

# Research on the Reform Trend of Individual Income Tax Education Special Additional Deduction

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## Abstract

Personal income tax special additional deduction as a tax preferential nature of the deduction policy, since its introduction to help most of the working class to reduce the tax burden, to promote tax fairness, maintain social stability and play the adjustment effect of personal income tax has a positive impact. With the development of economy and the change of social factors, the special deduction policy should also be optimized in order to better play the positive role of the policy. Based on the policy content of individual income tax special additional deduction for education in China, this paper puts forward relevant suggestions on the future reform trend of additional deduction for education based on economic adjustment after the epidemic and national policy orientation in recent years.

## Keywords

Individual Income Tax; Education Special Additional Deduction; Tax Fairness.

## 1. Introduction

Individual income tax is a tax levied on the taxable income of individuals, including Chinese citizens, individual businesses and foreign individuals. Compared with value-added tax, consumption tax and other services tax, personal income tax is a direct tax, which has the role of adjusting the gap between the rich and the poor and promoting social distribution fairness. On December 22, 2018, The State Council issued a notice on the issuance of interim measures on six special additional deductions for individual income tax, including for children's education. Under the basic deduction standard of 60,000 yuan per year, special deductions will be added to further reduce the tax burden of people and increase the real income of residents. The special additional deduction policy standards released in 2018 reflect the policy orientation of the state. For example, children's education and continuing education reflect the importance the state attaches to education. Medical treatment for serious diseases greatly alleviates the pressure on medical expenses of citizens, and housing loans and rents reflect the importance the government attaches to housing pressure. And supporting the elderly reflects the current national attention to the aging problem. Generally speaking, the six special additional deductions are mainly tax preferences for the people's livelihood, helping to reduce the tax burden of citizens, and generally regulating income distribution and promoting tax fairness. In order to better achieve the preferential tax adjustment effect, policy should revolve around the adjustment of the change of economy and social development, since 2020, when COVID-19 pandemic outbreaks, makes further intensify the pressure on employment, people to pay more attention to education level and stable income, with the increase of family education expenditure and income pressure increase, Individual income tax related preferential policies should be more targeted. On the other hand, in order to deal with an ageing population, in May 2021, held a meeting of the Political Bureau of the CPC Central Committee put forward the

implementation of three-child policy and relevant supporting measures, relevant supporting measures put forward the education fairness and supply high quality education resources, birth insurance and other supporting policies, a series of security policy should be reflected in the tax policy.

According to the 2017 Chinese Education finance family survey results released by "Peking University Financial Office", the level of family education expenditure in China is relatively high. From the second semester of 2016 to the first semester of 2017, the total scale of family education expenditure in preschool and basic education is about 194.26 billion yuan, equivalent to 60% of the total financial education expenditure. (China Youth Online: Lifting the Lid on Chinese family education Spending).

As shown in Fig 1 and Fig 2, in 2016, the proportion of total family expenditure in each education stage is from high to low respectively, namely, senior high school, junior high school, pre-school and primary school, and the expenditure on senior high school education is much higher than that in other education stages. As countries on the cause of education is more and more attention, more and more the number of people receiving higher education, as shown in Fig 3, 2010-2020 national education career development data statistical bulletin, The number of undergraduates in Regular HEIs and graduate student recruit students are increasing year by year, especially in 2019, the number of ordinary college students increased by 1.24 million over the previous year. In order to ease the employment pressure due to the outbreak of COVID-19 in 2020, the scale of postgraduate enrollment has been greatly expanded. Behind the rapid development of national education cause, we should pay attention to the economic pressure brought by education expenditure to families, reduce the pressure of households and promote the fairness of distribution through effective coordination of tax policies.

