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China's Tax Policy Response to the Global Financial Crisis

Wei Cui
Allard School of Law at the University of British Columbia, cui@allard.ubc.ca

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6 China's tax policy response to the global financial crisis

Wei Cui

On 4 August 2008, two unusually trenchant pieces of commentary on China's tax policy appeared in *Caijing* magazine (Xu 2008, Liu 2008). Both took aim at China's production-type VAT (value added tax), which differed from the international standard consumption-type VAT in that it did not allow the VAT that producers paid on purchases of equipment and other fixed assets to be credited against VAT due on output. This resulted in the nonconsumed portion of GDP being subject to VAT,[1] which distorted both production and consumption decisions. The first piece was by Xu Shanda, a former deputy minister of the State Administration of Taxation (SAT). Xu chastised the government's long-standing hesitation to reform VAT. According to him, the conversion to a consumption-type VAT should have happened during the deflationary aftermath of the Asian financial crisis in 1997, but the government had been too worried that such conversion would result in reduced revenue. What would have been wrong with a little bit of deficit to finance tax reform, Xu asked, especially if the reform, by removing a tax on business investment, would have had the effect of stimulating investment, which the government was trying to do in 1998 anyway? After 2003, once inflation rather than deflation became the primary concern, VAT reform was delayed for the opposite reason: the government was afraid that it would stimulate the economy too much, and, in any case, policymakers might have felt that reform was unnecessary, despite the inefficiencies of the production-type VAT, given how well the economy was going. The result, Xu pointed out, was that there was no backing for tax reform during either boom times or downturns. Fortunately, he claimed, the State Council might occasionally rise above such a political quagmire, and, once a decision was made, VAT reform could be implemented without a glitch.

The second essay, by Liu Shangxi from the Fiscal Science Research Institute of the Ministry of Finance (MoF), began with the statement: "The most important issue is not always the most urgent; the most urgent issue is not always the most important. But VAT reform is both most important and most urgent." The reasons he gave for the importance of VAT reform were many (e.g. VAT was too narrow in scope and left the service sector to the cascading Business Tax), but the urgency he felt was clearly traceable to one item: the rapid growth in tax revenue China witnessed in 2007 and the first half of 2008.[2] Liu's argument appeared to be: finally, we can afford VAT reform.

The actual turns of events during the rest of 2008 simultaneously belied and fulfilled Xu's and Liu's prophesies. As the spreading global recession slowed China's export growth in the latter half of 2008, year-on-year tax revenue growth went into an even faster decline, and became negative in October, November and December (Ministry of Finance 2008, 2009a). Before boom-time indifference to tax reform could be overcome, it seemed, fiscal conservatism during downturns might rapidly return. This highly unusual circumstance, however, also produced a response that was quite unusual in terms of the ordinary politics of Chinese tax policy: in early November, in the same week that the State Council announced the "4 trillion yuan" stimulus package, it also announced the decision to complete the conversion of China's VAT into the consumption type, effective on 1 January 2009.[3] A tax reform measure that had been advocated for over ten years was finally brought into fruition by the global financial crisis (GFC).

We will see below that VAT reform constituted the most important tax policy action China took during 2008–9. Of course, if China had had a more typical tax structure, this specific policy instrument, as well as certain others, would not have been available. Conversely, because of the idiosyncrasies of China's current tax structure, some of the policy measures commonly deployed in other countries also cannot be used. In comparing the tax policies adopted by China and Europe since 2008, therefore, major differences in prior tax structures must be taken into account. But there are also two other potential determinants of China's tax policy, both alluded to in Xu Shanda's essay. One is the Chinese government's general propensity (or lack thereof) to use taxation as an instrument of economic policy. The other is the fate of fundamental tax reforms, in the absence of which tax policy options that have macroeconomic significance are limited. This essay makes a preliminary attempt at analyzing these two additional factors, after first chronicling the significant tax policy measures that China has adopted since 2008 and comparing them with what happened in Europe.

