THE EFFECT OF CHINA'S TAX REFORMATION ON ENTERPRISES

By

Fengyi[1], Agus Suroso[2]

[1] Master Management department of Hebei University, Baoding, China
[2] Professor Economics faculty of Jenderal soedirman University,Puworkerto, Indonesia

ABSTRACT

The Central People's Government Administration Council issued and announced "The decision on the harmonization of national tax administration "and" Implement Scheme of National Tax Administration" in 1950, which marked founding of tax system of China. Since 1994, China's central government has started a reformation of this system and established the State Administration of Taxation, the State taxation bureau, as well as the local taxation bureau. Taxes have been adjusted to adapt to the business. After the reformation, government increases revenue, optimizes the fiscal structure, reduces expenditure, improves the local government's enthusiasm and positivity in economy, ensures fiscal revenue growth and promotes the sustainable development of national economy.

Throughout 35 years since the reform and opening policy, especially in the past several years, every reforms of tax system in China impact enterprises (main sources of tax revenue) deeply. How to optimize the current tax system to improve enterprises is an essential research area.

Key words: *Reformation of tax system, Tax-sharing system, Enterprise, Income tax.*

INTRODUCTION

China is the largest socialist country in the world and the basic economic system is that the public ownership is dominant with diverse forms of ownership developing. There are some differences in the basic concept, the role and the effect of the public budget management with other country. There are 5 times major reformations—1950, 1958 and 1973, 1983, 1994 and 2001 to the present. The tax system reform in 1994 has had the largest and widest contents and been the most profound.

In 1994, the reformation of china's economic system has approached a new stage of development under the central government's significant strategy in the area of economy ----" Comprehensive promotion & Key breakthrough ". According to the principle of combining the administrative powers and the property ownership, China's taxation has been divided into the central tax, the local taxes and the sharing tax which is between central and local government by the unified method. The reformation has achieved successfully the partition between central government and local government about tax rights, tax types and management of taxation. There form of tax system and the establishment of public finance have very important significance in transformation of government functions, optimization of resource all ocation and promotion of public service.

At the same time, government regulates and improves business and enterprise by tax system reform. Companies also depend on tax policies to choice the model of development.

TAX-SHARING SYSTEM THEORY

1. The content of tax-sharing system in China

China tax system divides control rights in accordance with the standard of levy and management of tax right. The levy and management of tax right's ownership which belongs to the central taxes were classified into the central government tax-management. The levy and management of tax right's ownership which belongs to the local taxes were classified into the local government tax-management. The levy and management of tax right's ownership which belongs to the central taxes and local taxes were classified into the sharing tax-management.

1.1 The revenue's division

China's taxation system distributes the government revenue into the central fiscal fixed revenue, local fiscal fixed revenue and the central and local fiscal sharing revenue.

The central government fixed revenue includes the tariff, product tax which customs department replace the tax department to levy, value-added tax, consumption tax, vehicle purchase tax, central enterprise income tax, the tax of the stock exchange, the central tax penalty, taxation supplement fee and fines.

The local government fixed revenue includes the sales tax, the income tax of local state-owned enterprises, collective enterprises and private enterprises , individual income tax, use of urban land tax, land tax, land value-added tax, property tax, travel tax, deed tax, tax of slaughtering animals, banquet tax, the local tax penalty, taxation supplement fee and fines.

The central and local fiscal sharing income includes value-added tax, business tax, resource tax, enterprise income tax, stamp tax, city maintenance and construction tax and so forth.

1.2 The expenditure's division

The fiscal expenditure refers to the payment that the government executes fiscal funds to provide public goods and services for meeting community requirement under the conditions of market economy.

According to the division of the existing powers between central government and local governments, the main task of the central government includes responsibility of the national security, foreign affairs, management of central state organization, restructuring and reforming the national economy, coordination of regional development, the implementation of macro-control and the development of the central direct management. The local government's main task is operating each level normal government, as well as the development of its regional economic and career.

