

# The Impact of China's Individual Income Tax Reform on Residents' Consumption Effect from the Perspective of Tax System Structure Optimization

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**Abstract:** The optimization of tax system structure refers to a process of optimizing the tax system by reforming and improving the tax system components. In 2018, China carried out a new round of reform on individual income tax. After this reform, it affected the consumption of residents, mainly improved the consumption expectations of residents, adjusted the income distribution of residents, and increased the per capita disposable income. The individual income tax reform in China has achieved the goal of building a well-off society for all.

**Keywords:** Tax system structure; Residents' consumption; Individual tax reform; Consumption effect

## 1. Introduction

The tax system structure mainly includes: tax classification and composition, the layout and composition of tax categories, the selection and setting of tax system components, the collection and management level, tax category combination and coordination among regions and departments[1]. The taxation system is an important part of the social economic system and an important embodiment of the social and economic current situation. With the continuous development of technology and economy, China's taxation system has also undergone constant changes. The optimization of the latest tax system structure was updated in 2018. In the system optimization in 2018, the change of tax system structure was proposed. The changed part was reformed for the collection of individual income tax in China. The individual income tax is a general term for the legal norms that adjust the social relations between the taxation authority and the natural person in the process of collecting and managing the individual income tax. It is an act of paying a certain percentage of the income of a resident's property to the state. The state's reform of individual income tax is constantly being updated with the continuous development of the social economy. And the voice of the whole society on the reform of the income distribution system is getting higher and higher. The state responds to the voice of the masses. The Fifth Session of the 13th National People's Congress Standing Committee held on August 31, 2018 voted to adopt a new decision on the revision of the individual income tax law. The session decided that the new individual income tax collection will be partially adjusted

downwards on the price, that is, the tax reduction policy. In addition, the "threshold" of the collection is raised to 5,000 yuan per month. The Individual Income Tax Law will be officially promulgated and implemented in early 2019, and the threshold was implemented on October 1, 2018. As the tax system structure reform and individual tax reform have reduced the threshold, the number of residents involved in paying individual income tax has also increased, which has a certain impact on residents' consumption.

## 2. Individual Income Tax Reform Changes Residents' Consumption Expectations

Since 1981, the "Decision on Amending the Individual Income Tax Law of the People's Republic of China" was formally established. Until the Fifth Session of the 13th National People's Congress Standing Committee held on August 31, 2018, the seventh amendment has been obtained[2]. The significance of individual income tax is to let high-income residents bear a large proportion of the tax burden, so that low-income residents do not bear the tax or bear a small part of the burden, China's individual tax system presents a "reverse triangle" form. Since the high-income sources of high-income residents do not all depend on wages and salaries, China's tax revenues for real high-income residents are lost. The reform of the tax has always led to the continuous increase in the taxes that residents have to pay, and the consumption levels of the residents have continued to decline. This time, the implementation of the payment method for the residents' individual income tax has been adjusted. After 2019, the

monthly payable fees for the residents who originally had to pay taxes are much lower than that in the past. For this type of residents, the income of each month is equivalent to a lot of improvement, so residents' consumption plans for their families and individuals can be partially adjusted to improve the expected indicators of consumption and improve the quality and quality of consumption[3]. The majority of the working-class residents do not have other sources of income other than wages and salaries. For such residents, the wage level may just meet the national individual tax collection standards. These residents who do not need to pay taxes originally will pay a certain percentage of the specific income of each month after the new regulations are promulgated and implemented. This will undoubtedly increase the slight economic burden on the ordinary residents of the working class. For such people, their consumption budget has also undergone certain changes, which reduces their consumption expectations plan to a certain extent.

### 3. Individual Income Tax Reform Affects Per Capita Disposable Income

Resident disposable income is the sum of residents' available final consumption expenditures and savings, that is, the income that residents can use for discretion, which is often used to measure changes in a country's

living standards. In order to obtain accurate conclusions on the impact of individual tax reform on per capita disposable income, statistics on the income, taxes and assets of all residents of a city in recent years is carried out[4]. The investigation and evidence collection of the situation in the region from 2015 to 2018 is carried out, and the statistical results are shown in Table 1.

**Table 1. Basic information of tax statistics for a city**

Year	Average monthly income	Average monthly tax	Average monthly asset
2015	4653	131	4522
2016	4895	126	4769
2017	5279	144	5135
2018	5561	162	5399

According to the formula: disposable income = wage income + operating income - operating expenses + transfer income - transfer expenses personal income tax to obtain the final disposable income of each person. Per capita disposable income can be calculated by dividing the personal disposable income of all individuals in the statistics by the total number of people in the statistics. The overall trend of the city's tax system is shown in Table 2 by a rough survey of the income of residents in the region and the formula.