China's tax policy responses to the consequences of the GFC

During 2007, before the GFC could have been widely anticipated, China adopted several important tax reduction measures, foremost among which was the passage of the Enterprise Income Tax Law (EIT Law). The new EIT Law, which took effect at the beginning of 2008, accomplished the long-overdue, widely supported integration of the previously separate corporate income tax regimes for domestically and foreign-invested enterprises, and reduced the nominal income tax rate for domestically-owned enterprises from 33 percent to 25 percent. The effective tax rate for these enterprises was further lowered thanks to the removal of a host of unjustifiable limitations on deductions of expenses.[4] This reduction in corporate income tax is consistent with trends in EU countries, and indeed in OECD countries in general (European Commission 2010a), and was part of the long-term strategy of "structural tax reduction" (*jiegouxing jianshui*) pursued by the Chinese government, aimed at broadening the tax base and lowering tax rates at the same time.

A reduction of the personal income tax (PIT) rate on deposit interest from 20 percent to 5 percent, as well as a popular policy that raised the monthly deduction amount under the PIT for wage income to 2,000 yuan a month, also came to pass by the end of 2007. The former policy should have been controversial, because the administrative cost of collecting PIT on interest was very low, and it is widely believed that Chinese individual saving behavior is relatively inelastic and would not be easily distorted by taxes. In other words, the tax on deposit interest was economically efficient. It was believed by some to be unfair, however, because the poorer segments of the population kept more of their savings in the form of bank deposits, whereas richer people invested in assets, the returns on which were not always subject to effective tax collection. Even so, given that PIT collected on interest income represented a healthy 16 percent of total PIT collection (and 1 percent of total tax revenue) in 2007, it seems that one could have chosen to cut other taxes that were both inefficient and regressive, such as production-type VAT. In 2007, however, there was still not enough momentum for such additional reform.

The increase in wage deductions was also significant. The monthly deduction for wages had been increased as recently as 2005. Two thousand yuan per month was roughly the median income of the Chinese urban population in 2007; the deduction thus excluded altogether about half of that population (plus basically the entire rural populace) from the PIT on wages. According to the estimate of the MoF, after taking into account other deductions, even a person earning 10,000 yuan of wages a month (i.e. someone well into the top 5 percent of income in the entire Chinese population) was only subject to an average PIT rate of 8.3 percent (Ministry of Finance 2009b). Indeed, PIT revenue as a proportion of total tax revenue went into steady decline after 2007.[5] The narrowness of the PIT tax base directly implies that, during 2008–9, PIT could not have been an area of meaningful policy action.

Tax policies specifically responding to the global economic recession did not appear until summer 2008. In August, China began a series of increases in the rates at which VAT borne by various categories of exported products is refunded to exporters. Globally, countries with VATs generally tax the import of goods and completely refund any VAT borne by exported goods. In a relatively unique arrangement, China offers export refunds only selectively and at quite a varied set of rates, thus essentially imposing a set of excise taxes on exports.[6] Increasing VAT refund rates amounts to reducing these excise taxes. The size of these tax cuts in 2008–9 was significant: export refund grew by 10.6 percent in 2009 over 2008 (Ministry of Finance 2010b) despite a decline of 13.9 percent in the total value of exports, implying well over 100 billion yuan of foregone revenue. Like some of the other policy measures discussed next, the increase in export refunds is a tool that one would not expect to find elsewhere in the world.

The reform of VAT announced in November 2008 involved not only allowing taxpayers to claim input tax credit for fixed asset purchases, but also reducing by half the tax rate applicable to small taxpayers, and increasing the minimal thresholds under which businesses would be exempt from VAT (and the Business Tax). Although there are no published official estimates, the change for small taxpayers alone could have implied a tax cut of between 30 and 40 billion yuan in 2009.[7] The next tax cut targeted at small businesses, however, did not come until the end of 2009, and its magnitude was small: the EIT rate applicable to small businesses would be reduced from 20 percent to 10 percent for taxpayers earning less than 30,000 yuan of taxable income in 2010. Since taxpayers operating at this scale are usually taxed on the basis of deemed instead of actual profits, it was unclear how effective this item of policy would turn out to be.