Central government fiscal

expenditure: defense expenditure, armed police funding, diplomacy and foreign aid spending, the central administrative fee, the central management of basic construction investment, enterprises which directly belong to the central government technological innovation and new product trial costs, geological exploration fees, arrangement of the central government the expenditure on agriculture, foreign debt service burden of the central government ,the expenditure of public security, culture, education, health, science and other undertakings.

Local government fiscal expenditures: local administrative costs, public security spending, some armed police funding, militias operating expenses, the local unified management infrastructure investment, technological innovation and new product trial costs of local enterprises, expenditure on agriculture, city authority and construction funding, local culture, education, health and other undertakings funds, as well as the price subsidy spending and other expenditures.

According to the economic property, expenditure can be divides into fiscal productive expenditure and fiscal non-productive expenditure. The fiscal productive expenditure refers to expenditures directly related to the social material production, such as the support for the rural production expenses, the agricultural sector fund expenditures, corporate revamp spending and so on. The fiscal non-productive expenditure means no direct relationship with the social and material production expenditures, such as defense spending, armed police expenditures, culture, education, health, business expenses and social welfare relief spending.

According to the economic nature of the financial expenditure, fiscal expenditure can be divided into purchase expenditures and transfer expenditures. Purchase expenditures (consumption expenditure) is government purchase goods and services, including the purchase of day-to-day administrative activities and carry out a variety of necessary goods and services by the government investment spending. Social consumer expenditure and financial investment expenditures make up the purchase expenditures. It is the market redistribution activities of government and very important in direct impact of social production and employment. The ability of purchase expenditures improves resource allocation effectively. Following the principle of exchange of pricing in the market, purchase expenditures reflect the financial activities of the government can be constrained strongly and effectively .The budget constraints on the microeconomic which has been in main relationship with the purchase expenditure is strong. The transfer expenditures—— government takes the part of the financial funds which is unpaid and unilateral to residents and other beneficiaries in accordance with some methods. It is mainly used in the social security expenditure and financial subsidies and the government's non-market redistribution activities, the direct impact on income distribution, strong functions of the income distribution.

According to the ultimate use of categories, from a static value on fiscal expenditure, it is divided into compensatory expenditures, cumulative expenditures and consumer spending.

The compensatory expenditure is mainly used to compensate the cost of part of the fixed assets in the production process, such as Innovation Funds. The cumulative expenditures means the final expenditures serve for social expanded reproduction and increase social reserve, such as capital expenditures, industrial transportation sector fund expenditures, corporate control unspoken issue expenses, etc. This part of the expenditure expands production as a social guarantee. Consumer expenditure means it is used to plays a major role in social welfare and so on. This part of the expenditure is to improve the material and cultural life of the entire society. From the perspective of dynamic reproduction study, it can be divided into investment expenditure and consumer expenditure.

According to the relationship between fiscal expenditure and the national function, fiscal expenditure can be divided into : (1) the economic construction expenses. it includes capital expenditures, liquidity costs, geological exploration expenditures, the expenditures of the state material reserve , industrial transportation sector fund expenditures, commerce department fund expenditures and other funds. (2) the social cultural and educational expenses, including the operating expenses for research cost and operating expenses for Health spending. (3) the administrative expenses, including public security expenditures, expenditures of the Armed Police Force. (4) the other expenditure, it includes defense spending, debt payments, policy subsidy cost and so on.

From fiscal expenditure of state budget subjects, the fiscal expenditure is divided into the general budget expenditures, fund budget expenditures, special fund expenditures, expenditures of the transfer funds and financial liquidity premium expenses.

In term of the effective time of fiscal expenditure, it can be classified recurrent expenditures and capital expenditures. The recurrent expenditure means it maintains the normal operation of public sector and protect people's basic and necessary living cost, including personnel expenses, the public funds and social security expenditure. The capital expenditure is for the purchase or production of durable goods whose useful life is more than one year and their result of consuming will be the long-term use fixed assets which are more than a year.

