

A Comparative Analysis of the Tax Reforms between China and the United States

Ji Jinghua^{1,a,*}, Yang Zonglin^{1,b}, Gao Mingze^{2,c}

School of Business and Management, Chang Chun University Of Technology, P.R. China,

^ajiinghua@mail.ccut.edu.cn, ^b421598769@qq.com, ^c631877182@qq.com

**Corresponding author*

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Abstract: The individual income tax law is one of the laws on taxation that are most closely related to people's livelihood. As people's living standards continue to be improved, China revised the individual income tax law for the seventh time in August 2018. At present, China is still in the transition process from collecting individual tax by classification to comprehensive collection, as the first source of federal taxes in the United States, the individual income tax, which has a low tax burden and distinctive features, has a history of over 100 year. This paper has analyzed and summarized the reform on individual income tax in the United States, drawing on its experience in the collection and management of individual income tax, and has put forward suggestion for deepening the individual income tax reform in China in a targeted manner.

1. Introduction

Currently, china's taxation reform has reduced the tax burden of low- and middle-income earners and raised the tax burden of high-income earners. Under the current national conditions, the taxation reform has adjusted the income gap between people and better safeguarded the fairness of the society. It is very feasible to form a system of personal income tax collection. As the prosperity and stability of our society, the gradual formation of a market economy, high-income groups and high-tech talents, the collecting individual tax by classification to comprehensive collection, from the perspective of building a national talent development strategy and expanding middle-income groups. Look, it is inevitable that the tax reduction for high-income earners will be reduced in the future. The latest taxation reform in the United States has been tilted towards high-income people, which has important implications for China's future taxation reform.

2. Analysis of the current US individual income tax reform

2.1 Adjustment of the marginal tax rates of individual income tax

The latest US taxation revision bill has been proposed. Although seven grades have been retained, the interest rate of five grades has been lowered. The new tax rate starts from 10% and then rises to 12%, 22%, 34%, 32%, 35. % and 37%. The highest marginal tax rates was reduced by 2.6 percentage points. The most critical point is that the US individual income tax exemption has been raised significantly, with individual applicants at \$12,000 and co-filers at \$24,000.

Table 1: US revised individual income tax rate table

series	Taxable income bracket (single)	Taxable income bracket (married)	Tax rate(%)
1	\$0 to \$9,700	\$0 to \$19,400	10
2	\$9,701 to \$39,475	\$19,401 to \$78,950	12
3	\$39,476 to \$84,200	\$78,951 to \$168,400	22
4	\$84,201 to \$160,725	\$168,401 to \$321,450	24
5	\$160,726 to \$204,100	\$321,451 to \$408,200	32
6	\$204,101 to \$510,300	\$408,201 to \$612,350	35
7	\$510,301 or more	\$612,351 or more	37

Table 2: US individual income tax rate before modification

series	Taxable income bracket (single)	Taxable income bracket (married)	Tax rate(%)
1	\$0 to \$9,325	\$0 to \$18,650	10
2	\$9,326 to \$37,950	\$18,651 to \$75,900	15
3	\$37,951 to \$91,900	\$75,901 to \$153,100	25
4	\$91,901 to \$191,650	\$153,101 to \$233,350	28
5	\$191,651 to \$416,700	\$233,351 to \$416,700	33
6	\$416,701 to \$418,400	\$416,701 to \$470,700	35
7	\$418,401 or more	\$470,701 or more	39.6

Comparing Table 1 with Table 2, it can be seen that the latest tax bill is biased towards tax cuts for high-income earners, with a falling tax rate of around 3%, and a relatively small decline for middle- and low-income earners . According to 2017 US federal tax report shows that while only 1% of taxpayers mouth touch of a 39.6% tax rate, but they provide the personal income tax accounted for 51.6 percent of federal tax

revenue proportion. Due to the highest proportion of tax revenue accounted for the proportion of the population more than half of federal tax revenue, this adjustment will lead the US Federal reduce the overall tax revenue. This laid the foundation for the US to retain high-income people and high-tech talents, stimulating consumption and adapting to the trend of globalization.