In any case, between 2008 and 2009, the Chinese press reports on tax cuts focused instead on two other areas. One was reductions in transaction taxes, especially ones directed at more speculative parts of the Chinese economy. For example, the stamp duty on securities transactions was cut twice, likely in order to signal the government's willingness to support the stability of the stock market, just as stamp duty increases had been used before to express concern about over-speculation. (Stamp tax rates on securities transactions were adjusted nine times between 1990 and 2010.) Similarly, changing Business Tax (BT), Deed Tax, Land Appreciation Tax, and stamp duty policies for the secondary housing market merely continued a history of cyclical adjustments.[8] The preferential BT policy on residential property adopted in December 2008, for example, was strict by historical standards, and in any case it was reversed in 2009, after it had become clear that the GFC would not stop real estate speculation in China. The one excise tax cut aimed at real consumption was a vehicle purchase tax rate reduction (from 10 percent to 5 percent) for small vehicle purchases in 2009 and 2010, which may have contributed to the healthy revival of consumer automobile sales in the second half of 2009.

The other area of potential tax cuts subject to intense media focus was possible PIT reductions. The already preferential 5 percent rate on interest income from bank deposits was reduced to zero in October 2008, but the real heat was on increasing the monthly deduction for wage income. Rumors of increases circulated through different press outlets despite multiple debunkings. There was little evidence that such a tax cut (with strongly regressive effects) would stimulate domestic consumption, however, and, much to its credit, the government did not budge.

In early 2009, the MoF estimated that tax reductions adopted since late 2008 would result in RMB 500 billion of lost revenue in 2009 (Ministry of Finance 2009c). This amount would turn out to be roughly 8.5 percent of actual revenue collected during the year. The conversion to consumption-type VAT (within VAT's current scope) alone was predicted to cost the government

RMB 123 billion.[9] Increases in export tax rebate, and the cuts in securities stamp tax and transactional taxes applicable to real estate transfers, were also included in the estimate. (It is unclear how revenue estimates for the reductions of taxes on real estate and stock transfers were calculated, given that the total value of such transactions can be quite volatile. Commercial real estate sales, for example, fell by 15 percent in 2008 over 2007, only to grow by 75.5 percent in 2009. It is also unclear whether the effect of the new EIT law, in its second year of implementation, was also counted in this estimate, which would result in overstating the impact of government actions taken in response to the GFC.) In addition, over 100 items of miscellaneous government fees were also canceled, with an expected cost of 36 billion yuan to the government in 2009.[10]

Like other countries, of course, the Chinese government also enacted revenue raisers to counter the budgetary impact of tax cuts. The privilege of group consolidation reporting (which allowed members of a corporate group to use losses of one to offset profit of another), previously granted to 106 state-owned enterprises and estimated to cost the government 40 billion yuan per year,[11] was ended at the beginning of 2009 (Ministry of Finance and State Administration of Taxation 2008). Stricter enforcement led EIT collection from foreigners to grow rapidly (*Securities Times* 2009). But, as the economic downturn threatened the tax revenues of both national and local governments, something less benign began to emerge. Despite projected economic slowdown and tax cuts, the government set a nationwide target for revenue growth of 8.2 percent over 2008.[12] Throughout 2009, evidence emerged of local tax bureaus attempting to meet this target through illegal means. The city of Wuxi, Jiangsu, for example, issued a set of rules for the "pre-collection" of income tax on dividends with respect to individual shareholders on undistributed profits of companies (Wuxi Local Tax Bureau 2009). Hebei Province required any recipient of a gift of stock from anyone other than a family member to pay tax at the capital gains rate on the entire value of the stock received (Hebei Local Tax Bureau 2009).

More importantly, after tax revenue experienced 6 percent negative growth (year-on-year) during the first half of 2009, the SAT, under a mandate said to come directly from the State Council, ordered a nationwide tax audit campaign in order to enhance tax collection (Xi 2010). Audit departments of local tax bureaus were given targets of additional revenue generation set at twice the revenue collected from audits for 2008. The result was spectacular: revenue collected as a result of special audits in 2009 was 119.2 billion yuan, which exceeded the sum of audit-generated revenue from 2006 to 2008.[13] This dramatic increase in collection, however, must be understood in light of the fact that Chinese local tax agencies' capacity for carrying out effective audits is quite limited. "Enhanced audits" often simply mean setting higher expectations in negotiations for tax payment with all taxpayers, instead of any targeted action against noncompliance by specific persons. The audit campaign thus effectively amounted to an across-the-board tax increase, and was widely perceived to run counter to the policy of tax reduction (Wang *et al*. 2009).

