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The Analysis on China Corporation Income Taxation Level

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<Abstract>

At present, it is most important part in the next tax reform of China to unify the foreign and domestic corporation income taxation (CIT). The paper aims to study the changes of the status of CIT and its actual tax burden for different kind of firms, collecting a lot of relevant data and analyzing from three aspects as follows: that is the ratio of the CIT to total tax revenue, the structure of the CIT; and the tax burden of the CIT. The paper analyzes not only the macro – tax burden, the changes of the taxation level and its structure, but the micro – tax burden of CIT, the differences in the tax burden of domestic and foreign enterprises as well. Finally, the paper set out some proposals in the design of the tax rates and tax burden of the CIT of China.

<Key words> corporation income taxation(CIT), macro – tax burden, micro – tax burden[1]

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Ⅰ. Foreword

It is with great satisfaction that I write a Foreword for this paper. I am confident that this paper will be of benefit to the Chinese Government and the people who engage in the study of Chinese tax or who like to know about Chinese tax reform.

Ten years have past since the previous tax reform in 1994 of China. However, the facts of differences in tax rates and tax burden of domestic and foreign firms still exist, for applying with both different income tax laws. In China, the discussion focused on the combination of the two income tax laws for domestic and foreign corporations come into being a few dissimilar opinions in tax rate design, and tax policy etc. In order to obviously describe the tax level and influences on account of different tax systems, and offer the foundation of the argument for the issue of tax rate, the paper uses statistic analysis approaches, by collecting a plenty of relevant data which never being used in the aforementioned discussion. And this is a clear trait of the paper.

The purpose of this paper is to present an overview on the corporate income taxation (CIT) level of China and to analyze the changes of the shares and tax burden of CIT for different times and different firms. Although the rapid increase of CIT of foreign firms in the past decade, the real tax burden of them is still lower than that of domestic firms. Simultaneously, the paper analyzes the CIT burden of different major industries and the industry enterprises in different years. It shows some problems that there are remarkable disparities among different industries and different years. There are nominal tax rates of 33%, 27%, 18% and 15% for the corresponding firms in China today, and this may get rise to economic erosion to some extent, and these are presented in the third section of the paper. Finally, the paper put forward some proposals of corporate tax reform, such as CIT rate design, based on the tax theory and worldwide tax reform practices and the economic development of China. The main point of view of the paper is to lower the tax rate, so as to shorten the gap between the nominal tax rate and real tax burden, and reduce tax evasion and avoidance.

The paper has benefited from the views of representatives in an International Conference of KAST in 2005, titled Globalization of World Economy and Tax Reform.

Ⅱ. The analysis of the ratio of CIT to TTR (Total Tax Revenue)

In general (to see table 1.), the ratio came down since 1980’, from 33.9% in 1986 to 15.83% in 2004. The year 1993 was a turning point that the ratio reduced most remarkable. It was above 20% on average before 1993 and fell to 14.12% on average during 1994~1998, and started going up since 1998, when the ratio was lower at 12%, and in the period 1999~2004, it was 15.14% averagely. In contrast, the share of turnover taxation showed rising during 1986~ 1999, and appeared drop in 2000. Table 1 and 2 show that the share of turnover taxation and CIT going down in recent years, and the share of personal income taxation moving up rapidly due to the speedy economic development of China.

<Table 1> Relevant Index Compare between CIT and Turnover Taxation of China (%)

