A Comparison of the Personal income Tax System between China and Britain

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Abstract. Britain is the first country to levy personal income tax, and has established a comprehensive and systematic personal income tax system. In the context of the reform of the personal income tax system in China, study of the British personal income tax system and the comparative analysis of the current personal income tax system between China and Britain have an important enlightening and practical significance for the reform of the personal income tax system in China. On the basis of studying the modern framework of British personal income tax system, this paper explores concrete methods for the reform of China’s personal income tax system. Using the method of comparative analysis, this paper analyzes the British modern frame of personal income tax system, compares the Chinese and British comparative analysis of the importance of personal income tax system, and advances some Suggestions on perfecting China’s personal income tax system.

1. Introduction

Britain is the first country in the world to levy personal income tax, and has formed a complete system of personal income tax. Personal income tax in the UK accounts for about 9% of GDP, accounting for approximately 27.5% of total tax revenue. By contrast, China's personal income tax only accounts for about 1.2 percent of GDP and about 7% of total tax revenue, indicating its limited role. Therefore, it is necessary to perfect China’s personal income tax to make it play an important financial role.

In addition, since China set up a personal income tax system in 1980, after nearly 40 years of gradually improve, has initially formed to adapt to the socialist market economic system of personal income tax system framework, has played an important role in regulating the fairness of income distribution. However, it should also be noted that the current personal income tax system is inadequate in terms of the tax burden level, the taxation model is not scientific enough, and the tax rate structure is not perfect. Therefore, it has become a highly concerned issue in academic circles and social circles. In particular, regarding the issue of China’s personal income tax as a ‘payroll tax’ and the middle class bearing most of the personal income tax, the problem of personal income tax

\footnote{1https://data.oecd.org/tax/tax-on-personal-income.htm#indicator-chart}
\footnote{2http://www.stats.gov.cn/tjsj/ndsj/2017/indexch.htm}
failing to reach the principle of fairness and other issues is a practical issue that has received wide attention during the NPC & CPPCC in the country in recent years.

Robert Walker and Michael Wiseman (1997) proposed a tax credit scheme for income from services related to the merger of in-service and separation benefits. Chen Wei (2013) believed that the quantified expense deduction standard of UK personal income tax eliminated the contradiction between progressive taxation and long-term inflation to a certain extent. Liu Ping (2013) stressed that the deduction of income from the total income for personal livelihood, family support and other aspects is conducive to ensuring the basic living needs of taxpayers. Darwin King and Carl Case (2015) think that should be adopted some form of standard deduction or personal tax credits to a certain amount of income taxpayers.

Wang Gang (2001) recommended standard to distinguish the resident’s taxpayers and the taxpayers 183 days, make the regulation of China tend to be consistent with international practice. Li Linmu (2002) argued that our country should begin from the tax sovereignty and economic and social development needs, as far as possible put more people into the scope of Chinese resident’s taxpayers.

Lv Xi, Kong Yusheng (2004) argued that compared with Britain, China’s 9-level excess progressive tax is too complicated, most of the marginal tax rates do not apply, the empty high negative tax system.

Xu Lin (2002) believed that the comprehensive and classified personal income tax system adopted in the UK could effectively strengthen the withholding of sources and reflect the characteristics of fair tax burden and affordable quantity. Liu Kaiyue (2016) argued that integrate comprehensive and classification of withholding income tax system can not only strengthen sources, prevent loss of tax sources, and can narrow the gap of distribution.

This topic explores the historical evolution of the British personal income tax system, laying the factual basis for the analysis of the basic framework of the current personal income tax system in the UK. On this basis, I compare the personal income tax system between China and Britain, and research the differences between the two countries’ personal income tax system. Finally, it put forward strategies and suggestions for optimizing China’s personal income tax system.

In view of this, the research is carried out according to the following five parts. The first part combs the major changes in the history of British personal income tax. The second part elaborates the modern framework of the British personal income tax system from five aspects. The third part compares and analyzes the mode of personal income tax in China and the UK. The fourth part draws on the experience of the personal income tax system in the UK, and puts forward some suggestions on the improvement of the personal income tax system in China. The fifth part summarizes the research of this paper.

2. The modern framework of the British personal income tax system

2.1 The determination of the taxpayer

British personal income tax payers are divided into resident and non-resident taxpayers. Under the UK tax code, resident taxpayers must pay personal income tax on their taxable income worldwide. Non-resident taxpayers are liable for limited taxation and pay personal income tax only to the UK on their income earned in the UK.
2.2 The determination of the object of taxation

The subject of UK personal income tax mainly includes five categories according to its income sources. Mainly includes the British citizens from the land and buildings should be made by the profit for the year or so, p.a. to buy their own government securities of interest and buy foreign government securities and through its agents deal with interest, pay salaries, shareholder dividend income derived from British resident company.

