

Research on the Development and Promotion of Personal Tax Deferred Commercial Endowment Insurance

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Abstract: Personal Tax Deferred Commercial Endowment Insurance is an inevitable product of the multi-level pension security system. It's an important part of establishing and perfecting the "three pillars" of pension insurance, and also an important part of pension finance, which plays a significant role in improving the pension replacement rate and perfecting China's pension security system. Starting from the necessity of launching individual tax-deferred pension insurance, this paper summarizes the common characteristics of excellent overseas cases by referring to these cases represented by investment products and security products, and provides theoretical and factual basis for the development of personal tax deferred products in China. Based on the analysis of China's current national conditions and feedback from pilot cities, this paper explores the main problems of personal tax deferred commercial endowment insurance, and proposes targeted improvement paths so as to develop China's pension finance.

Keywords: Tax deferral; Pension insurance; Pension finance

1. Introduction

By the end of 2017, the statistics of China Statistical Yearbook shows that the proportion of the population over 65 years old in China has reached 11.4%. With the economic growth and the improvement of medical conditions, the population is aging rapidly, which puts forward new requirements for the perfection and progress of the national old-age security system. Old-age care is related to the well-being of each family and related to everyone's life closely. In China, the old-age security system started late, and many policies and products have not been deeply rooted in the hearts of the people. The traditional model of "raising children for old" can no longer meet the needs of the elderly at all. More and more new old-age security modes are appearing in public view all over the country. Whether more suitable old-age insurance products can be summarized through practice and promoted to all parts of the country, plays a significant role in solving many concerns brought by aging in China.

China's endowment insurance system has developed rapidly during the past few decades. China's Labor Insurance Regulations of the People's Republic of China formally promulgated in 1951. It has officially raised the curtain for the establishment of Chinese old-age insurance system. After more than 60 years of development and evolution, China's old-age insurance system has reached a relatively mature level. There is no denying that the structural transformation and the maladjustment of economic development have exposed many problems

from China's old-age insurance with China's rapid economic development. The existing old-age insurance security mode in China is the Three-pillar Security Mode, which is supported by Basic Old-age Insurance, Enterprise Annuity and Commercial Insurance. Although the policy has made some achievements in the development of horizontal integration, the distortion of the basic structure of the three pillars has led to the stagnation of the development of China's existing pension insurance mode. There are also some problems can not be solved such as "empty account" in personal account, and huge financial pressure on the first pillar.

On April 12, 2018, China's Ministry of Finance and other five ministries jointly issued the "Notice on Launching the Pilot of Personal Tax Deferred Commercial Endowment Insurance", marking the beginning of a new round of exploration on endowment insurance in China. Taking tax preference as an important policy has a profound and lasting impact on the reform of China's insurance industry.

2. The Significance of Personal Tax Deferred

Personal Tax Deferred Commercial Endowment Insurance refers to the premium paid for individual commercial old-age insurance is deducted from the pre-tax salary within a certain amount, and this part tax will be paid back when elderly receives the insurance benefits after retirement. Li Xiaosheng (2011) [1] found that the preferential tax rate and investment income have both in-

creased by calculating when implementing the tax extension policy through empirical analysis under the EET mode, and he also found the obvious benefits for individuals. Yin Yinpin and Hu Shangqing (2013) [2] took Shanghai as an example to calculate the fiscal cost under the tax deferral policy. And the calculated tax relief amount accounts for no more than 2% of the total tax revenue in Shanghai that year. From the perspective of fiscal cost, the tax deferral policy is feasible. Sun Jie (2019) [3] believed that personal tax deferral is of great significance for China to improve the three pillars of pension, increase the wage replacement rate after retirement, and improve the level of livelihood security and happiness index.

3. Foreign Personal Tax Deferred Commercial Endowment Insurance Scheme For Reference

3.1. Investment products (represented by the "individual retirement account" in the us, the "registered retirement savings plan" (rrsp) in canada and the individual pension plan in the uk)

Facing the same situation that the aging population is more and more severe, the United States has launched Individual Retirement Accounts (IRA). The main audiences of this plan are the middle-income and low-income groups and private entrepreneurs, and this plan can be divided into Pre-tax payment and After-tax payment. Pre-tax payment means that all funds in the account enjoy deferred tax benefits, while After-tax payment means conditional tax relief on the investment income of funds in the account. In addition, the government has formulated corresponding punishment measures for residents' wrong behaviors. In order to avoid early withdrawal, the government has set up a corresponding proportion of punishment funds, including measures such as limiting the amount of investment in each period and increasing the tax rate for one-off withdrawal.