Year	Turnover Taxation			CIT 1/		
	Share 2/	Increase 3/	In GDP 4/	Share	Increase	In GDP
1986	57.45	–	10.03	33.90	–	5.92
1987	59.55	6.54	9.12	30.56	– 7.33	4.68
1988	59.51	16.12	8.48	30.93	17.62	4.41
1989	60.85	15.83	8.67	27.07	– 0.88	3.86
1990	62.16	3.96	8.22	24.72	– 7.03	3.27
1991	63.29	10.55	7.80	24.81	8.97	3.06
1992	64.50	10.46	7.00	23.34	1.95	2.53
1993*	72.09	47.34	7.92	16.67	– 5.84	1.83
1994*	73.72	24.08	7.28	14.88	8.34	1.47
1995*	72.35	15.20	6.71	15.24	20.20	1.41
1996	70.27	11.41	6.44	14.71	10.76	1.34
1997	71.15	26.80	7.44	13.79	17.35	1.44
1998	72.90	13.81	8.05	12.00	– 3.44	1.32
1999	71.78	10.20	8.47	12.66	18.20	1.49
2000*	68.32	16.47	9.06	14.93	44.33	1.98
2001*	66.73	24.93	10.55	17.37	48.78	2.74
2002	57.56	– 3.28	9.55	15.22	– 1.74	2.52
2003	55.68	16.4	9.76	14.88	17.65	2.61
2004	54.50	23.01	10.26	15.83	33.78	2.98

Source : Tax Year Book of China, Economic Year Book of China, Taxation Research Data of China, and Statistic Com - munique of National Economy and Social Development of China, 2004.
Note : 1) CIT includes Foreign Firm's Income Taxation and Domestic Firm's Income Taxation.
2) The share indicates the ratio of CIT to total taxation.
3) Increase means a percentage increases of the year.
4) In GDP indicates the Macro – taxation burden of the tax in the year.
* indicates the special year.

Specifically, the share of CIT was influenced by several factors as follows:

(i) In a certain extent, the reduction of the share of CIT was mainly because of the increase of turnover taxation. In the changes of the turnover taxation and CIT revenue, the table shows four – year minus increases, three – year small degree positive increases, and a more remarkable increase of 17.62% in 1988 only in CIT before 1993, while it also shows overall positive increase for the turnover taxation, and its average increase amplitude is higher than that of CIT. So during the period, the share of CIT went down gradually, while the share of turnover taxation added annually, from 57.45% up to 72.09%.

1993~1995 are three different years. The share and increase of turnover taxation are unconven - tionally high. As to the year of 1993, both indexes of turnover taxation are 47.34% and 72.09 respectively. The analysis concludes the reasons that, for one thing, foreign direct investment had a large increase in 1993[2), on the other hand, tax reform made tax reduction and exemption much less than before.

After 1995, except 1998 and 2002 when CIT appeared minus increase for Asia Crisis, CIT showed a substantial increase annually. The reason is that, China economy got rid of the inflation rapidly and entered a speedy increase way since 1995, firm' s scale enlarged and profit improved, and these supplied a good condition for the increase of CIT.

(ii) After the tax reform in 1994, personal income taxation has been increased in a large extent (to see table 2.) annually. The share of Personal Income Taxation to total taxation increased obviously from 1.57% in 1994 up to 7.12% in 2002, its share to income taxation increased 22 point more, from 9.59% in 1994 up to 31.74% in 2003. Reviewing the ratio of CIT to PIT (Personal Income Taxation), it was 7 point lower, from 9.42:1 in 1994 down to 2.34:1 in 2004, and it shows the PIT status enhanced. Until now, the status of CIT has not reversed completely and even weakened continuously. It reflects that the economic benefit of enterprises is not improved, and the management of the CIT should be strengthened.

(iii) The reduction of the share shows that, on the one hand, most companies' economic efficiency decline, and the state companies confront more difficulties especially, on the other hands, the increase of non – taxation GDP and low – taxation GDP increase faster than total amount of GDP. Otherwise, there are other factors as follows:

First, tax incentives got rise to the reduction of the CIT. In the past decade, the production value of foreign investment firms increased more quickly than that of domestic firms, but then most foreign investment firms enjoyed more tax treatment of reduction and exemption. Tax incentives resulted in the reduction of tax elasticity, and the increase of GDP could not enhance the surplus value of production.

Second, due to the inadequate of technique investment, the increase of actual

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2) Based on the data in Statistics Year Book of China, foreign direct investment in 1993 is 27.5 billion USD actually, increased 150% more than that in 1992.

profit of enterprises was lower than that of production value, and it could not supply relevant taxation income.

