The Development and Challenges of China's Individual Income Tax System

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Abstract. Since its implementation in 1980, China's individual income tax system has undergone a number of important reforms, including the 1994 tax reform, the 2011 tax point adjustment, and the 2018 IIT reform that combined comprehensive and categorical tax reforms. These changes are not only reflected in the tax threshold and tax rate adjustments, but also include the introduction of special additional deductions. The evolution of the personal tax system aims to promote social equity, optimize tax structure, and enhance the transparency and predictability of tax policies. However, the current personal tax system still faces challenges such as base erosion and transfer pricing. Compared with the individual tax systems of United States, Germany and Japan, China's individual tax system shows the differences in international tax policies, especially in the application of information reporting and collection and management technology. In the future, China can draw on the direction of optimization from international experience, explore the improvement of the tax system of household taxpayers and foreigners, and strengthen tax collection and management and anti-tax avoidance legislation through information technology. At the same time, the research should pay attention to the trend of deepening the reform of individual income tax, the challenges of personal income identification and tax compliance, and the application of big data in tax risk prediction, so as to promote the construction of international tax cooperation and tax collection and management linkage mechanism.

Keywords: personal income tax,tax reform, international tax comparisons,Tax administration technology

1   Intruduction

1.1   The Promulgation and Reform of Individual Income Tax Legislation

Since the promulgation of the first individual tax law in 1980, China's individual income tax system has gone through several stages of development, and each reform is a major adjustment and optimization of the current tax system. The promulgation of the Individual Tax Law in 1980 marked the initial establishment of China's individual income tax system[1], which was mainly characterized by a fixed tax rate and an absolute threshold, covering only income from wages and salaries, while other types of income

such as remuneration for labor services and remuneration for authors were taxed separately according to different tax laws. In 1994, the major reform of the tax system brought a variety of different types of income into the scope of individual income tax adjustment, transforming the individual income tax into a tax that comprehensively covers all kinds of income. This reform not only simplifies the tax system, but also promotes social equity and efficiency.

The increase in the 2011 threshold indicates that the government is paying more attention to alleviating the tax burden on wage earners through individual income tax policies. The tax threshold was raised from 2,000 yuan to 3,500 yuan, and was adjusted in subsequent years, which directly reduced the tax burden on low- and middle-income groups and increased their disposable income. The 2018 IIT reform is an important step towards a comprehensive and categorical individual tax system, which allows taxpayers to enjoy a variety of special additional deductions according to their specific circumstances, including children's education, continuing education, serious illness medical treatment, etc., further reflecting the social fairness of individual income tax.

1.2   Evolution of the Tax Rate Structure

In this series of reforms, the scale of the personal tax rate table has also been changed, and the adjustment of the tax rate reflects the consideration of the allocation of the tax burden of taxpayers of different income levels. The gradual transition from the original three-tier tax rate structure to the current seven-tier excess progressive tax rate structure better reflects the taxpayer's ability to pay, and this structure is also more common internationally.

1.3   Factors Affecting Individual Income Tax Policies

In the process of implementation, the effectiveness of these policies has been affected by many factors [2]. For example, the rate of economic growth, changes in the labor market, and the perfection of the social security system have all had a profound impact on the policy orientation and social effects of the individual income tax system. In addition, with the development of globalization, the impact of international tax refuge on the implementation of China's individual tax system has become increasingly prominent, which requires careful consideration when formulating and adjusting tax policies.

1.4   Challenges Facing the Current Individual Income Tax System

Although China's individual tax system has been developed over the years, it still faces a number of challenges in practice. The ambiguity of the distinction between tax residents and non-tax residents may lead to tax avoidance behaviors such as base corrosion and transfer pricing. At the same time, with the development of the economy and the improvement of people's living standards, the differentiation of tax treatment between domestic and foreign individuals has gradually become complex. In addition, in the context of the implementation of the comprehensive individual income tax system, how to effectively collect taxpayer information and establish a sound individual income tax

collection and management system has become a technical problem restricting the role of the individual income tax system. While dealing with these issues, it is also necessary to comprehensively consider the domestic and foreign economic situation, the changing trend of the labor market, and the perfection of the social security system to ensure that the individual income tax policy is both fair and efficient[3].