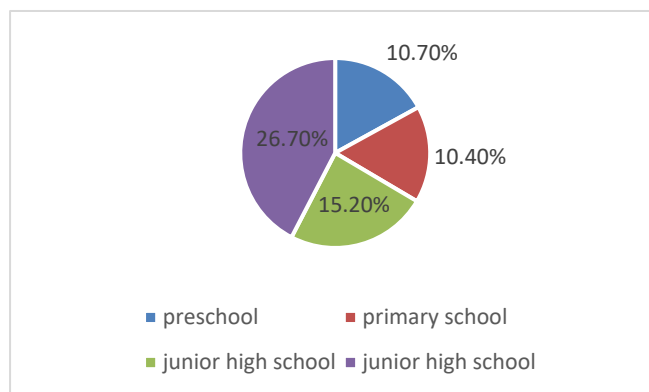


Fig 1. Proportion of education expenditure in total household expenditure in 2016

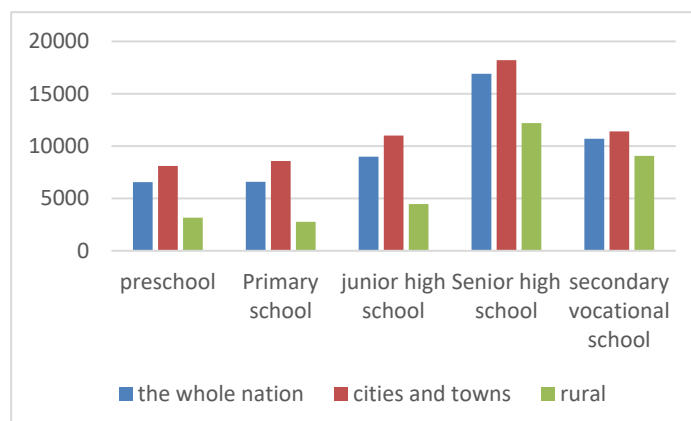
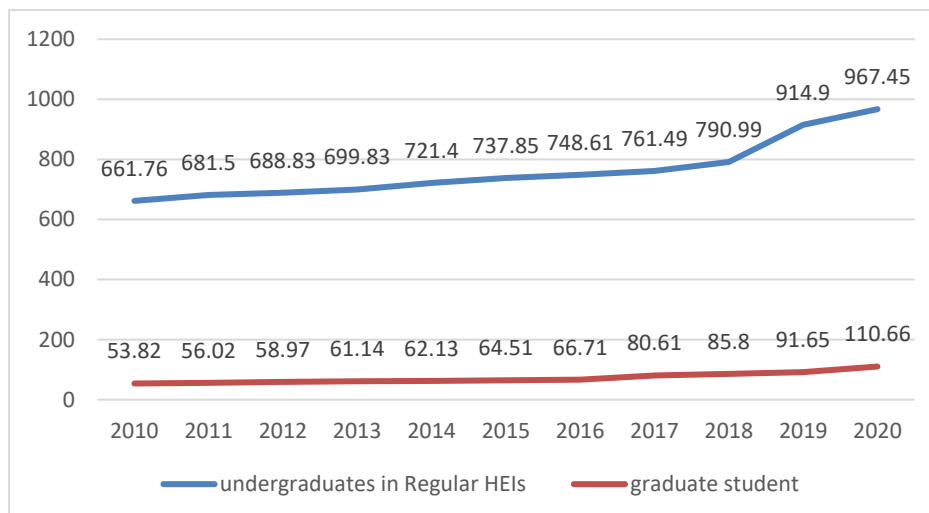


Fig 2. Per capita family education expenditure in 2016



**Fig 3.** Enrollment of general higher education from 2010 to 2020

(Note: Data source: Data released in the Statistical Bulletin of National Education Development from 2010 to 2020).

## 2. Current Policy of Additional Deduction for Education

### 2.1. Children's Education

Children's education mainly refers to preschool education, compulsory education, senior high school education and other full-time academic education at home and abroad. Special deduction for children's education refers to the month from the third birthday of a child to the end of academic education, parents can choose one or 50% of each to enjoy the deduction of 1000 yuan/month for each child.

### 2.2. Continue to Education

Continuing education mainly refers to educational activities for all social members, especially adults, after school education, including continuing education for professional qualifications and on-the-job education for academic degrees. Special deduction for continuing education refers to the expenditure for continuing education of academic degree received in China, which can be deducted at a fixed rate of 400 yuan per month during the period of academic degree education (continuing education of undergraduate degree or below can be deducted by parents or by oneself); The expenditure that professional qualification continues to teach, in the year that obtains relevant certificate, deduct according to 3600 yuan quota.