2.2 Simplified tax deduction form

In the United States, the individual income tax is collected by the syndrome, in addition to the above-mentioned standard deduction adjustments, and the design scope of the special deduction is also extensive. In 2014, less than 10% of taxpayers with less than \$30,000 were used ; less than 60% of taxpayers between \$60,000 and \$100,000; and taxpayers of more than \$1 million. 90% of the people used special deductions. It can be seen that high-income people need to face more special deductions, and there are more complicated tax filing procedures. Based on the US goal of lowering the tax revenue of high-income earners, the special deduction was partially reduced.

By comparing the standard deduction and special deductions: special deductions broader, richer, we have established national policy objectives help to promote fair and equitable taxation. However , the content of the special deduction is too complicated , which will lead to an increase in the cost of taxpayers . If there are too many items deducted specifically , it will also make individual taxpayers have the opportunity to evade taxes , that is, abuse and deduction. There are many special deductions for the original tax law in the United States, but this tax reform has reduced some special deductions.

3. The current individual income tax of the tax reform

China's national income continues to increase, and in 2017 the GDP has reached \$8,386. As incomes continue to change, individual income tax reforms follow. In August 2018, China amended the personal income tax law for the seventh time. This tax reform is mainly focused on the“threshold”of personal income tax raised to 5,000 yuan per month; the main income items that occur frequently in individuals are included in the scope of the syndrome tax; and the individual income tax deduction model is improved.

3.1 The“threshold”is raised to 5,000 yuan per month

Table 3 China's individual income tax rate table (applicable to wages and salaries) after October 1, 2018

series	Taxable income bracket	Tax rate(%)
1	0 yuan to 3,000 yuan	3
2	3,001 yuan to 12,000 yuan	10
3	12,001 yuan to 25,000 yuan	20
4	25,001 yuan to 35,000 yuan	25
5	35,001 yuan to 55,000 yuan	30
6	55,001 yuan to 80,000 yuan	35
7	80,000 yuan or more	45

Table 4 China's individual income tax rate table (applicable to wages and salaries) before October 1, 2018

series	Taxable income bracket	Tax rate(%)
1	0 yuan to 1,500 yuan	3
2	1,501 yuan to 4,500 yuan	10
3	4,501 yuan to 9,000 yuan	20
4	9,001 yuan to 35,000 yuan	25
5	35,001 yuan to 55,000 yuan	30
6	55,001 yuan to 80,000 yuan	35
7	80,000 yuan or more	45

As it is seen from comparison of Table 3 and Table 4, the rate adjustment, the tax System After the interval defined tax increases, which makes the low income tax pressure is further reduced. If the monthly salary is 8,000 yuan, according to the original tax law, the monthly tax should be 445 yuan, and the latest tax law, only need to pay tax of 90 yuan ; if the monthly salary of 15,000 yuan, according to the original tax law, monthly It is taxable for 1995 yuan, and with the latest tax law, it only needs to pay 790 yuan. In general, low- and middle-income people with a monthly salary of less than 15,000 receive greater benefits. Relatively speaking, the higher the income of taxpayers in high-income groups, the lower the tax burden.

3.2 Incorporating major income items that occur frequently in individuals into the scope of syndrome tax

This tax reform reform included four items of wages and salaries, labor remuneration, remuneration and royalties into the scope of the syndrome tax. China's economic system is constantly changing and gradually moving closer to the market economy. The income of our nationals is no longer limited to wage income, especially for high-income people, and more depends on other income. However, China's current income taxation types are relatively small, which tends to make residents' tax collection confusing, and these different income sources also increase people's income gap. Therefore, the new personal income tax reform emphasizes expanding the scope of collection and incorporating income from more sources into the taxation system, thus making China's personal income tax collection better regulate the income gap between people and better forming personal income tax collection.