1.5   Conclusion

In summary, the main development stages of China's individual income tax system not only reflect the adaptability and forward-looking adjustment ability of the tax system, but also reflect the government's strategic choice of tax policy in different development periods. With the deepening of economic development and social changes, the individual tax system still needs to be continuously optimized and innovated to meet the more complex and changeable challenges in the future.

2   Characteristics and Problems of the Current Individual Tax System

In analyzing the characteristics and problems of the current individual income tax system in China, we adopt a systematic approach and deeply explore the specific operation mechanism of the tax system based on the multi-dimensional indicators of the Summary Table of the Characteristics of the Current Individual Income Tax System. The tax rate structure in the individual tax system adopts an excess progressive tax rate system, which reflects the principle of tax distribution based on the level of income. The design of this tax rate structure, through a seven-step tax rate gradient covering the range from 3% to 45%, strongly reflects the principle of tax fairness and imposes a heavier tax burden on high-income earners. In order to ensure the scientificity and rationality of this tax rate system, we apply the formula:

$$T = \sum_{i=1}^{n}(y_i - y_{i-1}) \times r_i$$

To calculate the tax payable of taxpayers, so as to achieve the distribution of tax burden that meets the requirements of economic development and social fairness.

In terms of taxation methods, China's individual tax system adopts a combination of comprehensive and categorical declaration methods, so as to achieve efficient and fair tax collection and management. The comprehensive tax method mainly focuses on the income from wages and salaries, while the classified tax method focuses on other income such as remuneration for labor services and author's remuneration. This dual-track parallel taxation mechanism has achieved a balanced and decentralized tax burden to a large extent, and has played a positive role in improving the flexibility and adaptability of the tax system.

Deduction standard and tax reduction measures: At present, the monthly deduction standard for wages and salaries is 5,000 yuan, and there are six special additional deductions, such as children's education, continuing education, serious illness medical treatment, etc. These clear deductions not only reduce the tax burden of taxpayers, but

also effectively improve the living standards of low-income groups and enhance the pertinence and rationality of the tax system.

Taxpayers are mainly concentrated in the middle-income group, and their income is generally higher than the tax exemption standard. In the future, the tax reform should achieve a fairer tax environment by expanding the taxpayer base and rationally distributing the tax pressure.

The popularization of electronic taxation and the support of information technology have greatly improved the accuracy and convenience of tax collection and avoided tax evasion and evasion. At the same time, the strengthening of cross-border tax administration and international cooperation have effectively prevented tax avoidance and double taxation.

Although the legal system of personal tax has been gradually improved, it still needs to be revised regularly in accordance with socio-economic changes. For example, the special additional deduction is regularly assessed and adjusted to reflect changes in social and people's livelihood and reduce the burden on families.

As the second largest tax in China, personal income tax plays a non-negligible role in taxation. In order to ensure that the tax policy is synchronized with the state's fiscal needs, it is necessary to adjust the tax policy in a timely manner to ensure the steady growth of fiscal revenue. Through an in-depth analysis of the Table 1, we can see that the individual income tax system has played a key role in regulating income distribution and achieving social fairness and justice[4]. Therefore, in the future, the tax reform should continue to strengthen the function of individual income tax in distribution regulation, and promote social harmony and stability through more refined policy design.

$$T = \sum_{i=1}^{n}(y_i - y_{i-1}) \times r_i$$

Formula for calculating the progressive tax rate on excess.

Table 1. Summary of the characteristics of the current IIT system

Feature/ Problem Classification	description	effect	Coping strategies	Data illustration (100 million yuan)
Tax rate structure	Seven levels of progressive tax rates on excess, ranging from 3% to 45%.	Ultra-high-income earners have a heavier tax burden	Adjust the tax rate to reduce the tax burden on low- and middle-income earners	-
Method of taxation	Synthesis and classification combined	The distribution of tax burdens is relatively balanced	Further simplify the collection and management process	-
Deduction criteria	Salary deduction of 5,000 yuan/month, six special deductions	The effect of tax reduction is obvious, and the living standards of low-income groups have been improved	Raise the deduction standard and optimize the deduction items	-

