea's property tax is levied on buildings, ships and airplanes, etc. The "standard value" of the taxable assets is considered as the tax base. The tax rate varies depending on the property. Korea's property tax is actually a tax levied on land and buildings. Since the beginning of the 21st century, Korea's real estate prices have risen rapidly and there's the obvious real estate bubble. The government of Korea has taken a series of measures to maintain the stable and healthy development of the real estate market, promulgating the *Comprehensive Measures for Real Estate*, implementing a package of measures covering the taxation for real estate. In the tax policy, Korea has increased the level of tax burden of real estate holders, making the hoarding of the cost of immovable property to be greatly increased, the public cannot afford to store the real estate, thereby effectively reducing the real estate speculation, stabilizing the real estate market.

(3) Korea's social security tax system. Korea has a perfect social security system, and the real turnaround of Korea's social security system was in 1987, in the previous year, Korea's balance of international payments transferred from the "deficit" to "black", and the social welfare also transfers from slogans to implementation, thus to really implement the national security system into practice. The proportion of Korea's social security tax to total tax revenue rose from 1.7% in 1987 to 26.3% in 2013⁹. Korea's social security tax is based on the employer's operating income and employee's wage income. The tax paid by the employer is allowed to be deducted when the enterprise income tax is levied. The adoption of tax rate is based on the proportional tax rate of different items, as the source of income for the government to offer special services (medical, unemployment and pension); Korea's social security tax is with the role of income redistribution.

(b) Fiscal and taxation policies supporting industrial restructuring and technological innovation

After 1998, Korea began to vigorously develop the high-tech industries, hoping to achieve industrial restructuring, R&D funds grew rapidly during this period, as shown

⁸Data Source: OECD (<https://data.oecd.org/tax>).

⁹Data Source: OECD (<https://data.oecd.org/tax>).

in **Table 1**, the proportion of R&D expenditure to GDP reached a high level of 4.29%, through years of industrial restructuring efforts, Korea successfully achieved the goal of high-tech power. The tax policy for Korea to encourage scientific and technological progress is mainly reflected in the following aspects.

1. To encourage technology research and development

(1) Korea's technology development reserve system has attracted much attention. The system allows the relevant enterprises to draw technology development reserve of the annuity in proportion to their revenue based on the type of business, which is included in the relevant costs and allow the withdrawing of reserves to be used for the technical development and technological innovation investment plans in the coming years. However, if the withdrawn reserve is not used within the prescribed time limit, it shall be included in the profit of the enterprise and be taxed accordingly. Interest of the taxation shall be calculated according to the annual interest rate.

(2) The deduction of development costs for the technical personnel and accelerated depreciation of research and testing equipment. The expenses for the development of technology by the enterprises of the related industries through independent, entrusted or cooperative means can be deducted from the income tax beforehand and be carried forward year by year within 5 years. If the enterprise has the dedicated research and development institutions, enterprises purchasing the research and testing equipment directly used in the institution can enjoy the related tax deduction or depreciation and other related tax preferential policies.

(3) Relief concessions for turnover tax and income tax of research and development. For the import goods needed by the import scientific research or industrial technology as required by the R&D institutes and industrial technical cooperation research groups within the enterprise, the goods subject to exemption conditions may enjoy a certain percentage of tariff reduction and exemption, depending on the type of goods. For samples that are required for the development of new products or new technologies by qualified enterprises, it is exempted from the special consumption tax because of the difficulty in domestic production of the products that need to be imported from abroad, and the test and research samples for exemptions are stipulated. During the five years since the import, those products should be guaranteed to be used for the original declaration. The real estate used by the affiliated research institutes are exempted from local taxes, the buildings and land acquired directly for use in a subsidiary enterprise research institute should be exempted from purchase tax, registration tax, property tax, and comprehensive land tax. Foreign technical personnel for domestic services are exempted from personal income tax in order to attract foreign technical experts.

2. To encourage the transformation of results, enterprise and market-orientation

(1) Tax concessions in transformation of new technological results. Personal income tax or corporate tax may be waived for income derived from the transfer or lease of patents, technical tips or new processes. If the transferred object of new technology is the native personnel, the full transfer income is tax-free, or otherwise, part of the transfer income is tax-free.

(2) Tax concessions on the marketization of new technologies. If there's the need to expand the domestic demand for products developed by using new technology prior to export, a certain period of special consumption tax relief should be given in the initial stage of entering the market. In addition, the tax relief is implemented for engineering technology and other industries with high technical content, and the tax relief is implemented for technology-intensive medium and small enterprises at the starting up stage.

(3) Tax concessions for enterprise new technology. The pre-tax deduction or way of rapid depreciation for asset investment of enterprise new technology is implemented, for the new technology of domestic development achieving the asset investment as required by the enterprise can be deducted or rapidly depreciated according to certain proportion.