1.3 The standard of the return of fiscal tax and transfer payment

The basic section which is local fiscal fixed revenue plus sharing tax revenue were greater than the local government fiscal expenditure, will be submitted as 5% to central government. If the local fiscal fixed revenue plus sharing tax revenue were less than the local government fiscal expenditure, central government will supply fixed transfer payment to cover the deficit. For the ethnic minority areas, poverty-stricken areas, border areas and old revolutionary base areas, central government will supply necessary and proper fiscal transfer payment to improve economy and living’s level.

1.4 The tax base

Each regional government revenue and expenditure’s base regard annual accounts in 1989 as the tax basis and adjust necessary factors to be determined.

1.5 The special revenue and proportionate sharing

The special revenue and fixed proportionate sharing continue to implement the current management and past calculation method.

The fixed percentage sharing of revenue between central government and local government include the significant energy and transportation construction fund, the national budget adjustment fund, farmland occupation tax, the use of urban land tax, insurance company's income and some special fund incomes (including the collection of sewage charges levied income, city water resources fee income, electric power builds capital, social insurance fund, transfer port income, education surcharge revenue and so on).

These revenues don't belong to the tax sharing system, so continue to method. Foreign trade enterprise's export tax refund is burdened by the central and local government. The central government's finance burdens 80% of all and local government's finance burdens other 20%. In order to control the blind development of tobacco and wine, the state administration of taxation exchanges cigarette and wine's product tax from the current link relative ratio growth into fixed ratio growth. The sharing ratio of growth hasn't exchanged and the fixed ratio has been calculated relies on the actual levy in 1991.

1.6 The way of submitting revenue to treasury

After the reformation of tax sharing system, central government submits fixed revenue directly into the central treasury, as well as local government submits fixed revenue directly into the local treasury. The fiscal sharing revenue of central government and local government should be submitted in accordance with central and local sharing proportion by the tax department with special payment book to the central treasury or the local treasury. Format of special payment book makes separately from the State Administration of Taxation of China. The revenue which excluded in the contract scope revenue will be levied by other method.

According to calculation methods of tax sharing system, local government which has the task of taxation should submit monthly average revenue to the central treasury before the end of each month and central government fiscal system should execute the return of fiscal tax and transfer payment to local government on time per month.

1.7 The structure of tax authorities in China

According to China's economic and social development, as well as management of tax sharing system, current tax authorities set up the State Administration of Taxation (ministerial level) as a part of the State council in the central government, and tax authorities has been divided into two systems---State taxation bureau and local taxation bureau in provincial level and below the provincial level.

The State Administration of Taxation is responsible for each level tax authorities, including management of institutions, organizing the preparation, cadres and funding and executes the dual leadership of the provincial state taxation bureau and local taxation bureau with provincial People's Government

The provincial state taxation bureau is the administrative department directly under the State Administration of

Taxation as the main subjective state tax departments in each region. It is responsible for the implementation of the tax laws, regulations and rules, as well as develops and designs specific measures for management in accordance with real condition. The State Administration of Taxation nominates the director and vice-director of state taxation bureau.
The provincial local taxation bureau of the Provincial People's Government is responsible for the local tax management and follows the dual leadership implementation of the State Administration of Taxation and the local government which is the main leader.

The State Administration of Taxation is responsible for the provincial local taxation bureaus mainly includes the tax policy, operational guidance and coordination, supervision of unified tax system and the policy, organization and exchange of experience and so forth. The provincial people's government nominates the director and vice-director of local taxation bureau after the State Administration of Taxation’s admission.

2. The reason of implementing tax-sharing system in China

In 1980, China’s central government set up the fiscal responsibility system in the every provinces, city and autonomous region.

In 1988, some provinces and municipalities like Shanghai city and Guangdong province have begun to implement the fixed revenue and fixed subsidy under the central government’s arrangement. Comparing with the fiscal responsibility system, the new system has expanded the local fiscal autonomy, improved the enthusiasm of local government fiscal management, increased gradually local fiscal revenue and promoted the development of local economy.