Interestingly, news reports suggest that the last time such an audit mobilization occurred was during 1998, after the Asian financial crisis (Xi 2010). According to this report, audit teams nationwide were mobilized in the fourth quarter of 1998, and, disturbingly, increasing penalties over which tax officials had discretion had also become a device for increasing revenue intake.

Table 6.1 lays out the chronology of significant tax policy measures during 2008–9, whereas Table 6.2 displays the actual revenue outcome for 2009. As a result of both tax cuts and slower economic growth, 2009 tax revenue growth over 2008 was only 5.7 percent (after discounting tax revenue increase from the absorption of transportation and road fees into the Excise Tax (*xiaofeishui*)),[14] in sharp contrast to the high growth rates of the preceding five years. (Tax revenue grew by 20.7 percent, 19.1 percent, 18.6 percent, 33.7 percent and 18.8 percent during 2004, 2005, 2006, 2007 and 2008, respectively.) The growth patterns of revenue from specific taxes are also interesting. As might be expected, total VAT revenue (net of export refunds) experienced significantly below-average growth. Rate cuts also resulted in a big drop in stamp duty revenue, despite a doubling of trade volume on the stock market. Some of the other transaction taxes nominally subject to rate cuts, however, generated significantly above-average revenue growth: the real-estate

Table 6.1 Chronology of significant Chinese tax policy measures, 2008–9

April 2008	Security transfer stamp tax reduced from 0.3 percent to 0.1 percent
August 2008–June 2009	Rates of rebate of export VAT on selective products raised seven times
September 2008	Security transfer stamp tax halved by requiring only buyer to pay
October 2008	Elimination of personal income tax on deposit interest
October 2008	Exemption from stamp tax on individual sale or purchase of real property; exemption from land appreciation tax of individual sale of real property
November 2008	Reduction of deed tax rate for certain purchases of first apartments
November 2008	Comprehensive VAT reform, effective 1 January 2009: input credit allowed for purchase of fixed assets; lower rates for small taxpayers
December 2008	Easing of BT policy on individual sales of residential housing (effective for one year, 2009)
December 2008	Imposition of excise tax on finished oil, to replace six types of fees (intended to be revenue-neutral)
January 2009	Reduction of vehicle taxes on purchases of small vehicles (effective for one year, subsequently extended to 2010); RMB 5 billion subsidy program for retirement of inefficient vehicles
April 2009	Limited BT exemptions for exported services adopted
December 2009	EIT rate reduction from 20 percent to 10 percent in 2010 for enterprises with less than RMB 30,000 of annual taxable income
December 2009	Return to tighter BT policy on sale of residential property

Table 6.2 2009 tax revenue breakdown

Type of tax	*Percent of total tax revenue*	*Growth rate over 2008 (percent)*
Total tax revenue	100	9.8 (5.7–6.7 after discounting fee-to-tax conversion)
Domestic VAT (net of export refund)	20.15	2.3 in gross revenue, 10.6 in refund, −1.14 net
Enterprise income tax	19.38	3.2
Business tax	15.15	18.2
VAT and excise on import	12.99	4.6
Domestic excise	8.00	85.3 (20.93 after discounting fee-to-tax conversion)
Personal income tax	6.64	6.1
Deed tax	2.92	32.7
Tariff	2.49	−16.2
Vehicle and vessels purchase tax	1.95	17.5
Urban land use tax	1.55	12.7
Real estate tax	1.35	18.1
Land appreciation tax	1.21	33.9
Tax on use of agricultural land	1.06	101.3
Stamp tax on securities transactions	0.86	−47.9
Resource tax	0.57	12.1
Other miscellaneous taxes	3.74	−14.4

Source: Ministry of Finance 2009b

component of the Business Tax, the Deed Tax, and the Vehicle Purchase Tax. Other real-estate-related taxes also witnessed significant revenue growth. Given that the income taxes experienced below-average growth, the overall tax mix shifted towards excise/transaction taxes and property taxes in 2009.