Third, the economic development of different areas appeared imbalance in a certain extent and brought on the difference in tax burden.

Fourth, domestic tax competition resulted in tax erosion to some extent.

<Table 2> Compare of China income taxation with total tax revenue (unit : a hundred million)

Year		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total tax revenue		4621	5425	6223	7793	8657	9688	11856	15165	17004	20462	25718
Income taxation	Taxation	761	958	1109	1335	1377	1641	2431	3631	3800	4463	5812
	In total (%)	16.46	17.65	17.82	17.13	15.91	16.93	20.50	23.94	22.34	21.81	22.59
Domestic company income taxation	Taxation	640	753	812	932	856	1009	1445	2122	1973	2341	3142
	In total (%)	13.84	13.88	13.04	11.95	9.88	10.41	12.18	13.99	11.60	11.44	12.21
	In income taxation(%)	84.09	78.60	73.21	69.81	62.16	61.48	59.44	58.44	51.92	52.45	54.06
Foreign company income taxation	Taxation	48	74	104	143	182	218	326	513	616	705	933
	In total (%)	1.03	1.36	1.67	1.83	2.10	2.25	2.74	3.38	3.62	3.45	3.62
	In income taxation(%)	6.30	7.72	9.37	10.71	13.21	13.28	13.41	14.12	16.21	15.79	16.05
Personal income taxation	Taxation	73	131	193	260	339	414	660	996	1211	1417	1737
	In total (%)	1.57	2.41	3.10	3.33	3.91	4.27	5.56	6.56	7.12	6.92	6.75
	In income taxation(%)	9.59	13.67	17.40	19.47	24.61	25.22	27.14	27.43	31.86	31.74	29.88

Source : Tax Year Book of China, and Taxation Research Data of China

Note : Income taxation includes Foreign Firm's Income Taxation, Domestic Firm's Income Taxation and Personal Income Taxation.

<Table 3> Internal taxation structure of income tax（CIT/ PIT）

Year	CIT(a hundred million)	PIT(a hundred million)	CIT / PIT
1994	688	73	9.42
1995	827	131	6.31
1996	916	193	4.74
1997	1075	260	4.13
1998	1038	339	3.06
1999	1227	414	2.96
2000	1771	660	2.68
2001	2635	996	2.64
2002	2589	1211	2.13
2003	3046	1417	2.14
2004	4075	1737	2.34
Total	19887	7431	2.34

Source：Tax Year Book of China, and Taxation Research Data of China
Note：Corporation Income Taxation includes Foreign Firm’s Income Taxation and Domestic Firm’s Income Taxation.

Ⅲ. The analysis of the structure of CIT (table 4 and 5)

First, the share of foreign corporation income taxation increases in a remarkable extent. During 1994－2004, the increase of foreign corporation taxation was higher than that of domestic corporation taxation obviously, and the increase ratio average year was 30.21% and 19.87%. From table 2, we can calculate that the ratio of foreign corporation income taxation to total corporation income taxation is from 6.8% in 1994 up to 23.15% in 2004. The main reasons in which resulted such disparity are as follows: a series of tax preferential treatment and favorable investment environment promoted the rapid development of foreign enterprises. In the past years, more foreign investment enterprises entered the period of tax payment from their tax holiday. Of course, there is another factor that we can’t neglect, that is, a lot of domestic companies transformed themselves into Sino－foreign joint venture and cooperative enterprises, which reduced domestic firm’s income taxation to some extent and increased the income taxation of foreign investment enterprises correspondingly.