## 3. Defects of Current Policy

### 3.1. The Deduction Standard is too Uniform and Lacks Pertinence

Special additional deductions for education are subject to a uniform standard of deduction, which does not take into account social and economic factors such as the economic development of different regions and the actual economic capacity of each family, and thus does not have a strong effect in adjusting equitable distribution. (1) The deduction standard of special deduction for children's education is 1000 yuan/month. As can be seen from the education level and tuition fees of different educational levels in different regions of China, there are defects in the unified deduction standard. In addition to the low level of nine-year compulsory education, high school education and higher education fees vary greatly in different regions and schools. The outbreak of COVID-19 has further increased the employment pressure. In order to alleviate the employment pressure, the enrollment scale of colleges and universities has been further expanded. More college graduates choose to continue their studies, and the

education expenditure of their families will be further increased. (2) The deduction limit for continuing education is 400 yuan per month, without considering the charging standard, as well; The standard deduction for continuing education of vocational qualifications is 3600 yuan in the same year, and the difficulty of obtaining various vocational qualifications and the cost are not taken into account, so the effect of adjusting the distribution is not strong.

### **3.2. Limitations of the Deduction Scope**

The starting time of deduction for children's education is the month when they reach the third birthday, that is, there are no deductions for expenses incurred before the age of three. Spending data from residents and nursery products sales, Children spend no less or more before their third birthday than during compulsory education, this part deduction limits will also cause family economic pressure; With the introduction of the three-child policy, the pressure on families will be greater. If the pressure of raising a child cannot be effectively addressed, the three-child policy will be difficult to get a response.

Additional deduction from education classes, continuing education in our country and full-time education preferential difference is bigger, the deduction limits and deducted from the term have differences, continuing education of record of formal schooling education monthly deduction quota has yet to reach their children's education in the specified limit of 50%, excluding duration of not more than four years, and the different of flexibility in their children's education.

### **3.3. There are Limitations on the Subject of Deduction**

In China to accept degree education of children, their parents can enjoy their children's education special deduction, a master's graduate students and doctoral graduate level education also covers the category of degree education in children, but in fact, students who go to the doctoral level or even the master's level, their parents may have retired, retirement wages amounted to less than 5000 yuan basic accounting standard, then the special deduction has no tax effect on it.

Supplementary provisions in continuing education: Taxpayers receiving undergraduate or below degree continuing education can choose to be deducted by their parents, or by themselves, if they choose to be deducted by their parents, refer to the children's education deduction standard. To the record of formal schooling of undergraduate course above education, because do not have complement to affirm, must undertake deduct by him taxpayer. This supplementary provisions, broke the boundary of full-time and part-time, in this mode selection, whatever their children's wages, as long as their parents' basic wages deducted after deducting fees, and other special deductions there is still a balance of more than 400 yuan of above, then selecting the parents according to their children's education project deduct, its overall tax burden to the minimum, This is unfair to other taxpayers. And actually received bachelor's part-time education students, wages and not reached the standard of basic deducting fees, most of the tuition fees spending is likely to be borne by their parents and even spouses, because wages have not reached basic expense deduction standard, pre-tax deduction does not need to keep spending on education, so in this part of the spending is not enjoy any preferential tax, In general, it's not good for fair distribution.

## **4. Foreign Education Expenditure Tax Deduction System for Reference**

### **4.1. Developing Standards for Differential Deductions in Stages**

At present, the pre-tax deduction items of many countries include children's education and child support, etc., and different deduction amounts are stipulated according to different age groups. (1) France: 50% of the cost of day care for children under 7 years old can be credited, up to a maximum of 1,150 euros; If the child is attending secondary school or university, the

taxpayer is entitled to a credit ranging from 61 to 183 euros per child per month. (2) Japan: According to the age of children, there are two levels of children aged 16-19 and 19-23, who can enjoy the basic deduction of 380,000 yuan and 630,000 yuan respectively. (3) Germany: Deductions for school-age children's expenses and higher education, including tax credits, tax deductions and other deductions. For school-age children, there are three limits of deduction: 14 years old, 18 years old and 25 years old (under special circumstances), and the specific deduction standard is divided by age group. (4) The Netherlands: The continuing education expenses related to the taxpayer's occupation in the range of 250 to 15,000 euros can be fully deducted before tax.