Comparison with EU countries

According to a recent report by the European Commission, "tax policies have played an important role in countering the financial and economic crisis" in EU member countries (European Commission 2010b: 7). A preliminary comparison of activist tax policy responses to the financial crisis in Europe and in China yields the following observations:

1. China's ratio of fiscal expenditure to GDP increased from 19.26 percent in 2007 to 20.82 percent in 2008 and 22.63 percent in 2009, which was smaller than, but comparable to, the 4 percentage point increase in expenditure ratio in the EU as a whole from 2008 to 2010 (European Commission 2010b: 16).[15]

2. China's ratio of total tax and nontax revenue to GDP experienced slight increases (19.95 percent, 20.40 percent, and 20.42 percent for 2007, 2008, and 2009), in contrast to the slight fall in aggregate revenue ratios in Europe (European Commission 2010b). In other words, tax cuts did not reduce total revenue intake as a percentage of GDP in China.
3. Once the effect of the one-time conversion of six types of fees into taxes is factored out, China's ratio of total tax revenue to GDP did decline as a result of tax cuts. The 500 billion yuan in projected tax cuts represented 1.49 percent of 2009 GDP, implying a much greater tax policy response than the EU average. (The majority of the measures adopted in EU countries have had an estimated budgetary impact of well below a half point of GDP.) In both Europe and China, however, the absolute amount of tax cuts paled against increased government spending (European Commission 2010b: 30, 16). In China, the cost of tax cuts represented only 40 percent of increased spending.
4. In EU countries, cuts dominated in corporate and personal income taxation, while increases were clearly prevalent in excise duties and VAT. In fact, "one of the effects of the crisis on tax systems seems to be a reinforcement of the trend of the last few years towards higher consumption taxes" (European Commission 2010b: 31).[16] This is opposite to the choice of policy instruments in China, where the dominant portion of tax cuts comprised VAT reductions (including both increases in export refund and the conversion to a VAT of the consumption type) and reductions in excise taxes (e.g. for vehicle and housing purchases).
5. "[O]ne of the most common types of measure [in Europe] was the direct support of household spending power by reductions in the PIT."[17] However, because of the structural limitations of the Chinese PIT, only a reduction in the tax on bank deposit interest was adopted in China. Assistance to low-income households otherwise took the form of cash or in-kind subsidies instead of tax expenditures.[18]
6. Social security contributions (SSC) and similar taxes increased as a total percentage of government revenue in Europe, as a result of both the relative stability of wages and government measures to support wage levels (European Commission 2010b: 18). In China, social security fees do not count as tax revenue and, indeed, do not even appear in the general budget. Nonetheless, social security fee collection did grow by 17 percent in 2009 (Ministry of Finance 2010a), faster than tax revenue growth. This may be considered a parallel development to the European shift towards higher SSC proportion of revenue after the crisis.[19]

While observations 1–3 and 6 identify similarities between China's tax policy response to the GFC and those found in the EU, observations 4 and 5 point to divergences that are symptomatic of larger background differences.[20] In exploring these differences, at least two broad questions may be raised. One is whether the Chinese government could have done more by way of tax cuts, or at least could have eschewed the nationwide audit campaign in 2009 (and the extraordinary revenue it generated), which in all likelihood did not permanently improve compliance but only amounted to a one-time extraction from the economy during a difficult time. This question is particularly pointed given that the central government is believed to have been hoarding cash in the treasury, and much of the central expenditure budget has been drawn down very slowly in the last two years (Wang *et al*. 2009). Against this suggestion, however, it may be pointed out that there are important political forces in China that favor the use of expenditure policy over tax policy. Most fundamentally, the control of expenditure may be a powerful way of building factions and patronages within the state apparatus, whereas granting relief to taxpayers may generate few political benefits within a nondemocratic system. And, when mechanisms for transmitting budgetary revenue to actual expenditures are inefficient, higher spending goals – such as were set during 2008–9, especially for local governments –may also imply greater incentives to secure revenue.[21]

A second, related question is the following. The European Commission's report found that "tax reforms enacted [by EU member countries during 2008–9] have been broadly in line with recent trends in tax policy," especially in terms of reduction of taxes on labor (European Commission 2010b: 7). In the Chinese context, while the conversion to consumption-type VAT clearly moved the tax system in the right direction for the long term, many other measures did not necessarily reflect views about permanent reform. For example, the tax cuts on real estate, vehicle, and securities transactions either have already been reversed or may be reversed in the future, and in July 2010 VAT export refunds were revoked for six categories of products (406 items) (Ministry of Finance and State Administration of Taxation 2010). Whether the tax mix should be moving towards the current miscellany of excise taxes, as it did in 2009, is also subject to debate. Finally, since, unlike Europe, the PIT base is very narrow in China, the long-term trend should be a rise in the share of PIT in total revenue. The below-average PIT growth in 2009, therefore, ought not to be regarded as a part of long-term tax policy.