<Table 4> Compare of increase of domestic and foreign company income taxation (%)

Year	Increase rates of domestic corporate income taxation	Increase rates of foreign corporate income taxation
1992	1.17	455.66
1993	– 6.02	113.76
1994	3.44	83.35
1995	17.73	54.15
1996	7.75	40.68
1997	14.8	37.11
1998	– 8.09	27.53
1999	17.9	19.4
2000	43	49.8
2001	47.1	56.6
2002	– 7.02	57.36
2003	18.65	14.44
2004	34.21	32.34
Average	19.87	30.21

Source：Tax Year Book of China, and Taxation Research Data of China

Second, as to the different ownership enterprises, the ratio changed variably. In domestic firms, the ratio of the stock company rose up in a large extent (to see table 5), from 4.46% in 1994 up to 44.86% in 2004, while the ratios of the state and collective company lowed remarkably, and thereinto the ratio of the state company fell down most seriously, 53 percents down during 1994 and 2004. Because a lot of state firms and collective firms reshuffled into stock companies, which obtained better economic efficiency. Contrastively, the overall economic benefit of state – run companies was lower. Otherwise, the ratio of private companies went up with a small extent continuously in the past years, and it shows that the scale of the small companies enlarged, and their benefit increased certainly. So the private companies will offer more company income taxation with the development of the economy. And the share of the income taxation must be increased accordingly.

<Table 5> The ratio of different economies income taxation to total company income taxation of China (%)

Year	State company	Collective company	Private company	Affiliated company	Stock company	Foreign company
1994	71.47	17.15	0.32	0.19	4.46	6.37
1995	66.73	18.84	0.66	0.48	4.92	8.34
1996	57.91	19.25	1.18	0.61	6.02	14.99
1997	56.55	19.87	1.62	1.04	10.82	10.07
1998	45.13	20.42	2.24	1.87	12.74	17.56
1999	44.72	14.09	2.72	1.72	18.92	17.75
2000	31.48	9.65	3.28	1.26	35.87	18.44
2001	28.10	8.66	3.90	0.98	38.82	19.52
2002	25.21	7.63	4.70	2.25	36.38	23.79
2003	23.06	5.76	5.82	2.00	40.18	23.15
2004	18.34	4.72	7.15	2.02	44.86	22.88

Source : Tax Year Book of China, and Taxation Research Data of China

Ⅳ. The analysis of the tax burden of CIT

The analysis is from three aspects as follows: First, the macro – tax burden of CIT. It contents the ratio of CIT to GDP, and CIT to first and second industrial value – added. Second, the micro – tax burden of CIT. It refers to the compare of CIT burden among different major industries, and the ratio of the income taxation paid by different ownership enterprises to the accounting profit and/or value – added of each own. Third, CIT rate level.

First, the analysis of the macro – tax burden of CIT

Table 1. shows that the ratio of CIT to GDP generally reduced from 5.92% to 2.98% during 1986~2004, when it is divided as two stages, ie.1986~1998 and 1998~2004. The ratio of the former went down from 5.92% to 1.32%, and the latter one climbed up from 1.32% to 2.98%. In other word, the ratio rose to some extent after the Asia monetary crisis in 1998. Generally, 1993 – 1999 is the period of the lowest ratio of 1.5% on average. The main reasons are perhaps as follows: (i) In a certain extent, during the period, the government had been seeking for the numeral economic growth. Inadequate technical development and application brought on the lower ratio of the high value – added products and services. (ii) In some reasons that got rise to the reduction of macro – tax burden, ‘charges push against taxation’ is an important factor worth to be mentioned. (iii) Except for the factor of economic benefit, tax evasion and avoidance are different factors in which result serious tax erosion in the

other aspect. Therefore, rigid tax implementation had been highlighted in the past decade. (iv) Low tax burden in 1990's promoted the economic development and the economic benefit of enterprises, and the ratio of CIT/GDP remarkably increasing.

By the calculation in relevant data from China Statistic Yearbook, the ratios of CIT revenue accounting for the added value of second and third industrials during 1996~2004, are separately as below: 1.69%, 1.78%, 1.62%, 1.81%, 2.35%, 3.24%, 2.95%, 3.06%, and 3.51%. They also show an uptrend way in general.