#### **4.2. Developing a Dynamic Deduction Mechanism**

While formulating the existing deduction standard, some countries take various factors into consideration for adjustment, including inflation, marital status, health status and other realistic factors that affect taxpayers' vital interests and the harmonious development of the whole society. (1) UK: The pre-tax deduction of individual income tax needs to take into account such factors as work intensity, income level, marital factors and health degree, and the amount of the deduction item is adjusted with the price index every year. (2) In the United States: The expense deduction standard takes into account the vital interests of taxpayers and the development of the whole society, and makes exponential adjustment according to inflation. (3) Germany: Single and head of single-parent family, if there is at least one child living in the taxpayer's family, the child deduction can be deducted an additional 1,908 euros per year on the original basis. (4) South Korea: Under the special exemption program, there is no limit for deducting special education expenses for the disabled. (5) Canada: For children or grandchildren dependent on the taxpayer due to impairment of their physical or mental functions and aged 18 years or older, the taxpayer may claim a credit of up to \$7,140.

#### **4.3. The Selection of the Objects of Deduction**

The educational expenditure of the taxpayer is not limited to the taxpayer himself or his parents, but also can be deducted by the grandparents and spouse of the educated person. (1) Germany: The children specified in the child deduction can be the taxpayer's own children and adopted children, as well as stepchildren, foster children and grandchildren, but the latter can be enjoyed only if they live in the taxpayer's home. (2) South Korea: Domestic education expenses of an employed taxpayer, including related expenses paid by the taxpayer for a spouse or direct descendant who is eligible for the basic deduction.

#### **4.4. Cumulative Deduction Mechanism**

For families with more than two children, some countries have adopted a cumulative deduction model, which means that the standard deduction increases with more children. (1) Germany: The taxpayer's tax credit is 204 euros for the first and second child, 210 euros for the third child and 235 euros per child for the fourth and more children. (2) Russia: For the support of the first child and the second child, 1400 rubles per child can be deducted, from the third child, 1400 rubles per child. (3) South Korea: Create additional deductions for families with multiple dependent children, for the business income or wage income of the residents, if two or more than two children in conformity with the basic credit conditions, can be deducted from its global income 1 million won, since third child every child an extra deduct 2 million won.

#### **4.5. Special Policies to Respond to Environmental Changes**

As the COVID-19 outbreak puts more pressure on families' finances, Germany has increased the deduction for children of single-parent families to €2,100 in 2020 and 2021 in order to mitigate the impact of COVID-19.

## 5. Perfect Suggestion

### 5.1. Refining the Deduction Standards for Education

With the increasing number of people receiving higher education, the per capita share of family education expenditure will continue to increase. In order to reduce the pressure brought by education expenditure on families, the state should take into account economic level while appropriately increasing the deduction proportion, refine the level of education expenditure at each stage, and purposefully adjust the deduction standard. (1) Local governments should be given some discretion to formulate specific deduction standards for education by taking into account local economic level, per capita wage level, consumption level and other factors within a certain range, with special emphasis on local high school education fee standards. (2) Education for academic qualifications: Distinguish education stages, classify education deduction standards, and formulate corresponding special deduction standards according to the average charge level of each stage. First, China's education finance household survey data from 2017 as you can see, the popularization of nine-year compulsory education made households in elementary school middle school spending has decreased significantly. Before receiving higher education, family in ordinary high school education and secondary vocational education spending in the majority, so it can be appropriate to raise their children on the basis of the original high school education deduction standard. Second, from the current charging standards of private and public colleges and universities, the tuition of private colleges and universities is basically higher than that of public colleges and universities, and there may be differences in the charging standards of different majors. Further, we can divide several grades based on the charging standards of various colleges and universities and majors, and stipulate the deduction limits for each tuition level. Third, graduate school of education, the academic master and doctor generally funds allocated by the state to cultivate, tuition is relatively uniform, and enjoy the special national subsidies every year, generally there is no big gap, and professional master's tuition fees in the differences between different schools, even there are a few times, the economic pressure on the family is greater. As the country attaches more importance to professional talents in recent years, the scale of professional master's degree is increasing, which should be reflected in the deduction of education expenditure. We should attach importance to the educational burden of families whose children receive professional master's education, increase the deduction amount and reduce the tax burden. (3) The one-size-fits-all deduction standard of continuing education for vocational qualifications is not consistent with the cost of obtaining vocational qualifications. The state should classify vocational qualification certificates in various professional fields by taking into account the examination subjects, difficulty of passing, average cost and other factors, different grades of continue education setting standard deduction range, Expenses deducted by taxpayers within the deduction range can be deducted in full, so as to make the deduction of expenses correspond to the cost of taxpayers as much as possible.