3. To encourage the development of new technology affair financial institutions and free trade zone

The encouragement of development of enterprises with high-tech content is business with large investment, high risk, and high value-added, which needs better financing environment, Korea government has actively carried out the tax preferential policies for financial institutions participating in the cause of new technology. The investment in new technology financial companies and the dividends received by such companies as a result of their investment will be subject to a preferential income tax rate and the loss and investment reserve for such companies may be included in the losses. In addition, Korea has actively set up the free trade zone to expand tax concessions of the high-tech investment in the region, and exempt the tariffs on imported research equipment.

(c) Fiscal and taxation policies for environmental protection

Similar to China, in the 1990s, after more than 30 years of extensive high-speed growth of Korea economy, its environment was suffered great damage. In addition, in order to cope with the situation of environmental degradation, Korea began to provide fiscal and taxation support for low-carbon green industry. For large enterprises, Korea set up a large-scale carbon reduction project, the fiscal and taxation support is implemented for enterprise having the better completion. For small enterprises, Korea set up the special green fund for small and medium enterprises. In 2012, Korea Government issued Enforcement the *Decree of Greenhouse Gas Emission Rights Allocation and Transaction Law*. *GHG Emission Trading System* was implemented in 2015, which would be carried out for three phases, full free distribution of emission rights was implemented for the first phase, and 97% of the free distribution of emission rights was implemented for the second phase, 90% of the free distribution of emission rights was implemented for the third phase. Korea also levies taxes on products and consumption damaging environment by levying taxes on environmental protection, the raised revenue is for environmental management and establishing an incentive mechanism to reduce pollutant emissions. Korea levies the air pollution charges (with tax nature), the main collection range includes sulfur dioxide, carbon disulfide, dust and chlorine, the tax is levied according to pollutant emissions. Korea's environmental tax system has

produced good social and economic benefits.

5. Conclusions and Suggestions

Some conclusions have been obtained based on the above analysis. In overall, as an important means of national macro-control, fiscal and taxation policies have the problem of inadequate supply of its own system, which cannot meet the needs of fiscal and taxation policies under new normal. Specifically, under new normal, fiscal and taxation policies have the shortages in terms of regulating income distribution, encouraging innovation-driven and environmental protection. First, imperfections of classification tax system of China's personal income tax and the social security system are the important factors promoting the expansion of the income distribution gap. Second, China's basic research and development costs (R&D) investment is relatively low, which is not conducive to play the innovation-driven. In addition, China's environmental protection tax is seriously lacking, serious environmental pollution has seriously constrained China's sustainable development in future economy.

By drawing on the relevant fiscal and taxation policies in the process of Korea's economic development, combined with practical fiscal and taxation needs in China, China's fiscal and taxation policies should be adjusted from the reform of the tax system, promotion of innovation and improvement of green taxation. The details are as follows:

(a) To reform tax structure and gradually increase relative proportion of direct taxes

Direct tax plays a positive effect on income distribution, while the indirect tax plays a negative effect on income distribution [3]. Therefore, the adjustment of the relative proportion of indirect tax and direct tax can better play fiscal and regulatory functions of taxation. The focus of indirect tax is on "changing business tax to VAT", while the direct tax needs to achieve social insurance of changing "fees" to "tax", and improve the property tax and reform of income tax. The main contents include:

1) To further improve the comprehensive "changing business tax to VAT" pilot

At present, the "changing business tax to VAT" plot has been fully implemented, the full implementation of "changing business tax to VAT" pilot is actually to further reduce the tax burden, and reduce the problem of duplicated tax, thus to improve the tax system. The improvement of the comprehensive "changing business tax to VAT" pilot is mainly to start from two aspects: First is to ensure the realization of "changing business tax to VAT" extended to all the taxation industry, thus to achieve the industry-wide deduction of input tax, and further play the neutral role of value-added tax. The second is to adjust the tax rate. After implementation of "changing business tax to VAT" pilot, there are four grades of tax rate for the general taxpayer, more grades of tax rate are not conducive to play the neutral value-added taxation, and there's relatively high tax rate, so the "changing business tax to VAT" needs further merger of the tax rate.

2) To achieve social security of changing "fees" to "tax"

According to Korea's experience, social security taxes tend to be with high proportion in the case of universal social security, and therefore the stability of the social secu-

ity fund should receive due attention. The realization of the social security of changing “fee” to “tax” can increase the relative proportion of direct taxes, which is conducive to optimizing the tax structure. At the same time, the realization of social security of changing “fees” to “tax” is conducive to increasing the stability of social security fund income.

3) To speed up the improvement of China’s property tax

In order to speed up the real estate tax legislation and reduce the tax burden of real estate development transactions, increasing tax burden of its links, thereby continuing to improve the price formation mechanism, it’s essential to gradually defiscalization of land, reducing the reliance of local government on land transfer payments. Real estate tax in future can be served as a source of local public funds, which must play an important role in local government revenue in the future. In addition, with the advancing of China’s “land reform” in future, the real estate tax legislation should also consider the future rural housing and land reform.