Second, the analysis of the micro – tax burden of CIT

(i) The CIT burden in different major industrials (to see table 6)

<Table 6> The CIT burden among different major industrials in 2001

unit：a hundred million Yuan

Industrials	Mining	Electric power, coal gas and water	Construction	Transport, storage and postage	Commercial wholesale and retail and food	Finance and insurance	Social service
Taxation of manufacture and sale	529.33	433.9	593.45	468.2	1965.23	1209.26	401.1
Corporation income taxation	300.85	207.03	73.44	107.63	333.63	169.91	114.4
Foreign company income taxation	30.59	26.76	4.28	137.17	14.95	5.59	29.05
Total taxation	860.77	667.69	671.17	713	2313.81	1384.76	544.55
Industry value – added	4500.11	2128.69	6301.82	4947.51	8116.02	2767.25	4603.89
General tax burden of industry (%)	19.13	31.37	10.65	14.41	28.51	50.04	11.83
Industry income tax burden (%)	7.36	11	1.23	4.94	4.29	6.34	3.10

Source：Tax Year Book of China, and Statistics Year Book of China.

As for the general tax burden of productive major industries, electric power, coal gas and water have undertaken heavier tax burden, and the commercial wholesale and retail and food industry are in the next place, and the mining industry is in the third place.

As far as the industry income tax burden being concerned, the electric power, coal gas and water have also undertaken heavier tax burden, and the second is the mining industry, and the third is finance and insurance. Thus it can be seen that the tax burden of the electric power, coal gas and water should be reduced. But then we are not able to make sure by above simple analyze, that the tax burden is heavy or not. We need to use some other criteria and conditions, such as the static and dynamic benefit level, economic structure changes, etc. to make all – around analysis and estimate.

(ii) The ratio of the income taxation paid by different ownership enterprises to the accounting profit and/or added value of each one (to see table 7, 8, 9, 10, 11, 12)

<Table 7-1> The CIT burden of different economies of China in 1993[3]

Unit：a hundred million Yuan

Subjects	Countrywide	State economy	Collective economy	Foreign investment economy
Total profit	1602.47	817.26	377.85	215.89
Income taxation	661.82	511.55	121.96	28.31
Income tax burden （%）	41.13	62.59	32.28	13.13

Source：Statistics Year Book of China （1994）and other data in published papers

<Table 7-2> The CIT burden of state and non – state above – scale industries[4]

Unit：a hundred million Yuan

Year	Countrywide			State economy			Collective economy			Foreign investment economy		
	Total profit	Income taxation	Income tax burden (%)	Total profit	Income taxation	Income tax burden (%)	Total profit	Income taxation	Income tax burden (%)	Total profit	Income taxation	Income tax burden (%)
2000	4393.48	838.19	19.07	2408.33	566.90	23.53	451.22	63.65	14.10	1282.48	160.33	12.50
2001	4733.43	1297.08	27.40	2388.56	882.88	36.96	387.01	95.90	24.77	1442.95	236.96	16.42
2002	5784.48	1184.39	20.47	2632.94	582.46	22.12	415.06	62.76	15.12	1877.22	263.32	14.02
2003	8337.24	1056.40	12.67	3836.20	619.89	16.15	480.00	54.54	11.36	2777.44	313.75	11.29

Source：Tax Year Book of China, and Statistics Year Book of China.

Table 7. shows that the actual tax burden of different economies exists a remarkable diversity. In the early 1990’s, the CIT burden of the state economy was seriously heavier than the other economies. This is one of the most important reasons of injuring the state economy during that period.

For some relevant data behind 1994 can’t be found, the paper uses the data of nationwide industry economy to analyze the changes of the CIT burden of different enterprises in the past years. Table 7 – 2 indicates that the total income tax burden of countrywide industry increased to a certain extent. The year of 2001 should be noticed, that the total CIT burden in this year was the highest, ie. 27.4%, in the four years listed in the Table 7 – 2. And in the year all the micro – tax burden of three kinds

3) Xu Jian Guo, *Tax Policies in The Economic Development of China*, China Finance and Economics publishing company, 1998, P98.