### 5.2. To Optimize the Scope of Deductions

As can be seen from the scope of individual income tax special deduction in foreign countries, there is no restriction on "three years of age". Some countries provide a higher amount of fee exemption for preschool child care fees in special child maintenance projects, which shows that foreign countries attach particular importance to the family expenses of preschool children. In our country, three years old child before, although there is no acceptance degree education, the child care fees accounted for the proportion of household spending more and more big, even higher than that of compulsory education expenditure, so will the age three parenting fee included in the special deduction scope is necessary, the specific deduction standard should be comprehensive family parenting spending around the current average establishing reasonable

limit. Since the child support fees for children before the age of three are different from those for academic education having pricing standards, there may be great differences in the expenditure of families in different regions and different economic conditions. Therefore, the "two choose one" model can be considered. While formulating a reasonable deduction amount, Allow a family to be in according to actual expenditure certain scale inside spend a certain amount (specific scale presses level of income and expenditure of state finance of certain period to decide) deduct according to fact, the deduction is based on the lower ratio of the limit to actual expenditures namely.

### 5.3. Increase the Flexibility of the Selection of Deduction Objects

First of all, the deduction of expenses for school-age children in children's education projects is not limited to the parents of the educated, but also grandparents and maternal grandparents. In order to prevent taxpayers from avoiding tax burden improperly, we can expand the scope of the deduction object and add some preconditions to restrict it. For example, the educated child must live with the taxpayer who receives the deduction or some other materials that can prove that the taxpayer actually pays for the child's education. For the higher education of their children's education project expense deduction, in addition to its parents, can further take into consideration of the spouse, included in the continuing education of "two choose one" scope, especially at the graduate student stage, many married by education students, because accept full-time education without their own source of income, their parents have reached retirement age, the expenditure of education is mainly borne by the spouse, if the deduction method is still adopted by the parents, then some taxpayers' families may not be able to enjoy this part of the preferential treatment in the end. The inclusion of the spouse in the deduction scope is beneficial to truly reduce the pressure of the family's education expenditure and improve the educational level. Again, continuing education phase of expense deduction, in addition to the bachelor degree and the following education can choose deducted by continue education program by taxpayers or their parents deducted according to their children's education, bachelor degree or above education can give taxpayers choice, premise is educated self doesn't have enough economic ability to support education spending, For example, the provision of special deduction "Taxpayers who receive part-time education and whose monthly real income does not reach the threshold can choose to enjoy education deduction by their parents or spouses."

### 5.4. Deduction Standards under Special Circumstances

Special circumstances include not only the circumstances that taxpayers' family factors and health conditions may affect social equitable distribution in the given environment, but also the circumstances that the adaptation of deduction standards decreases caused by environmental changes such as inflation. First of all, the same level of deduction should apply to taxpayers at the same level of education in the same district, but also take reality into consideration, such as the taxpayer's family situation, especially in the deduction of children's education, single-parent families and two-parent families may have different pressures on the same expenditure of children's education .The total cost of education for children with disabilities is also higher than that for children with health conditions, and these realities should be taken into account in the standard deduction for children's education and a higher deduction should be granted to this group of people. Second, in response to environmental changes on economic volatility caused by the special personal income tax deduction shall be adjusted policy concept, the period of employment since the outbreak, for example, household economic pressure, the country in order to alleviate employment pressure and expanding enrollment in colleges and universities. So these practical problems should be taken into account in the deduction standard for children's education, and a higher deduction amount should be given to these people. In order to alleviate the pressure on education expenditure, the amount of deduction

for education expenses should be appropriately increased considering the duration of the epidemic. In addition, as the national policy of three-child policy, high parenting fees may make it harder for policy in a short period of time to get response effectively, in order to promote the effective implementation of the policy, the government should increase their children's education, especially the parenting fee deducted age three, the government can adopt a cumulative deduction mechanism, namely on the existing deduction standard, with the increase of raising children, expense deduction quota increase. By reducing the burden on taxpayers to support children, we will ensure that the supporting measures of the national three-child policy are targeted.

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