**Table 2. Statistics on the overall trend variables of a city's tax system**

	Number of samples	Average value	Maximum value	Minimum value	Standard deviation
Resident income rate	601	0.422	0.526	0.363	0.046
Per capita GDP logarithm	600	4.21	5.03	3.31	0.39
Total indirect tax	598	0.65	0.76	0.54	0.07
Total direct tax	599	0.24	0.31	0.16	0.05
Tax structure	520	0.31	2.01	0.12	0.22
Tax burden level	570	0.13	0.54	0.06	0.08

Through the analysis of the overall situation, the region is represented as a representative to analyze the impact of tax reforms across the country. Economic growth is the basis and premise of the income growth of residents, economic growth must also be accompanied by the adjustment of the economic structure, which implementing on individuals are mainly reflected in the growth of monthly income. The promulgation of the Individual Income Tax Law has also had an impact on the disposable income of individuals. Through the data, accurate conclusions can be drawn: the per capita income of the individual income tax reform has increased, the per capita tax has also increased, as well as the per capita disposable income has increased.

### 4. Influencing Residents' Consumption Behavior by Regulating the Income Distribution of Residents

Comparing the residents' consumption behavior of the 2018 after the tax reduction and the non-tax reduction period, it is found that the individual income tax revenue of the financial department has increased substantially negatively compared with the previous one. The specific growth situation is shown in Figure 1.

It can be seen from the figure that the implementation of new reform measures has shortened the income distribution gap of residents. There are many factors affecting the consumption level of residents, mainly including economic factors and social factors. Taxation is covered by economic factors, and taxation has a revenue effect and a substitution effect on consumers behavior[5]. The individual income tax reform has mainly changed the tax structure and changed the income distribution gap of residents. For a long time, the monthly income of the working class and the income of the asset class are very different. The previous tax collection policy is inevitable

that the income difference between residents is getting bigger and bigger. The new tax policy makes the high-income people pay more fees, which changes the tax structure, and shorten the gap in disposable assets between different income groups. The increase in tax revenue will cause consumers to reduce disposable income,

consumers' purchases of goods will fall, and consumption levels will decrease. This will strengthen the regulation of consumption tax on the gap between rich and poor. Keynes once proposed a formula for calculating the level of residents' consumption.

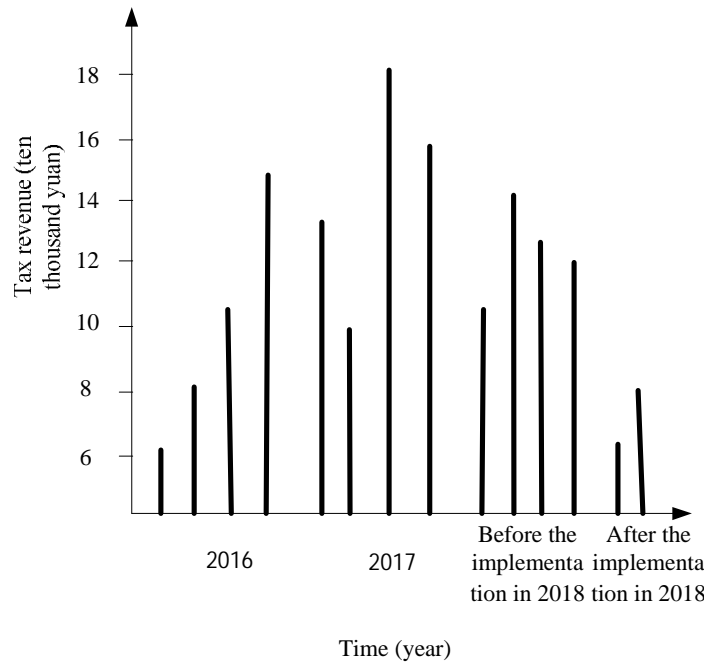


Figure 1. Tax statistics of the financial department over the years

$$S_t = a + b(Y_t - X_t)$$

In the formula, S represents the consumption level, Y represents the total income amount, X represents the tax amount, t represents time, a and b are parameters, a represents spontaneous consumption behavior, b represents consumption tendency, and the parameter value is between 0 and 1. It can be seen from the formula that the change in the tax amount X directly affects the value of the resident consumption level S. Under the premise of the same time and same control variables, the tax amount of individual income tax will inhibit the consumption level of residents. Through the individual income tax reform, the gap in income distribution of residents has been reduced, thereby increasing the consumption behavior and consumption level of residents.

5. Conclusion

The reform of China's personal income tax has optimized China's traditional tax system structure and changed the living and consumption effects of residents. With the increase of people's income level, the proportion of income tax will inevitably increase, and China's tax system

structure is gradually transformed into a tax system structure with equal income tax and turnover tax. Along with the gradual improvement of the level of individual income, people of different economic classes bear different proportions of tax burden, and the rational distribution of tax is realized. The government spends a larger proportion of tax on related areas close to taxpayers themselves, hoping that the next phase of implementation will allow residents to gradually raise their tax awareness[6]. The new tax system is more conducive to improving the limited rationality of taxpayers' taxpaying behavior, eliminating the unfavorable factors of limited rationality of taxation behavior, seeking benefits for the wider masses of the people, improving the consumption power and consumption level of residents, and achieving a comprehensive well-off society step by step. All in all, for the country, the reform of the individual income tax has optimized the tax structure, and formed a more complete tax system, which promotes the development of the country and the times and facilitates the work of the financial system staff. Personally, it has reduced the gap between the rich and the poor among different groups of high and low incomes, and reduced the living pressure of low-income people. The more complete individual in-

come tax system has contributed to the growth of the international economic system.

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