Feature/ Problem Classification	description	effect	Coping strategies	Data illustration (100 million yuan)
Taxpayer groups	It is mainly concentrated in the middle-income group	Those whose income is higher than a certain threshold are more likely to be taxpayers	Expand the taxpayer base and share the tax burden fairly	The number of taxpayers is 24 million
Non-residents pay taxes	The income of non-resident individuals in China is taxed together with resident individuals	Diversification of tax sources	Strengthen the administration of individual income tax for non-residents	-
Informatization construction	Informatization of individual income tax declaration and implementation of electronic taxation	Tax management is more efficient	Continue to promote the digitalization of taxation	-
Cross-border tax management	Enhance the exchange of tax information with other countries	Effectively prevent tax avoidance and double taxation	Optimize the international tax cooperation mechanism	-
Regulatory construction	Gradually improve the legal system of individual income tax, such as the seventh revision of the Individual Income Tax Law	Keep your tax laws adaptable and forward-looking	The tax law is regularly revised to reflect socio-economic changes	-
Income distribution adjustments	According to the individual income tax, the gap between high-income and low-income groups is adjusted	Achieve social fairness and justice	Strengthen the distribution and adjustment function of individual income tax	-
Preferential policies	Tax incentives are granted to specific industries and regions	It has promoted the development of the industry and the local economy	Targeted adjustment of preferential tax policies	-
Special additional deductions	Including children's education, continuing education, and serious illness medical treatment	The burden on the family is reduced	Regularly assess and adjust the special deduction criteria	-
Tax services	Simplify the filing process with personalized tax services	Increased taxpayer satisfaction	Intensify publicity efforts to improve the convenience of paying taxes	-
Efficiency of collection and management	The establishment of a data sharing and analysis platform improves the efficiency of tax collection and management	Tax evasion and evasion have been reduced	Continuously improve the level of technology application	-

Feature/ Problem Classifica- tion	description	effect	Coping strategies	Data illustra- tion (100 mil- lion yuan)
Revenue	Individual income tax has become the second largest tax in China	Provide a steady in- crease in fiscal revenue	Adjust the tax policy in a timely manner to ensure fiscal needs	Individual in- come tax reve- nue 13871.97

3   Comparative Analysis of Individual Income Tax Systems in Other Countries

When comparing the individual income tax systems of United States, Germany and Japan, it can be found that each country has unique tax characteristics and management methods.

3.1   The United States

The United States features an input tax system and credit mechanism, with progressive tax rates resulting in heavier tax burdens for high-income earners. Family credits such as filing a joint tax return reduce the tax burden on families, and high-income earners are required to pay additional taxes, such as health care taxes. These measures reflect the flexibility of United States tax laws and their focus on families.

3.2   Germany

Germany emphasizes a categorical tax system and a family-sharing mechanism, and the "Splitting-Verfahren" allows married couples to combine taxes, reducing the overall tax burden. The social security system is perfect, and the tax credit items are diversified, which further reduces the actual tax burden.

3.3   Japan

Japan pays attention to income classification and tax rate differentiation, and the local personal tax system is extensive, and local governments levy taxes according to the central tax base. The elderly enjoy tax benefits for pensions and public pensions, which reduce the tax burden on the retired group.

3.4   Implications for China

The characteristics of the tax systems of these countries provide useful experience for China. China should focus on broadening the tax base, rationally adjusting tax rates, clearly defining tax residency, implementing preferential tax policies, and strengthen- ing the application of information technology in tax administration. In addition,

international tax cooperation and anti-tax avoidance legislation are also important directions for future reforms. By learning from the experience of these countries, China can optimize its individual income tax system and enhance tax fairness and efficiency.

4   Enlightenment of International Experience for China's Individual Tax Reform

When examining the advanced experience of the international individual income tax system, it can be found that these experiences have important implications for China's future individual income tax reform. The individual tax systems of developed countries have commonalities in promoting social equity, improving tax efficiency, and addressing the challenges of globalization, which provides a valuable reference for China.