But In this new system, central government gave the fiscal right to local government is not standardized. Because of the central government contracted with local government to maintain the economic relationship, this new system leaded to a variety of short-term behavior and plan of economy, regional blockade and administrative monopoly.

It made the proportion of central fiscal revenue in the national fiscal revenue and national fiscal revenue in GDP to decrease. The phenomena seriously affected the central government’s macro-control function and impeded the healthy development of national economy. So, the reformation of tax sharing system is necessary and available.

3. Characteristics of tax-sharing system in China

China's current tax- sharing system has the following three main features:

Firstly, Tax sharing system divides tax right in accordance with the size of tax source. The tax revenue which is dispersive, land-poor and far-going generally belongs to the local tax and the tax revenue which is substantial and concentrated generally belongs to central tax. Generally speaking, it is impossible to arrange major tax to the local tax. Because of the local taxation bureau not only levies the legal person (companies and enterprises), but also individuals, the tax source come from thousands of taxpayers. The narrow levying scope leads to the local government lack in tax source and tax revenue is small. The local tax includes almost all companies and individuals.

Secondly, local government has the right to manage some kinds of taxation. The local government levies the local tax can depend on local conditions and decides return of fiscal tax, the tax reduction, duty-free, the tax rates and levied range. It is the main characteristic of local tax. At same time, the state administration of taxation reasonable limits the right. So this system can protect the local government's profit, improve the enthusiasm of fiscal management, as well as does not affect the price of goods and service. Because of the local tax generally belongs to property tax, the behavior tax, the part of income tax and transactions tax which does not belong to the overall circulation of goods. Although different regions have different methods, it won't affect the macro-economy.

Thirdly, the tax revenue belongs to local government. In the current condition of socialist market economy of China, financial resources are gathered to central government or dispersed in each local governments can't meet the necessary and requirement of economic development.

Ensuring the central fiscal revenue, local government obtains the right of financial resources and management can expand the local fiscal autonomy, improve the enthusiasm of local government fiscal management, increase gradually local fiscal revenue, promote the development of local economy, culture, education and healthy

So, implementation of the tax sharing system establishes the central and local independent fiscal system, which becomes direction of reform of budget management system in China.

THE COURSE OFTAX-SHARING SYSTEM REFORMATION

Since founding of the People's Republic of China, the tax system has reformed steadily. Especially after the reform and opening policy, China has accelerated structure of tax system. There are 5 times major reformations—1950, 1958 and 1973, 1983, 1994 and 2001 to the present.

1.Establishment of basic tax system in1950

The Central People's Government Administration Council issued and announced "The decision on the harmonization of national tax administration "and" Implement Scheme of National Tax Administration" and set up 14 taxes. In1958 and 1973,center government simplified tax system and the approval process of paying taxes. Before 1978, because the Soviet's economic theory and experience of the fiscal system, China's tax system has been disruptive and mess extremely and disturbed company's scientific development. In 1983, state-owned enterprises had been reformed from profit which had implemented 30 years from the founding of China to corporate income tax and the comprehensive reform of the tax system was in business area achieved initial success.

2. Establishment of tax-sharing system in 1994

The main contents of tax-sharing system reform in 1994 have included:

(a) The comprehensive reform of tax system in goods and services. Government has implemented the VAT which is fairly standard as the main, developed consumption tax and business tax at the same time and unified inside and outside of tax system in goods and services.**(b) The reform of the corporate income tax system.** A variety of mess corporate income tax of state-owned enterprises, collective enterprises and private enterprises in the past time has been merged into the unified enterprise income tax.**(c) The reform of the personal income tax system.** Foreigner's personal income tax, Chinese personal income adjustment tax and individual industrial and commercial income tax of urban and rural have been combined into the personal income tax.**(d) Substantial adjustments in other taxes.** Center government has expanded the levying scope of resource tax, set up land value-added tax, repealed salt tax, special fuel oil tax, bazaar transaction tax and other 9 taxes and entitled management rights slaughter tax and banquet tax to the provincial local government.