2.3 Determination of tax exemption items

The personal income tax exemption item is a certain encouragement and preferential provision for some tax objects in the personal income tax system. The common exemption items have social welfare security categories, interest and savings or investment income categories, and other categories.

2.4 Determination of tax deduction items

A taxpayer’s net income is deducted before tax to obtain taxable income. There are two types of pre-tax deductions in the UK: expenses and tax relief.

2.4.1 Expense deduction.

Expense deductions are those that can be deducted from the total revenue and must be ‘all’ and ‘wholly’ incurred for business purposes.

2.4.2 Tax allowance

(1) Personal Allowances. From 2017 to 2018, the personal allowance is 11,850. But, personal allowance goes down by £1 for every £2 that net income is above £100,000.

(2) Married Couple’s Allowance. Married Couple’s Allowance could reduce taxpayer tax bill by between £336 and £869.50 a year. For marriages before 5 December 2005, the husband’s income is used to work out Married Couple’s Allowance. For marriage and civil partnerships after this date, it’s the income of the highest earner. If taxpayer and their partner were born on or after 6 April 1935, they may be able to claim Marriage Allowance instead. Marriage Allowance lets taxpayer transfer £1,190 of your Personal Allowance to taxpayer’s husband, wife or civil partner.

(3) Blind Person’s Allowance. Blind Person’s Allowance is added to your yearly Personal Allowance. 2017 to 2018 is £2,320 and 2018 to 2019 is £2,390. If you and your spouse or civil partner are both eligible, you’ll each get an allowance.

2.5 Calculation of tax payable

2.5.1 Determine tax rate

The UK’s personal income tax rate is set in accordance with annual financial regulations. Since 2010, the UK’s personal income tax rate has remained unchanged at three levels, and the rate has remained basically stable at 20 %, 40 % and 45 %.

2.5.2 Calculate tax payable

The tax payable is the personal income tax calculated on the basis of taxable income. The steps of the calculation are as follows. The first step is to calculate the Net Income. The second

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3 https://www.gov.uk/income-tax
4 https://www.gov.uk/income-tax-rates/income-over-100000
5 https://www.gov.uk/married-couples-allowance
6 https://www.gov.uk/marriage-allowance
7 Source: 2014 ACA Principles of Taxation
8 According to the income taxonomy of personal income tax in the UK, the income of various sources obtained by the individual is reduced according to law, and the net income is deducted from all the expenses, that is, the net income is obtained. In addition, the
step is to calculate the Taxable Income. The tax exemption can be reduced according to the net income. The third step is the Income Tax Liability. The personal income tax should be calculated according to the excess progressive tax rate.

3. Comparative analysis of personal income tax in China and Britain

According to the source of income, the current personal income tax in China can be divided into the income of property, which is one of the taxonomy tax system. Each project has its own tax collection method, cost deduction standard and the tax rate according to it. Some carry out proportional tax rates and have progressive tax rates at the same time.

3.1 The comparison of the mode of Taxation

From the current practice, the model of personal income tax is divided into three types: the taxable income tax system, the comprehensive income tax system and the integrated and classified income tax system.

The British adopts the mode of income tax combined with classification. The income tax system based on the combination of classification and classification is classified according to the classification of personal income, and then the comprehensive taxation mode. This mode can not only strengthen the withholding of source, ensure the timely storage of taxes, but also reflect the principle of progressive tax rate, fair tax burden and quantitative burden.

At present, the personal income tax system in China adopts the model of classified collection, that is, the tax mode of calculating the income of each category of taxpayers according to the different deductions and tax rates. However, this model also cannot comprehensively measure the taxpayer’s real tax capacity, cannot distinguish the taxpayers’ various burdens, and is not conducive to the vertical equity and other issues. With the development of China’s economy, the source of personal income is gradually diversified. Objectively speaking, it is difficult to enumerate all forms of income. At the same time, the tax payers are likely to escape tax by means of counting the number of incomes to tax and eventually lead to tax unfair and other problems. Compared with the classified personal income tax mode, the income tax system integrated with classification is more in line with the principle of ‘quantity taxation’.

3.2 The comparison of taxpayers

Both China and Britain classify taxpayers into two categories: resident taxpayers and non-resident taxpayers. As far as resident taxpayers are concerned, the scope of taxpayers in Britain is obviously wider than that in China. In a tax year, an individual living in the UK for more than or equal to 183 days is a resident taxpayer. China adopts a one year standard, and a resident who has lived in China for one year in a tax year is a resident taxpayer.