4.1   Direction of Tax System Optimization

First of all, the direction of the optimization of the tax system deserves attention. For example, the United States' "look-through" approach, which can help reduce tax evasion and broaden the tax base, could be used by China to strengthen tax management of overseas assets. In addition, with the increase of global mobility, the fairness of the tax system can also be improved by studying the household tax unit system and designing an appropriate household tax sharing mechanism [5].

4.2   Expropriation Management Techniques

The application of information technology has become a trend in the area of collection management technology. The automated filing system for United States and Germany improves the efficiency and accuracy of tax collection and reduces the burden on taxpayers. China can learn from these experiences and use big data analysis and artificial intelligence technology to improve the accuracy of individual income tax collection and administration, simplify the declaration process, and reduce tax costs.

4.3   Timeliness of Adjustments

In addition, the flexibility of tax policy is also worth learning from the international experience. Germany's income splitting method and United States' input tax system and credit mechanism show how flexible tax rate adjustment mechanisms can be adapted to changes in economic development and social needs. China could consider establishing a more dynamic IIT adjustment mechanism to cope with economic cycles and social changes.

4.4   Extent of International Tax Cooperation

Finally, China's individual income tax reform should have an international perspective

and strengthen international tax cooperation. Studying tax treaties and strengthening the linkage mechanism between foreign labor cooperation and tax collection and administration can help China take the initiative in the international tax order and provide a reference for domestic tax reform[6]. Therefore, the reform of China's individual tax system should not only improve its internal structure, but also absorb international experience, build a fairer, more efficient and modern individual tax system through innovative measures and international cooperation, and promote the simultaneous development of the tax system and the country's modernization process.

5   Conclusion

The development and challenges of China's individual income tax system have shown unique institutional characteristics and social effects after many important reforms. At present, with the economic globalization, information technology revolution and the increasing improvement of the social security system, China's individual tax system urgently needs to be further refined and improved to adapt to the ever-changing tax environment, promote tax fairness and efficiency, and realize the internationalization of the tax system. In the future, the deepening reform of the individual tax system is expected to continue to develop in the following aspects.

The primary direction of reform is to define comprehensive income and classified income, and clarify the scope of income and the applicable tax rate. The current system combines the integration and classification of income items, but in the actual operation process, there is still a certain ambiguity in the definition of various types of income, which leads to the complexity of tax implementation and the increase of the difficulty of taxation. Therefore, it is necessary to draw on international experience, strengthen the definition of income items, improve the provisions of the tax law, and simplify the tax collection and administration process through rigorous legislation and detailed operational guidelines, so as to identify and distinguish different types of individual income more accurately and efficiently.

Tax compliance is another topic that deserves in-depth study. While carrying out the reform of the individual income tax system, we should formulate a scientific and reasonable compliance mechanism and implementation strategy. With the continuous development of the market economy and the intensification of capital liquidity, the sources of personal income are becoming more and more diversified, and the challenge of tax compliance is also increasing[7]. Through the establishment of a sound tax information system and perfect tax collection and management verification, it will help to improve the tax consciousness and compliance of individuals, and reduce tax evasion and tax evasion. At the same time, through big data analysis, the tax department can effectively predict and prevent tax risks, which will undoubtedly improve the pertinence and accuracy of tax collection and management.

The further promotion of international cooperation and exchanges is also an important direction for future IIT reform. In the context of globalization, cross-border taxation has also become a challenge[8]. The analysis and research of international tax treaties will promote the coordination and standardization of international tax rules,

actively participate in the dialogue and information exchange of international tax collection and administration cooperation, and effectively combat cross-border tax evasion[9]. By learning from international experience, China can build a fairer and more reasonable international tax environment while maintaining its own tax characteristics.

In future research, the trend of deepening the reform of the individual tax system needs to pay attention to the changes in the tax burden of different income groups, especially the middle and low-income groups, so as to make the reform more solid and effective and improve the fairness of taxation[10]. We will further promote international cooperation and exchanges, especially in the analysis and study of international tax treaties[11], and build a more reasonable and efficient linkage mechanism between foreign labor cooperation and tax collection and administration[12]. In this way, China's individual tax system can remain competitive in a rapidly changing national environment, while making a positive contribution to the global tax governance system.

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