After tax-sharing system reform in 1994, China's tax system has implemented 25 kinds of taxes------value-added tax, consumption tax, business tax, customs duties, corporate income tax, foreign-invested tax and foreign-operated enterprises income tax, personal income tax, land value-added tax, property tax, urban real estate tax, inheritance tax, urban land use tax, farmland occupation tax, deed tax, resource tax, vehicle and vessel usage tax, vehicle license tax, stamp tax, securities transaction tax, urban maintenance and construction tax, fixed assets investment orientation regulation tax, slaughter tax, banquet tax, agricultural tax and cattle husbandry tax.

Since the founding of China, the tax system reform in 1994 has had the largest and widest contents and been the most profound. The reform program has depended on tax reform after China's reform and opening policy, theoretical study in several years, practical exploration and successful experience of foreign tax system and national conditions, which has achieved great success and guided companies how to develop.

3. The new reform of current tax system from 2001 until now

After 1994, China has continued to improve business-related taxes, which includes value-added tax, business tax, consumption tax, corporate income tax, personal income tax, tariffs and so on.(chart in appendix)

(a) Improvement of the goods and services tax system. In 2001, combining traffic and vehicle tax reform, vehicle purchase tax has been imposed. Since 2004, the new regulation of tariff has been implemented. In 2008, the State Council amended "The Provisional Regulations on VAT, Consumption Tax and Business Tax" and has achieved the initial realization of the VAT from "production" to "consumer". In 2009, government adjusted consumption tax in accordance with refined oil tax reform.

(b) Optimization of the income tax system. In 2007, the National People's Congress has combined different corporate income taxes of domestic enterprises and foreign-funded enterprises into the unified enterprise income tax in 25%, which is from 2008 until now.

From 2005 to 2007, the Standing Committee of the National People's Congress has revised the personal income tax law three times. In 2008, the income standard deduction of wage has been increased from 258.02 dollars per month to 322.58dollars per month and it has been further increased to 564.42 dollars per month in September 1, 2011. 9 levels of progressive tax rate have been declined to 7 and the most low tax rate has been adjusted from 5% to 3%. Then, the National People's Congress has expanded the scope of the high-end tax rate and adjusted accordingly income tax rate levels in individual industrial and commercial households and production, operation and contracting business. Personal income tax reform reduces and exempts the tax burden of low-income persons and enhances regulating the income of high-income earners, which is better to reflect fairness and boost business.

(c) Improvement of the value-added tax and consumption tax. Since January 1, 2009, the VAT which is reformed from production-based to consumption-based has extended to the whole nation on the basis of the successful pilot reform in the old northeast industrial and other places. January 1, 2012, to improve the strategic economic restructuring and structural tax cuts, pilot reform that business tax turns to VAT has implemented in the transportation industry and some modern service industries of Shanghai In September 1, 2012,center government has added Beijing, Tianjin, Guangdong and other 5 provinces and municipalities to experimental units and the reform will be expanded to the whole nation in August 1, 2013. Reform of VAT system becomes the major strategic measure to promote economic growth and the implementation of structural tax cuts.

(d) Improvement of the consumption tax. In 2008, tax rate of high-emission cars which are more than4.0 liters has been raised from 20% to 40%. At the same time, the consumption tax rate of small-emission cars are less than 1.0 liters (including 1.0 liter) has been declined from 3% to 1%. In May 1, 2009, SAT(State Administration of Taxation) has raised the consumption tax rate of cigarette in production, adjusted the tax price of cigarettes, levied an ad valorem tax (tax rate is 5%)in wholesale segment and increased tax rate to 36% in cigar production.

EFFECTS OFTAX-SHARING REFORMATION ON ENTERPRISE

In order to improve development of the socialist market economy, every adjustments of finance and taxation system reform are based on changingof economic environment, which impact on companies deeply. In the view of the China's tax system reforms, the influence may be divided two aspects to describe how tax reform affects businesses.