Options and prospects for future reform

Where, then, have the policy measures since 2008 positioned China in terms of the trajectory for future tax reform?

As a result of the decision to pursue VAT reform at the end of 2008, further changes to China's indirect taxes have gained surprising momentum. The integration of VAT and Business Tax (BT), in particular, is being discussed much more frequently than could have been predicted two years ago.[22] BT, which generally applies to services and the transfer of real and intangible properties, covers a tax base that is normally covered by VAT in other countries, but is a cascading tax imposed at rates (typically 5 percent) lower than regular VAT rates. Its eventual unification with VAT had been anticipated ever since the two taxes were given their current shape in 1993 (Xu 2008). Integrating the two taxes will give VAT taxpayers the ability to credit taxes paid on input purchases of services, intellectual property and other intangibles, and real property against VAT on output, which should have a pervasive disinflationary effect on both domestically consumed and exported goods. Moreover, the elimination of cascading could remove many behavioral distortions and result in large efficiency gains, while being revenue-neutral. In short, from the perspective of tax design, VAT/BT integration is a very attractive reform option.

However, unlike VAT, which is split 75/25 between central and local governments, BT is almost 100 percent a local tax, is the largest source of tax revenue for most local governments, and is administered by local tax bureau systems that do not collect VAT. Anyone proposing to integrate the two taxes in favor of a comprehensive VAT, therefore, must explain how to compensate local governments for lost revenue and address the implications of the elimination of a major part of tax bureaucracy. The proponent must also deal with a host of technical problems, such as (i) designing rules for the real estate and financial sectors, which, internationally, are regarded as raising special problems for VAT design, but which currently together generate over 60 percent of BT revenue; and (2) reconciling the current costly system of VAT administration with the prevalence of small businesses among BT taxpayers. Like all fundamental tax reform proposals, therefore, VAT reform still possesses something of the character of a political orphan. According to the mentality Xu Shanda ascribes to policymakers, if China has gotten by with the separation of VAT and BT for so long, does it have to be fixed *today*?

The imposition of a broad-based property tax on real estate ownership has also been a purported but elusive goal for a number of years. In the last few years, there has been heated discussion over whether a property tax will dampen real estate speculation, without any convincing conclusion.[23] Well-intentioned arguments in favor of the property tax as a welcome supplement to local governments' revenue sources have also been advanced, but it is clear that the tax cannot in itself plug the vertical fiscal gap that characterizes Chinese public finance.[24] Finally, while the nature of the property tax as a progressive tax should have been a strong argument in its favor, prevailing opinion seems to be that only owners of a third apartment (or apartments over 200 m^2) should be subject to it. At least in the public limelight, there are few advocates of the property tax giving convincing accounts of its true nature and arguing against its distortion and compromise in the course of policymaking.

Major tax reform proposals have a way of taking on a faceless character in China: at best, they are associated with vague statements in certain official documents ("the State Council's 2009 Opinion on Deepening Economic Reform," the "2010 Legislative Agenda," etc.) and with ministries, but never with persons. Indeed, since the beginning of China's economic reform, virtually no tax bureaucrat has ever risen to political prominence, and no politicians have ever claimed tax reform among their credentials. There are no counterparts to Nicolas Sarkozy, Gordon Brown, or Oskar Lafontaine (or Brian Mulroney, John Howard, or Ronald Reagan). This highlights a fundamental character of Chinese tax policy, namely that it seems remarkably insulated from the political process. There appears to be a lack of connection between the incentives of politicians and the wide array of tax reform options actually open to the country, resulting in most of these reform options lying dormant for long periods of time and perpetuating an inefficient tax system. The quick succession of tax measures since 2007 suggests that this is clearly an important area of policy to watch, but any logic that could assist prediction has yet to emerge.

