

Analysis of Value-Added Tax Reform under the Background of Supply-Side Reform and Demand-Side Management

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Abstract

With the continuous efforts of the Chinese people, China's economic development is entering a new normal, which is also an important stage of economic transformation. Therefore, China begins to promote the supply-side structural reform. As the largest tax in China, VALUE-ADDED tax plays an important role in ensuring China's fiscal revenue and stable economic development. Under the background of supply-side structural reform and demand-side management, this paper discusses the current problems of VALUE-ADDED tax in view of the trend of value-added tax reform, and puts forward appropriate suggestions for further improvement.

Keywords

Supply Side; Demand Side; Tax Burden.

1. Introduction

Since 2015, China's household income has shown an increasing trend, while corporate profits have shown a declining trend. The overall consumption level has increased but the investment level has declined. In order to ensure the long-term and stable development of China's economy, it is urgent for us to improve the supply side environment and optimize the supply side mechanism. As the largest tax in China and an important part of fiscal revenue, VAT tax reduction policy has become an important trend of tax reform.

2. Supply-side Structural Reform and Value-Added Tax Reform

2.1. Supply-Side Structural Reform Developed

Table 1. Supply-side structural reform formed the development table

Time	Content
November 10, 2015	Xi Jinping, general secretary of the Communist Party of China (CPC) Central Committee, made a speech at the 11th meeting of the Central Leading Group for Financial and Economic Affairs, proposing supply-side structural reform for the first time.
March 8, 2016	General Secretary Xi Jinping used the term "addition, subtraction, multiplication and division" to lay out the supply-side structural reform in a popular way.
May 16, 2016	We began to focus on "eliminating, reducing, reducing, and strengthening".
In December 2017	The Central Economic Work Conference proposed to deepen supply-side structural reform, promote the transformation of China's smart manufacturing into China's creation, and transform China from a manufacturing powerhouse into a manufacturing powerhouse.

In 2020	The Central Economic Work Conference called for a firm focus on supply-side structural reform and demand management.
29 October 2020	"The central committee of the communist party of China 14 to develop the national economy and social development five-year plan and 2035 vision", stressed that "difference" to deepen the reform of the supply side structural economic and social development as the main line, to become the international domestic circulation circulation of traction, the international circulation become the impetus domestic circulation, which forms part of a domestic and international dual cycle power, To form new advantages for development.

2.2. Analysis on the Existing Problems of VALUE-ADDED Tax under the Background of Supply-Side Reform and Demand-Side Management

Fiscal and tax policy has always been an important policy tool to reduce the production and operation costs of market subjects, stimulate their vitality, guide their behavior to conform to government policies and promote high-quality economic development. In this critical period of economic transformation and supply-side structural reform, China began to implement tax reduction policies for value-added tax, corporate income tax, personal income tax and other taxes. In terms of VAT, the "replacing business tax with VALUE-ADDED tax" was fully implemented on May 1, 2016, with VAT rates of 17%, 13%, 11% and 6%. On July 1, 2017, abolish the 13% tax rate and change the fourth bracket into the third bracket; On May 1, 2018, the tax rate was lowered again, from 17% to 16% and from 11% to 10%. On March 5, 2019, the tax rate for the manufacturing and other industries was lowered from 16 percent to 13 percent, and for the construction and real estate leasing industries from 10 percent to 9 percent. The tax rate remained unchanged at 6 percent, but additional tax deductions for production and consumer services were adopted to reduce tax burdens. According to the national fiscal policy, the VAT rate will move towards simplifying tax brackets and reducing tax rates.

In 2019, tax reduction and fee reduction became the main keynote of the government's macro-control. As the largest tax category in China, the reform of VALUE-ADDED tax has a great impact on China's domestic cycle, supply-side structural reform and demand-side management.

3. The Effect of VALUE-ADDED Tax on Supply Side and Demand Side

3.1. The Impact of Value-Added Tax on the Supply Side

Supply-side structural reform is not a one-off policy reform, but requires long-term and continuous systemic reform. In the long river of China's structural reform, as the largest tax in China, the tax reduction policy of VALUE-ADDED tax plays an important role in this reform.