1. The macroscopic view

(a) Influence on different types of enterprises. China has four organization forms of current companies—— the corporate stock company, the limited liability company, partnerships company and individuals owned company, which belonged to the protection of tax law in the past time. Now, the latter two are not applicable the corporate Income tax law and be imposed personal income tax. After payment of corporate income tax, shareholders of the former two companies must pay the personal income tax. Because the latter two are heavier than the former two in the accountability, companies will design their prospect of development and scale projections, market risk and other factors to select the reasonable form of business organization or change the current type of business in order to enterprise tax planning.

In addition, according for the regulation and law of personal owned enterprises in China, domestic-funded enterprises from January 1, 2001already have been exempted corporate income tax and investors only have needed to pay individual income tax for. But foreign-owned enterprises were not applicable to “Individual Proprietorship Enterprises Law in China”, so they did not adapt to the above policy. In order to unify the corporate Income tax law, the new one has regulated that the foreign-owned enterprise belongs to the individual proprietorship enterprise, thus they will consider and plan the form of enterprise.

(**b) Influence on the quantity and structure of enterprises.** In overall view, the current preferential tax system insists on “Main preferential policy in industry, subsidiary preferential policy in region”. Therefore, considering the plan of preferential tax policies, companies the perspective must change the attention to investment direction from investment place. For instance, Investments of high-tech valued industry, environmental protection, energy and water conservation, production safety, agriculture and forestry, cattle husbandry and fishery and infrastructure are rather than investment in the Special Economic Area. Driven by the interests of the tax incentives, companies would like to select the suitable type of business, which will absolutely impulse the market structure.

Firstly, in neighboring Asian region, China's income tax rate is not high. In this sense, foreign investors won’t think implementation of the new tax law will increase the tax burden in China. Quantities of preferential policy are same to domestic and foreign enterprises, so tax burdens are equal. Secondly, in the view of economic development and total of foreign investment, the total of foreign investment is increasing by the implementation of the new tax law.

2. The microscopic view

(a) Influence on business of enterprises. The income tax rate of domestic and foreign enterprises have been unified achieves balance of tax burden and sets up a fair environment of competition. Reform of corporate income tax law has promulgated is the significant monument to domestic enterprises.

(1) Enhance the ability of accumulation. Corporate income tax rate of domestic enterprises is nominally 33%.In fact, the tax burden is more than 33%. Because domestic enterprises has implemented the taxable wage system that the standard of wage is 258.06 dollars per month to each person and the excess only comes from after-tax profits. In some good competitive and efficient domestic enterprises, wage is so high that corporate income tax rate is much higher than 33% under the taxable wage system, which affects the accumulation and development capacity of enterprise. After reform of enterprise income tax abolished the taxable wage system, domestic enterprises’ reasonable wage expenses can be deducted before tax payment, thus the cost will be compensated adequately, which is conducive to establish competitive incentives and remuneration system.

Enterprises maintain skilled staffs of the business, attract high qualified professionals to join and improve their innovation and management level. (2) Enhance the competitive power of domestic enterprises. The combination of corporate income tax set up the same tax base and income tax rate improve the competitive environment of market. At the same time, the reduction of income tax rate promotes profitability of domestic enterprises and accumulates capital to increase production.(3) Enhance a long-term development of capital market. In 2005, excluding losses, average level of all A-stock companies' income tax rate was 28.4% which was estimated in accordance with the net profit. After reform, all A-stock companies' average upgrade of profit is about 8%. In this case, that foreign-funded enterprises have to adjust their business strategy actively to protect market share will stimulate competition.

(b) Influence on tax breaks method. For their own interests, enterprises will spare no efforts to implement reasonable tax avoidance by varieties of method, such as the planning of tax base. It is assumed that the final standard deduction of taxable wage and advertising fees are canceled and replaced by actual expenditures. Enterprise can put employee bonuses of this year off until early next year and publish advertising in next year, which can be fully accounted before tax payment.

Secondly, in according with the new tax law, the planning of tax bases depends on decrease of the tax base, such as enterprise should expect losses and expenses fully in next period and identify losses that have occurred timely. The new tax law adjusted tax deduction policy before tax payment and made quantitative easing regulation in wages, donations, research and development expenses and advertising costs, especially deduction limit have been increased substantially. Therefore, within the limit of new tax law, each enterprise will make fully account in wages, donations, research and development expenses and advertising fees.