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Notes

1 Hence the label "production-type" (as opposed to "consumption-type") VAT.
2 2007 saw tax revenue growth of 33.7 percent over the previous year (Ministry of Finance 2008). The first half of 2008 saw tax revenue growth of 33.5 percent over the same period in the previous year (Ministry of Finance 2009a).
3 However, the limited scope of VAT was unchanged; only upon further integration of VAT and business tax would China's VAT become the consumption-type VAT adopted in most other countries. All following references to the 2009 conversion to a consumption-type VAT should be understood in the light of this caveat.
4 The effective tax rate for foreign-invested enterprises (FIEs) increased due to the repealing/phasing out of previous tax preferences. In 2008, FIE EIT revenue grew year-on-year by 39 percent, outpacing the growth rate for domestically owned enterprises by 16.2 percent. FIE EIT revenue as a proportion of total EIT revenue rose from 27.57 percent to 30.11 percent (Ministry of Finance 2008).
5 The percentages in 2007, 2008, 2009 and the first three quarters of 2010 were 7 percent, 6.87 percent, 6.64 percent, and 6.6 percent, respectively. See revenue analyses available at http://szs.mof.gov.cn/zhengwuxinxi/gongzuodongtai (accessed 8 March 2012).
6 Indeed, up until 2007, the government had been reducing export refunds for goods that either consume a high amount of energy to produce, generate high pollution, or use nonrenewable resources.
7 Author's computation based on domestic VAT collected in 2009 and the proportion of total VAT collected from small taxpayers as of 2007, as shown in National Bureau of Statistics (2008).
8 For a detailed examination of the history of transactional taxes in the Chinese real estate market, see Cui (2011a).
9 See Xiong (2009). Data from the first half of 2009 suggested that the amount of input tax credits (equivalent to less revenue collected) resulting from VAT reform would slightly exceed the projection (*China Taxation News* 2009).
10 See "Ministry of Finance Answers Questions Regarding the Announcement of Suspension of 100 items of Administrative Fees," http://www.gov.cn/gzdt/2008-11/19/content_1153530.htm (accessed 8 March 2012).
11 Ministry of Finance internal report on file with the author.
12 See Wang *et al.* (2009). See also Ministry of Finance (2009c) (total revenue growth in 2009 projected to be 8 percent).
13 Annual revenue collected as a result of tax audits hovered between 30 and 40 billion yuan between 2002 and 2007 (Xi 2010).
14 Computation based on Ministry of Finance (2009b). The fee-to-tax conversion was expected to generate over 200 billion yuan of additional tax revenue, including increased VAT collection resulting from the fact that the sales amount to which VAT applies includes the excise tax.
15 The Chinese figures in this and the next two points are computed based on budgetary reports similar to Ministry of Finance (2009c).
16 One prominent exception was the temporary VAT reduction to boost consumer spending in the UK.
17 "This happened more often through increases in allowances than cuts in rates, presumably also because an increase in allowances can be expected to more directly boost private consumption given its proportionally higher impact on lower-income households" (European Commission 2010b).
18 For example, government-set purchase prices for agricultural products were raised; payments under the urban minimum income (*dibao*) program were increased; and subsidies were given for sales of home appliances and vehicles in rural areas (Ministry of Finance 2009c).

19 In the first three quarters of 2010, the social security fee collection growth rate (17.8 percent) again fell behind the growth rate of total tax revenue (24.2 percent). See Ministry of Finance (2010c) and "Ministry of Human Resource and Social Security: Five Social Security Funds Grew by 17.8%," China News Net, 22 October 2010, available at http://finance.jrj.com.cn/2010/10/2210258391140.shtml (accessed 8 March 2012).

20 There are, of course, substantial variations among EU member countries in the specific tax policies adopted in 2008–9 as well (European Commission 2010b: 19–20).

21 Given observation 3 above, however, whether such explanations that refer to political factors unique to China are needed to explain the dominance of expenditure over tax in the policy response to the GFC is open to debate.

22 For an overview of the VAT and BT components of China's indirect tax system, see Cui and Wu (2011).

23 The author is aware of no focused analysis of the expected incidence of the property tax in China. According to the "capital tax" view of the property tax developed by US economists, the property tax is a tax on all capital, and therefore may not drive down the relative price of real estate (Zodrow 2007).

24 For excellent discussions of the vertical fiscal gap in China, see Hussain and Stern (2008) and Martinez-Vazquez *et al.* (2008).