After the reduction and simplification of the VAT rate, first of all, the input tax of VAT for the purchase of goods and services by the company will be reduced, while the policy income retained for tax rebate and additional deduction of input tax does not reduce the cash expenditure of the purchase by the company, but the advance VAT can be recovered to increase the disposable cash flow of the company. And the cash flow effect caused by VALUE-ADDED tax can effectively achieve the purpose of deleveraging. Secondly, for the buyer, reducing the simplified tax rate not only reduces the purchase cost, increases the cash flow of the company, and increases the profit margin of the product. At this time, the company chooses to appropriately reduce the sales price of the product, which can promote the increase of product sales and achieve the purpose of destocking.

3.2. Effect of VALUE-ADDED Tax on Demand Side

Demand mainly includes investment demand, consumption demand and export demand. Under the background of building a great domestic cycle, expanding domestic demand is our primary policy. VAT reform can increase investment demand and consumption demand to a certain

extent. Consumption capacity and willingness determine consumption demand, and the development of digital economy and innovation of new infrastructure can influence investment demand to a greater extent.

The reduction of VAT rate can reduce the sales price of market products including tax. According to the supply and demand curve, with other conditions unchanged, the decrease of the sales price of the product will lead to the increase of the demand for the product.

The main reason for the poor growth of investment demand is that there are too many low-end products and insufficient high-tech innovation capacity, and the great impact of COVID-19 on market economy in the past two years leads to high investment risks in the market, which to a large extent inhibits investment demand. The VAT tax rebate policy for high-tech enterprises reduces the investment cost of investors under the same conditions, and increases the liquidity of the company's funds. The more cash flow inside the company, the higher the investment expectation of the enterprise, and the more likely it is to make investment decisions. At the same time, raising the VAT threshold for small-scale taxpayers can reduce the VAT burden of small-scale taxpayers and improve their investment demand.

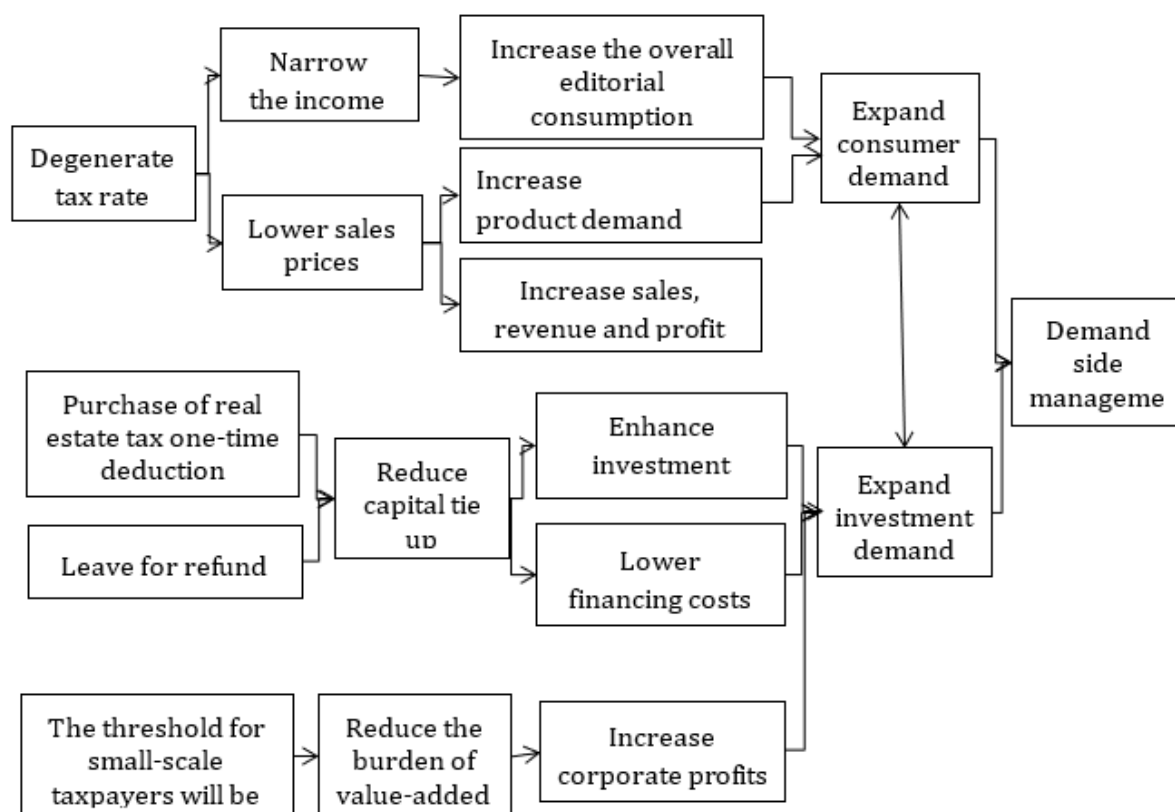


Figure 1. The impact of VAT reform on demand

4. Analysis on the Existing Problems of VALUE-ADDED Tax under the Background of Supply-Side Reform and Demand-Side Management