Thirdly, new method of corporate income tax payment has been regulated in reform. When enterprise and subordinate are in loss, finance department usually combine profits and losses to resolve the problem that one need to pay income tax, but other one have to wait to be made up, which will affect interests of enterprise. The new tax law has announced that the resident enterprise and business entities without legal personality in China should summarize profits and losses to pay corporate income tax. Enterprises can take advantage of the special relationship to arrange the distribution of profits and losses to achieve the lower tax burden.

(c) Influence on employees. The new tax law has created a huge space of policy choice to enterprise in business processing. Enterprise treasurers, financial officers, auditors and tax officials should improve own capacity and expand their knowledge timely in order to keep up with development.

In addition, employees analyze individual and corporate income tax on their own interests and carve out. The new tax law introduces the concept of resident taxpayers, whose definition is wide. Whether it is a resident enterprise depend on the judgment of tax authorities. Except companies which have been established in China, actual management mechanism in China or management personnel, accounting and property are in China also belong to the resident taxpayer.

(d) Influence on enterprise funds flow. The reform always keeps the original rate of 15% for the high-tech enterprises, but adjusts some industrial structures. The current corporate income tax implements different preferential policies in each industry. In the past time, tax preferential policy depends on source of funds—domestic, foreign or private enterprises. The current tax law is in accordance with investment direction instead of sources of funds. If invest to the state-key project or industry-oriented industry, enterprises will obtain a lower income tax rate and more preferential policies. The current tax adapts to national requirements that adjustment of industry and product structure and changes in the market and competition environment, which is an entrepreneurial opportunity for each enterprises.

THE TREND OF CHINA'S TAX REFORMATION

Reformation of tax system also exists in Western countries and shows a new trend currently.

The macro tax burden of each nation is declining. From 1990s to the beginning of this century, Western countries have achieved the improvement of nation finance gradually, and thus implemented tax reform to increase tax incentives and will not blindly support principle—"wide of tax base", which naturally leads to the decline in tax revenue.

Capital tax burden is decreasing. Developed countries have kept heavier tax burden on the labor in a long time, which performs on the labor force’s effective tax rate (the ratio of tax revenue to tax base) is generally higher than capital and consumption’s. Because the existing labor force’s tax burden has been already high and influence consumption taxation to be regressive and consumers worry about increase of consumption tax will lead to inflation. During the reform of tax system, many western countries usually ensure focus on reducing the capital tax burden on the premise of tax revenue.

Changing in the structure of tax system is increasingly significant. From mid-1980s, developed countries have adjusted tax structure for economic efficiency. The proportion of VAT, social security tax (fee) and commodity tax have been increasing leads to personal income tax decline. In the 21st century, the changing trend of tax structure in some countries implement rapidly. Developed countries keep growth of traditional tax revenue steadily and pay more and more attention to environment-related taxes at the same time. On the one hand, enterprises can protect the destruction of economic development to the environment. On the other hand, it has been difficult to increase income tax, property tax and other traditional taxes, but government also achieves more finance revenues.

SUGGESTION

Reviewing western countries’ development of tax system and experience of tax-sharing system reform in China, we make some consequences.

Firstly, we should pay attention to the fairness of the tax system and optimize the turnover tax. It is an obvious difference with developed countries' tax system that turnover tax is dominated in China In past time, some researchers thought that China should have learned from developed countries to establish new tax structure, whose main tax is income tax. But in recent years, some developed countries' tax structure has turned back to the indirect tax, and thus it may be advantageous for China's tax structure to maintain the turnover tax as the main in upcoming period. However, the biggest disadvantage of this structure is lack of fairness, but can be improved by optimization of turnover tax. Especially some developed countries set up high-level social security system to solve the problem by high turnover tax revenue, which is worth to learn.