Canada's security system has many similarities with China's Three-pillar system. For most Canadians, the retirement plans of the government and employers may not be sufficient to maintain their basic living needs when they retire, so Registered Retirement Savings Plan (hereinafter referred to as RRSP) plays an important role in their retirement plans. Considering inflation, people have a strong demand for capital appreciation for retirement benefits. RRSP is a retirement savings plan with tax incentives. Citizens those who are younger than 69 years old can open RRSP accounts in some licensed financial institutions such as insurance companies, banks, trust companies or other. Firstly, effective RRSP account funds can be deducted from the current year's tax within a certain range to reduce the tax burden. Secondly, the investment income under RRSP can be increased tax-free

unless withdrawn it from the account, so the assets in RRSP will grow faster than those in non-RRSP.

Britain's personal pension plans also have similar characteristics. Insurance companies and other professional financial institutions usually provide corresponding products. Individuals can arrange their own retirement pension plans according to their own requirements for retirement life, and enjoy tax refund for the paid expenses. They enjoy the greatest tax relief in terms of investment profits, which is a secure investment way.

This type of public pension has nothing to do with occupation and income, and at the same time it can provide the minimum guarantee, which leaves ample fields for the development of private pension. Through the development and expansion of private pension, it can meet the needs of income maintenance by combining it with a wide range of public pension. This can not only greatly reduce the expenditure pressure of government, but also spread the capital risks of the elderly effectively. What's more, people can not only buy annuity insurance products, but also invest in stocks, bonds, pension products and mutual fund products. And investment plays an important role in the insurance products of these countries, too.

3.2. Safeguard products (represented by france, germany, italy and other european countries)

Under this system, the insured does not need to set up a specialized personal account as only an account in an insurance company or a bank meets all the needs. The insured mainly buy Life Insurance Products and Annuity Insurance, and the insured can enjoy the preferential policy of deferred payment of personal income tax. In this mode, the countries mainly adopt the "Safeguard" policy, which promotes the residents' enthusiasm in participating in insurance through preferential subsidies and other aspects. However, the actual situation has proved that the effect is not as obvious as that of the investment products mentioned above. The first pillar of basic old-age insurance still dominates. Since the 1990s, with the aggravation of aging and higher government financial pressure, continental European countries have generally started to follow the Anglo-American mode to develop individual pension plans and try to establish individual accounts and change to an investment mode.

3.3. Summary of international cases

3.3.1. EET mode is most common

Tax treatment involves three aspects, i.e. payment, investment and collection stages. E means exemption and T means tax so eight modes of TEE, TTE, TTT, TET, EEE, ETE, ETT and EET can be divided according to different tax exemption stages. Nowadays, EET and TEE are commonly used in various countries, of which EET is the most widely used.

3.3.2. Strict provisions on deduction of premium expenses

Many countries have strict upper limit regulations on premium expenses. For example, in the UK from 2013 to 2014, the annual limit of premium expenses deducted from personal taxable income is 50,000 pounds, the maximum deduction for life is 1.5 million pounds, and the tax rate beyond the limit is 25%-55%. In other countries, only the long-term insurance can enjoy the preferential policy. For example, in France, residents can only deduct personal income tax if they have been insured for more than 8 years. A couple can only deduct 9200 euros per year before tax. There are also other countries that have detailed and strict regulations on the deduction of premium expenses. In Germany, if taxpayers have a life annuity paid monthly after the age of 60, they can get a 76% pre-tax deduction. After 2005, life annuities with an insurance period of more than 12 years can be deducted by 88%.

3.3.3. Dynamic adjustment of tax rate

The tax rate mechanism in most countries is flexible and a stepped tax rate ratio has been designed. For example, Italy's current commercial old-age insurance stipulates that the tax rate will be reduced by 0.3% and the lower limit is 9% per year on the basis of a single tax rate of 15% for individual old-age insurance after the insurance period exceeds 15 years. Spain also has corresponding tax exemptions for life annuity and fixed annuity. As the number of years increases, the preferential benefit will increase accordingly.

4. China's Personal Tax Deferred Commercial Endowment Insurance Development Status

4.1. China's current policy on deferred personal tax products

In June 2018, Shanghai, Fujian and Suzhou launched the pilot work of Personal tax deferred commercial endowment insurance products. The specific provisions are as follows:

Payment stage (E): Deduction before tax shall be made based on the principle of 6% of the personal monthly salary or the lower of 1000 yuan.

Accumulation stage (E): Investment income is exempt from tax.