4) Reform of income tax needs to pay more attention to personal income tax reform

Korea’s personal income tax system has the nature of comprehensive collection, in terms of the affordability of taxpayers, comprehensive collection of personal income tax is more reasonable than the classified levy, while there will be high requirements for collection and management capacity. China should change the classified levy of personal income tax system in the past, and gradually transform the personal income tax system including the nature of comprehensive collection, which can fully reflect the horizontal fairness of taxation and realize the fairness of income distribution. In addition, deduction standard and way of personal tax should be adjusted accordingly, and the deducted project needs to consider expenditure of education, health, pension, housing and other living expenses, the difference of regional economic development level, income and consumption levels, thus to have real reflection of residents’ ability to pay taxes.

(b) To improve investment mode of fiscal and taxation policies in scientific and technological innovation and enhance innovation-driven

First of all, it’s essential to increase financial support for scientific and technological innovation and industrial restructuring. This requires governments at all levels to consider the budget expenditure related to the scientific and technological innovation in the preparation of budget and implementation process as the focus of protection [4]. The fiscal and taxation policies means should be used to encourage enterprises to improve their own R&D capability, the corresponding tax incentives or financial discount will be given to those enterprises vigorously carrying out the independent research and development, guiding all types of innovation body to join the R&D investment, encouraging the technological progress. Furthermore, the expenditure of scientific and technological innovation in different areas should be treated differently, thus to encourage the scientific and technological development in central and western regions and other backward areas.

Second, the government should make effective use of fiscal and taxation policies to

encourage the enthusiasm of enterprises in scientific and technological innovation. The government should use fiscal and taxation policies to intensify the support for failed enterprise R&D experiment and the venture capitalists, so that enterprises can actively invest in basic research work, and gradually increase R&D and testing funds in China, thus to increase China's scientific and technological innovation capability. In addition, the government should increase the financial input in marketization of scientific and technological achievements, so that the scientific and technological achievements can be easily and quickly transferred into productive forces, thereby stimulating the enthusiasm of enterprises for innovation and R&D.

(c) To improve fiscal and taxation policies in environmental protection, and promote sustainable economic development

The Third Plenary Session of the 18th Central Committee of the CPC pointed out: "In order to construct ecological civilization, it's essential to establish a complete system of ecological civilization system, thus to protect the ecological environment with the system. In order to improve the property rights of natural resources system and the use control system, delineation of red line of ecological protection, it's necessary to implement the resource paid use system and ecological compensation system, reform of ecological environment protection and management system."¹⁰ In response to the deterioration of environment, Korea has also introduced the relevant environmental protection tax. China's existing fiscal and taxation policies for the environmental protection are very imperfect, which do not form the "green tax system". China should gradually improve the "green tax system" to make effective use of resources, and the heavy tax should be levied on pollution issue causing serious environmental damage to compensate for external costs. Therefore, the improvement of China's "green tax system" in future should mainly be started from the following aspects:

1) To have tax reduction for those taxpayers take the initiative to adopt modern technology and make effective use of environmental resources

Taxpayers who are proactive in adopting modern technology or equipment to prevent environmental pollution can enjoy treatment of certain preferential tax, implementing accelerated depreciation measures on fixed assets for the environmental protection equipment purchased by taxpayers, thus to create an atmosphere for enterprises to actively and effectively use environmental protection equipment, the preferential treatment of corporate income tax will be given to the taxpayers actively govern the environmental pollution.

2) To establish environmental tax system, and impose heavy tax on taxpayers have serious damage to the environment

In the long run, China should establish environmental pollution tax, tax calculation basis is the amount of pollution emissions, which is based on the principle "who should be responsible for paying for the corresponding pollution", the purpose is to levy heavy tax for the enterprises with heavy pollution emissions, thus to make the internalization of external costs of the pollution, forcing taxpayers not to dare to randomly discharge

¹⁰Xinhua News Agency(http://news.xinhuanet.com/politics/2013-11/15/c_118164235.htm).

pollutants, but they are more actively in seeking ways to control pollution. From the international experience, the environmental pollution tax has a prominent role in environmental protection, reduction of the pollutant emissions, and elimination of externality. At present, China prevents the discharge of pollutants mainly in the form of fees, in future, it's essential to gradually promote work of changing fee to tax for environmental protection. From the short-term transition stage, it's essential to levy the corresponding product environmental tax for taxpayers have the indirect environmental pollution [5]. It's necessary to gradually reform China's consumption tax system, expanding the scope of levy and appropriately raise the tax rate for high pollution and high energy-consuming products, thus to play the function of consumption guiding consumption.

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