Secondly, the reform of income tax must combine fairness with efficiency. Personal income tax has increased the tax base and corporate income tax has united nation and foreign successfully, but there are still space for improvement. For example, in the personal income tax, high inflation and the development of all society and economy require personal income tax base should be supervised and make necessary corrections

Moreover, each person's income is the object of personal income tax in China, which is unreasonable. According to experiences of the U.S and some European countries, we should regard family income as tax object, because the same income plays different role for each family. Only if consider the family condition, we will achieve social fairness and reduce gap between the rich and the poor.

REFERENCES

Chen Songguo. Analysis of tax reform on Tax Planning [J]. Scientific and technical information, 2007 (27)

Han Jie, ZhengTianhong. How five major tax reforms will affect our economy [J]. Charm of China, 2008 (3)

National Institute of CPAs. Tax Law [C]. China Financial and Economic Press, 2012

YueShumin. Theory on Optimization of China's Tax System [M].Renmin University of China, 2003(97): 112

Sun Yudong. Research of Tax Burden [M] Renmin University of China, 2006 (11): 149 – 151

LvBingyang, Li Feng. Reform of tax system in China [J].Economics. 2007(03): 29-35.

Hong Yongxian. How the tax system influences companies in China [J]. New accounting, 2009(02)

Appendix

1978-2011 Enterprise-related tax revenue of China

Unit:100 million dollars

Year	Total	Domestic VAT	Domestic Consumption Tax	Business Tax	Corporate Income Tax	Individual Income Tax	Tariffs
1978	83.75						4.64
1979	86.75						4.19
1980	92.21						5.41
1981	101.60						8.72
1982	112.91						7.65
1983	125.10						8.69
1984	152.80						16.62
1985	329.16	23.82		34.04	112.27		33.10
1986	337.21	37.45		42.11	111.68		24.45
1987	345.22	41.00		48.71	107.21		23.01
1988	385.56	62.00		64.18	109.04		25.00
1989	439.90	69.49		78.60	112.97		29.28
1990	455.14	64.52		83.19	115.48		25.65
1991	482.29	65.54		90.97	117.92		30.21
1992	531.76	113.86		106.24	116.25		34.31
1993	686.34	174.43		155.82	109.45		41.37
1994	826.92	372.31	78.61	108.07	114.27		43.98
1995	973.88	419.73	87.34	139.61	141.68		47.07
1996	1114.49	477.87	100.04	169.77	156.21		48.68
1997	1328.07	529.66	109.47	213.59	155.35		51.53
1998	1494.00	585.24	131.44	254.05	149.28		50.49
1999	1723.00	626.11	132.36	269.12	130.87	66.72	90.68
2000	2029.28	734.38	138.43	301.42	161.23	106.39	121.05
2001	2467.96	864.05	150.00	332.92	424.33	160.53	135.57
2002	2844.59	996.51	168.76	395.21	497.22	195.45	113.59
2003	3228.60	1167.18	190.69	458.78	470.89	228.71	148.89
2004	3897.69	1454.51	242.24	577.74	638.28	280.17	168.35
2005	4641.70	1740.66	263.52	682.65	861.92	337.89	171.96
2006	5613.60	2062.07	304.14	827.21	1135.42	395.76	184.16
2007	7358.38	2495.20	355.94	1061.64	1416.01	513.80	231.06
2008	8745.77	2902.73	414.24	1230.06	1802.52	600.37	285.48
2009	9600.26	2980.84	767.94	1453.87	1860.78	636.99	239.32
2010	11808.19	3402.17	979.28	1799.66	2071.54	780.20	327.07
2011	14473.93	3913.97	1118.74	2206.29	2704.78	976.47	412.76

a) Before 2001, the corporate income tax only included state-owned and collective-owned enterprises income tax. Since 2001, the corporate income tax also includes the income tax levied on other enterprises except for state-owned and collective-owned enterprises, so the figures are not comparablewith the previous years.b) Domestic value-added tax and domestic consumption tax donot include tax from imports.C) Exchanging rate is 1:6.20.