3.3 Improve the personal income tax deduction mode

China has newly added six special additional deductions such as child education, continuing education, major medical care, housing loan interest or housing rent, and support for the elderly. Take an ordinary family as an example. There are two children, each with two elderly people over the age of 60 who need to support and buy a house. Through the new tax law accounting, the special deduction is calculated at 7300 yuan/month, that is, the child education deducts 2000 yuan/month, the continuing education deducts 300 yuan/month, the housing loan interest deducts 1000 yuan/month, and the maintenance elderly deducts 4000

yuan/month. The comparison found that the personal income tax reform under the new tax law is highly creative, and indeed benefits the entire population, especially the middle and lower classes, helping to alleviate the burden on the people and improve the quality of their lives.

4. To learn from the United States tax reform in China

4.1 Adjusting the tax rate level and lowering the margin of the highest tax rate

China's individual tax has been greatly adjusted on the basis of the original tax rate, but the tax rate in China is still not perfect. Through the comparison of the US tax reforms, we can find out that the tax collection of the syndrome and whether the tax rate is reduced is only an influential aspect. The level of the tax rate is more important. It not only needs to include a few tax rates, but also needs to be determined. It is the specific figure of the taxable income corresponding to the tax rate of each file. While the tax rate has decreased while the specific figures for the corresponding taxable income have changed, this may result in a more upscale tax rate adjustment. Observing from the US tax practice, we can find that the reform of individual tax is not only to help low-income people, but also to reduce the tax burden of middle- and high-income people. Therefore, in the level setting, the tax rate of the intermediate level should be lowered, and the defined distance between the level and the level should be expanded. Thereby benefiting middle and high income people.

At the same time, the highest marginal tax rate for wage income in China is 45%. Judging from the effect of actual collection, there are only a few high-income taxpayers who can reach the 45% tax rate in China, and taxpayers who reach this level face such high tax rates, in order to reduce their own tax burden and reduce some of their work. The phenomenon is inevitable. For example, corporate executives give themselves an annual salary of “1 yuan”, and the rest of the income is obtained through dividends or other sources. Therefore, combined with the analysis of China's economic development status, the marginal setting of the highest tax rate of 45% seems unreasonable. The future tax reform should be closer to the lower progressive tax rate to promote the enthusiasm of taxpayers and maintain economic vitality.

4.2 Broaden the comprehensive tax system and promote family merger tax payment

The newly amended tax law will change the income from 11 to nine, of which the first four items are included in the comprehensive income, and the individual income tax is calculated according to the tax year, which maintains the tax fair to a certain extent. However, with the development of the economy and society, people's income diversification tends to become more and more obvious. The scope of the prescribed income should not fully include personal income, which is likely to lead to tax evasion. Compared with the comprehensive income system in which most of the international taxpayers collect all the incomes of the taxpayers for the whole year, the comprehensive income of China only includes part of the income, and capital gains and the like are not included, which is too narrow.

Since ancient times, our society has been a small-scale peasant economy with family as the unit. Even in modern society, the family is still the link to maintain social relations. The comprehensive tax system that introduces “family” as a unit shows strong potential. On the one hand, it can ensure that individual income sources are properly taxed, increase government revenue, maintain national tax base, and protect national taxation rights; To some extent, taxation also increases the income of young people and can reduce the burden on the family.

5. Conclusion

China's personal income tax is gradually being levied from sub-projects and sources of withholding, and reformed in the direction of comprehensive reporting. It is expected that in the future, China's family or individual income taxpayers will enjoy increasingly rich pre-tax deductions, and truthful comprehensive declarations will gradually become the obligations of most taxpayers. The relatively perfect tax system in the United States has important reference significance for China's future tax reform. However, the US tax also has problems such as complicated tax filing and high personal compliance costs. Therefore, China should proceed from its own national conditions and gradually improve its tax system.

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