Receiving stage (T): 25% of the commercial pension received after meeting the prescribed conditions is deducted before tax, and the remaining 75% is taxed at the 10% proportional tax rate, which is equivalent to the actual tax rate paid at the time of receiving 7.5%.

4.2. Development constraints

For the one-year trial, the data given by the Chinese Academy of Social Sciences indicate that the effect of the trial of individual tax deferred products is not as good as what we expected. The insurance coverage rates in the three pilot cities are relatively low. For example, only 13,000 people are insured in Shanghai, and some enterprises have only a few insured employees. It is not feasible to make products that blindly follow foreign schemes in China. When making and implementing products in China, more consideration should be given to the age structure and the gap between the rich and the poor in the region. It is worth discussing that how to weaken the regressive effect of products, reduce the financial burden of the government and improve the enthusiasm of the people.

4.2.1. The tax deferred policy involved in few people

What restrict the development of personal tax deferred commercial endowment insurance most are the complicated calculation of tax deferred limit, low tax deferred limit, high tax rate in the receiving period relatively. In 2019, the personal income tax threshold has been raised to 5,000 yuan in China, and many wage earners apply a 3% tax rate plus specialized additional deductions. Take Shanghai as an example, after the personal income tax threshold was adjusted in October 2018, the proportion of Shanghai taxpayers in urban employment fell from 44% to 15%. Under the new tax system, the 20% tax rate corresponds to the group whose monthly salary is around 20,000 yuan. After the tax system reform, the number of insured persons in Shanghai has dropped 76% per month. In addition, the data for the past three years show that personal income tax accounts for only about 7% of the total tax revenue. At the same time, the total scale of individual tax payers in China is very small, and the majority of workers are not individual tax payers. Considering the current realistic situation in China, hundreds of millions of urban and rural residents who have no fixed occupation do not need to pay personal income tax. Therefore, this preferential tax policy cannot cover these people at all, and these people are the citizens who need the pension insurance most.

4.2.2. The "Tax Deferred" mode is hard to operate, and the construction of fiscal and taxation infrastructure are insufficient

The design of preferential gradient, quota and intensity of tax extension mode is the key point to effect China's fiscal revenue. This requires the government and enterprises to determine the upper limit of tax deferral and the amount of expenditure in different accounts after full market research, and to ban the taxpayers take advantage of the tax deferral to evade tax and affect the normal fiscal and tax revenue of the country.

Meanwhile, the model has higher requirements for the unity, uniqueness, systematicness and accuracy of tax information, which means it is difficult to manage the insurance products without a complete national insurance information system and account management system. In the comprehensive tax system model of China, different tax groups have different starting points and strict rules on the attribution of tax sources. Without a unified division of preferential tax accounts, problems such as repeated tax deferral and inconsistent tax deferral quota will likely arise.

4.2.3. Defects in product design itself

Tax deduction limit is inflexible. The upper limit of deduction quota stipulated in the pilot is 1000 yuan per month or 12000 yuan per year, but the policy does not clear and definite the implementation of dynamic adjustment mechanism. With the increase of residents' expenditure level and inflation factors, people have to pay more to meet their needs, which does not reflect a flexible adjustment mechanism in the current policies so it is certainly unrealistic for the deduction amount to remain unchanged. Foreign countries generally have corresponding dynamic adjustment measures in terms of preferential tax deduction, so that the government's behavior will not be very passive, that is to say, it will adjust with the time and inflation situation.

Lack of tax-related restrictions on the insured's wrong behavior.

Wrong behaviors of applicants include withdrawal from insurance halfway or in advance, which affect the whole procedure. The personal tax deferred endowment insurance is still a kind of commercial insurance in essence but not a basic endowment insurance, so the applicants have the right to terminate the contract according to Article 15 of China's Insurance Law. The principle of "Freedom to Terminate Insurance" has caused a lot of uncertainties in the insurance product market and the phenomenon that management is chaotic and cannot restrict the applicants. If there is no restriction on this kind of behavior, the insured can take advantage of tax-deferred products to evade taxes. This will not only fail to achieve the state's goal of encouraging the development of commercial pension insurance, but also lead to the loss of national revenue.

4.2.4. Social equity effect

Matthew effect caused by its inapplicability.

The individual tax deferred pension insurance has not divided into the insured objects, and it is hard for the middle-income and low-income groups to have the remaining funds to pay the premium. However, this group of people will face the most severe pension situation in the future. And the middle-aged group will enjoy fewer benefits than the young group as the less the time they

have to pay for premium, the fewer tax preference they can save, which means that the pressure on those who are really facing pension pressure is still heavy.