4.1. The VAT Burden is Still High

At present, China's current VAT rate is composed of 13%, 9% and 6%, the highest rate of 13% is not low and the three brackets are more complicated. Overall, the VAT tax burden is still not low. VAT, although the actual negative tax for final consumer, because the presence of taxes on, lead to part of the tax burden will be borne by the producer, to a certain extent, the producer will bear a lot of taxes, plus two new crown the outbreak of the economic impact of the market, producers to bear the economic pressure is very big, in the intense economic pressure, to bear a heavier tax burden will undoubtedly restrain market supply to a large extent.

4.2. Some Enterprises Will Not be Able to Enjoy the Tax Dividend

Tax cut dividend distribution, often by the supply elasticity and elasticity of supply and demand both sides of the market, the head enterprise in the industry has the important position in the market, can buy and sell bargaining range is wider than before and after the end, can the material supplier and product tax on on both sides of the purchaser, to maximize his tax cut dividends. However, for small enterprises in the industry, small and micro enterprises are generally at a disadvantage in the market, do not have strong bargaining power, and cannot carry out tax transfer well. Therefore, under the pressure of large enterprises, they cannot get more tax reduction dividends

4.3. The VAT Deduction Chain is Incomplete

The main reason for the incomplete VAT deduction chain is the exemption of VAT for some items with preferential tax; Secondly, simple tax method and general tax method of two kinds of tax methods exist at the same time, may lead to the tax system is not in line with the imbalance of the tax burden; Finally, some enterprises should not deduct input tax for certain items such as catering services and loan services. The imperfection of VAT deduction chain will lead to the phenomenon of double taxation, which will further increase the tax burden of some enterprises.

5. Suggestions on Value-Added Tax Reform under the Background of Supply-Side Reform and Demand-Side Management

5.1. We Will Continue to Lower Tax Rates and Simplify Tax Brackets

After several reductions in the level of tax rates and the simplification of tax rates, the current VAT rates are mainly divided into 13 percent, 9 percent and 6 percent, and the tax burden of companies is still high. Therefore, it is suggested that the three tax brackets be reduced to two (or even one flat tax bracket later). The 13 percent tax rate will be removed and the basic tax rate will be 9 percent, reducing the tax burden on enterprises.

Reducing the VAT tax burden can improve the company's cash flow to a certain extent and enhance the activity of foreign investment. At the same time, the reduction of VALUE-ADDED tax leads to the decrease of the sales price of goods including tax, which can also promote consumer consumption to a certain extent and enhance the market activity.

5.2. We will Attach Importance to VAT Reduction Policies for Small and Micro Businesses

Small and micro enterprises are a major subject that cannot be ignored in China's market, and a key factor in China's demand-side management, supply-side structural reform and expanding domestic demand. According to statistics, more than 80% of the employment rate and more than 50% of the tax revenue in China are contributed by small and micro enterprises. Therefore, China should attach great importance to the development of small and micro enterprises, whether for the stability of employment, economic development or to ensure government fiscal revenue. Due to the diversity of small and micro businesses, the government can lower the basic tax rate and supplement it with other corresponding preferential policies, such as additional deductions and tax rebates, to ensure that the actual VAT tax burden of small and micro businesses is indeed reduced.

5.3. Improve the VAT Deduction Chain

First of all, zero tax rate and low tax rate can be considered to replace tax exemption. The sellers of duty-free goods do not pay tax, but they have to pay input tax when they are purchased. Using zero tax rate and low tax rate can perfectly improve the incomplete VAT chain caused by tax

exemption, while not increasing the tax burden of enterprises. Secondly, some service types such as catering service and loan service will be included in the scope of VAT deduction. At the same time, the VAT tax burden and capital cost of downstream enterprises will be reduced and the competitiveness of enterprises will be enhanced.

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