4) Xu Jian Guo, *Tax Policies in The Economic Development of China*, China Finance and Economics publishing company, 1998, P98.

of economies went up obviously. The increase extent of CIT burden of state and collective enterprises were biggish, it is about 14%, more than that of foreign investment enterprises, and it is only 4%. Nevertheless, the CIT burden of all kinds of industry enterprises reduced to a great extent in 2003. This is really a problem worth to be considered seriously.

Furthermore, the paper continues to review the economic benefit and income tax burden of state and foreign industry enterprises across the country. In order to analyze the income tax burden of both kinds of enterprises, the paper adopts industry added value and cost – expense profit margin as the reference data (to see Table 8, 9 and 10), to explain the rationality of changes in the tax burden rate of accounting profit.

<Table 8> Countrywide industry enterprises' benefit and income tax burden

Unit：a hundred million Yuan

	1995	1997	1998	1999	2000	2001	2002	2003	Average
Cost – expense profit margin（%）	3.21	2.35	2.35	3.42	5.56	5.35	5.62	6.25	–
Total profit	1635	1703	1458	2288	4393.48	4733.43	5784.48	8337.24	–
Industry enterprise income taxation	–	–	–	–	838.20	1297.15	1184.44	1370.15	–
CIT burden（%）	–	–	–	–	19.07	27.40	20.47	16.43	20.17

Source：Tax Year Book of China, and Statistics Year Book of China.

<Table 9> CIT burden and relevant index of state owned and state holding industry company

Unit : a hundred million Yuan

Year	CIT income	Industry added value	CIT burden of industry added value (%)	Total profit	CIT burden of total profit (%)	Cost – expense profit margin (%)	Company number
1998	–	11076.90	–	525.14	–	1.61	64737
1999	–	12132.41	–	997.86	–	2.89	61301
2000	566.90	13777.68	4.11	2408.33	23.53	6.15	53489
2001	882.88	14652.05	6.02	2388.56	36.96	5.75	46767
2002	582.46	15935.03	3.65	2632.94	22.12	5.93	41125
2003	619.89	18837.60	3.29	3836.20	16.15	7.25	34280
Year Average	–	–	4.19	–	23.54	–	–

Source : Tax Year Book of China, and Statistics Year Book of China.

<Table 10> CIT burden and relevant index of foreign investment industry enterprises

Unit:a hundred million Yuan

Year	CIT income	Industry added value	CIT burden of industry added value (%)	Total profit	CIT burden of total profit (%)	Cost – expense profit margin (%)	Company number
1998	–	4055.07	–	418.61	–	2.75	26442
1999	–	4850.92	–	753.93	–	4.39	26837
2000	160.33	6090.35	2.63	1282.48	12.50	6.03	28445
2001	236.96	7128.11	3.32	1442.95	16.42	5.85	31423
2002	263.32	8573.10	3.07	1877.22	14.02	6.40	34466
2003	313.75	11599.65	2.70	2777.44	11.29	6.83	38581
Year Average	–	–	2.91	–	13.20	–	–

Source : Tax Year Book of China, and Statistics Year Book of China.

From Table 8, 9 and 10, we can find several traits as follows:

(i) During the period of 2000 ~ 2003, the CIT burden of countrywide industry enterprises and both kinds of industry enterprises mentioned above appeared similar characteristics of initial rising and dropping then.

(ii) The total profits of two kinds of enterprises in 2000 and 2003 increased to a great extent.

(iii) During 2000 ~ 2002, the profit of foreign investment enterprises increased more than that of state enterprises.

(iv) The cost – expense profit margin of countrywide industry and two kinds of industry enterprises increased to a great extent.

(v) During 1998 – 2003, the industry added value of both kinds of industry enterprises appeared a great extent of increase annually.

(vi) As for the rate of tax burden of industry added value, its variation is basically similar to the changes of the tax burden rate of enterprises profit.

(vii) The number of state industry enterprises reduced every year, and the number of foreign investment industry enterprises increased at the same time, but the profit, income taxation and industry added value of the state industry did not reduce, even increased to a great extent and more than those of the latter.