Regressive effect caused by tax preference.

The adjustment method of personal income tax is called as progressive tax rate system, while individual tax preference itself violates the principle of tax burden depend on pay ability. The deferred tax has become a deformed "regressive tax" gradually, which means the higher the income is, the greater the corresponding tax rate and the tax reduction range will be, and the delayed tax effect will also be more obvious. This also confirms the problems caused by the group whose income level is lower than or close to the personal tax threshold cannot enjoy preferential treatment. The spot tax rate for high-income earners will decrease more, even with more accumulated funds in the account and higher investment returns. At the same time, the tax rate for high-income earners is higher than that for middle-income and low-income groups during their working hours, and the tax rate gap between the two stages after retirement will be more obvious, so the tax preference among them will be more effective. No matter from which aspect, the high-income group can obtain much more benefits in the personal tax deferred commercial endowment insurance than the middle-income and low-income groups.

5. Proposals for Development and Promotion Programs

5.1. Improve market participation and expand the scope of the insured population

Refer to current tax collection method in China, handling the relevant procedures for joining the third pillar on behalf of employees by employing units will help to increase the participation rate to the greatest extent. For the accounts that are bound to be established under different pillars, it is conducive for complementation and docking between first, second and third pillars to open up the channels of capital flow between the different pillars. Besides, relevant rate policies can be established to allow the mutual conversion between different accounts and improve the applicability and participation rate of the third pillar. It is suggested that the second pillar and the third pillar should share tax deferral accounts together so as to avoid repeated preferential treatment caused by different tax sources and facilitate unified management of account information. In order to expand the coverage of preferential treatment, there is a proposal that the applicable tax rate for 75% of the receiving pension be adjusted from 10% to 3%. In addition, people whose monthly basic pension income is less than 5,000 yuan shall be exempted from taxation, and the personal income tax rate of 3% shall be applied between 5,000 yuan

and 8,000 yuan, thus keeping consistent with the receiving tax rate.

5.2. Improve the existing tax extension policy, and achieve differentiated tax preferential policies

In terms of tax deferral mode, EET mode should be developed and popularized. In the EET mode, the amount of tax paid by taxpayers earning capital gains is basically the same as that of taxpayers earning the same level of labor income. Therefore, compared with ETT, ETE and other modes, EET mode has a more significant incentive effect on individuals, and it is more conducive to the fairness of the whole society. At the same time, it is easier for the government to adopt EET mode account design with less management pressure.

The amount of tax deferral is a controversial issue all the time, which should also become the focus of the government and enterprises and should be further explored after summarizing the pilot experience. One of the reasons for the difficulties in China's implementation lies in the differences between regions and population. Therefore, applicability should be taken into account in product and policy design to formulate differentiated measures. First, preferential quotas should be set according to the income gap in different regions. And cities should be classified according to factors such as regional population distribution, income level, and local economic output value. For example, first-class cities such as Shanghai and Beijing can encourage young working-class and middle-aged people to encourage people to purchase tax-deferred products as early as possible. Relatively low-class cities can select the main audience as low-income groups below the tax threshold or without fixed jobs, and introduce some policies which are partial to them and then expand the coverage of insured population. Second, we should set the preferential quota according to different ages and dynamic adjustment mechanism, adjusting the upper limit of the preferential quota in different years.

5.3. Create a good social atmosphere, enhance the awareness of insurance importance

The lack of public awareness of insurance protection lead to the difficulties in the transformation of China's insurance industry in recent years. People lack basic insurance knowledge and do not have the consciousness to plan for their old age life in advance. In fact, it is not practical to rely on the traditional "raising children for old" any more. To improve their happiness and security in their later life fundamentally, they must rely on the security system of the whole society. In the current situation where people rely too much on the government, people have not realized how important the individual endowment insurance

are, so the government should play a leading role, publicize relevant policy knowledge by taking communities and enterprises as units, and enhance the public's awareness and responsibility for providing for the aged. Only when the development of tax-deferred insurance is viewed from the perspective of the third pillar of old-age insurance truly can its connection with enterprise annuity and basic old-age insurance be fully considered in the process of system reform. It is the very key and prerequisite for the development of tax-deferred insurance. Judging from more than one year of pilot projects in three cities, the results are effective but not obvious. The pilot projects have encountered many problems and found many loopholes during this period. Only by pushing it to the whole country as soon as possible can we obtain more market information in a short period of time. And it is the right way to shorten the time for implementing the reform of the system design, allow more people to enjoy the policy dividend, and speed up the development process of China's old-age security system.

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