(viii) It is worth to be concerned that the CIT burden of industry has an obvious reduction in recent years. This reflects the possibility of tax evasion and tax avoidance by transferring price way which directly get rise to the reduction of the income taxation, and in a certain extent, the income tax management of industry enterprises needs to be strengthened.

Based on the above analysis, the paper summarizes the general tendency of CIT burden: (i) The tax burden of domestic enterprises is commonly higher than that of foreign investment enterprises. (ii) The tax burden of domestic investment enterprises early in 1990’s, is higher than that of themselves in the end of 1990’s and early 21 century. (iii) The CIT burden of foreign investment enterprises rose early in 1990’s and dropped since the year of 2001.

The differences in tax treatment of domestic and foreign investment enterprises results in the imbalance of CIT burden. Therefore, realizing the fairness of tax burden by the new tax reform and tax policy adjustment as soon as possible is distinctly very important.

Third, the analysis of the level of CIT rate

Since the tax reform in 1994, the tax rates of different enterprises had been unified with a nominal tax rate of 33%. But for special areas and enterprises, lower rates of 27%, 18% and 15% shall be applied.

However, the practices show that unfairness of tax burden and the disparity between nominal tax rate and real tax burden will not only exerts serious economic erosion, and be harmful for the fair competition of enterprises, but hinders economic development and can’t meet the demands of the world market economy as well.

Ⅴ. Proposals in CIT rate and CIT burden

To design a reasonable taxation level, three factors shall be taken into consideration at least: (i) general level of enterprises economic benefit that indicates the ability of making profit and paying taxation. (ii) taxation level of international CIT. (iii) the condition of tax base.

The specific proposals are as follows:

(i) The choice of tax rate shapes
According to the changing trend of CIT rates of China and worldwide tax reform, single proportional tax rate is clearly the direction of CIT development.

(ii) The choice of tax rate and tax burden level.
To adopt fixed proportional rate of 27%, and then lower the rate in next few years in term of the economic development, in order to gradually shorten the gap between the nominal rate and real tax burden.

The above proposals mainly based on several points as follows:

(i) Currently, there are different tax rate levels in the world, such as high tax rates of 30%~40% in the developed countries, and low tax rates of 20%~25% in the developing countries. In 30 OECD countries, the highest income tax rate (including central and provincial) dropped from 37.6% in 1996 to 31.4% in 2002, one percentage down on average a year[5]. In 2001, 21 developing countries' CIT rate (including central and provincial) was 29% on average. Because of international tax competition, a lot of countries has been lowing their CIT rates. In developed countries, Japan, Canada, Germany, and Ireland are the typical cases in tax rate reduction. And most developing countries have also reduced their nominal tax rates.

(ii) More brackets of the tax rates always result in economic erosion, and exert tax avoidance easily, and get rise to the big companies minimum. It is not scientific to differentiate big or small companies with the criteria of company profit, and then applying high or low tax rate accordingly. This policy may encourage low benefit companies. The study notes that middle and small companies are of advantages in technique innovation, which should be encouraged in this aspect by some special tax incentives, but by tax rate.

(iii) In the total amount of company income taxation, big companies income taxation accounts for most part of the taxation. Therefore, tax rate reduction may bring more benefit to the big companies, which always play the resource allocation and conformity role in the market, reducing the cost of capital, and

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5) KPMG, "Corporate Tax Rate Survey", January 2002. www.us.kpmg.com/microsite/globle – tax/Tax Facts.

driving the development of many small com - panies around.

(iv) Supply – side policy reckoned that, lowing tax rate may not only strengthen tax neutrality, but promote investment and employment effectively, and realize the economic growth as well. The theory also illustrated that reducing tax rate gradually may arouse greater incentive effect towards the investment, and exert a kind of signal of notification for alluring investment, spurring the increase of taxation finally. Low tax rate and tax burden also may bring high tax income afterwards.

(v) China has got high increase of tax revenue in the past ten years, and may get more taxation in the next few years. The economic growth and taxation increase have offered a better condition for new tax reform next.

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