Compared with the number of immigrants in China and the greater mobility of the population, in the case of the most important financial income of the UK, a short time standard can be used to avoid the loss of tax revenue due to the wide definition of the residence time of the taxpayers. In the early days of the People’s Republic of China personal income tax law, China sets a year’s standard, which is related to the development stage of China’s economy, and is also related to the lower tax law also stipulates that the income of the source of Taxation obtained by the taxpayer should be reduced to the total amount of the tax year when the income from the source of tax is calculated and added.

proportion of personal income tax in China’s tax revenue, so the standard is relatively strict. This institutional arrangement has not been adjusted in the course of the revision of the law in 2011. From the current situation of our country’s economic development and the situation of opening to the outside world, it is necessary to make a wider definition of the scope of the taxpayer and to avoid the loss of a part of the income of personal income tax.

3.3 The comparison of tax subjects

The UK personal income tax is a tax on all personal income, so it is levied on a wide range of subjects, including all cash and non-cash income. The experience in this aspect is worth learning from when China improves the tax subjects.

The tax subjects in China are classified according to the specific situation, and 11 taxable items are specifically listed. Although the list of tax subjects in China is relatively perfect and detailed, there may still be some cases that are not included in the actual situation. In 1980, the fifth National People’s Congress, congress passed the law of the People’s Republic of China on personal income tax law. China’s economic development level is relatively low, personal income and the income gap is not big. Even in 2000, the per capita wage income was only 4372.22 Yuan by income source, accounting for 69.2% of disposable income. Per capita net operating income is 348.2 Yuan, accounting for 5.5% of disposable income. Per capita net income was 128.38 Yuan, accounting for 2.0% of disposable income. Per capita transferred net income was 1211.86 Yuan, accounting for 19.2% of disposable income. Most taxpayers receive their income from wages and salaries, so it is reasonable to list them by category.

However, with the continuous development of China’s economy and social development, China’s GDP will reach 82712.2 billion Yuan in 2017. The per capita disposable income of China’s residents is 25,974 Yuan. In terms of income sources, the per capita wage income of China’s residents is 14,620 Yuan in 2017, accounting for 56.3% of the disposable income. Per capita net operating income is 4,502 Yuan, accounting for 17.3% of disposable income. Per capita net income of property is 2,107 Yuan, accounting for 8.1% of disposable income. Per capita transferred net income was 4,744 Yuan, accounting for 18.3% of disposable income. It can be seen that the income channels of individual residents have become increasingly diversified, the proportion of wage and salary income is declining, and the operating income and property income have increased substantially. It is necessary to enlarge the scope of taxation and reduce the loss of personal income tax.

3.4 The comparison of tax-free items

According to the personal income tax law of the People’s Republic of China, 10 items of personal income tax are exempt in China. China has a wider range of tax exemptions. In the UK, there are fewer tax exemptions, mainly including interest, savings or investment income, social security and so on.

Both countries have introduced tax breaks on interest on national bonds to encourage taxpayers to buy bonds. In addition, it also provides tax exemptions for social security and social welfare, so as to ensure the basic livelihood of taxpayers in financial difficulties and ensure the fairness of secondary distribution.

10 http://www.stats.gov.cn/tjsj/ndsj/2001c/q1004c.htm
11 http://www.stats.gov.cn/tjsj/zxfb/201802/t20180228_1585631.html
12 http://www.stats.gov.cn/tjsj/zxfb/201801/t20180118_1574931.html
Insurance compensation is set up in China’s personal income tax exemption program, but not in the UK. In this tax exemption program, China’s setting is reasonable. Can give policy-holder must amount to compensate for the loss of its behavior, but should clearly define the scope of insurance indemnity income tax, for example, some part is beyond reasonable compensation should belong to the taxable income.

The personal income tax law in the UK has a relatively wide range of exemptions for scholarships, not only for various types of scholarships obtained by individuals, but also for education subsidies (EMA). This has a positive effect on reducing the burden of education on educates and their families, and is in line with the government’s aim of encouraging education.

3.5 The comparison of tax allowance

China’s personal income tax system, which is based on the classified taxation model, determines the system arrangement of deducting items by category. Current standard of deduction method is unified, simple and clear, but this kind of too simple personal income tax deduction method cannot implement the principle of tax fairness well. At present, the personal income tax system in China is deducted according to the unified amount or proportion without taking into account the burden differences faced by different taxpayers. For example, the lack of consideration for the burden of education’s children and the care of the elderly, etc. cannot truly reflect the tax burden capacity of taxpayers. In addition, the current personal income tax deductions made only three adjustment (salary threshold adjusted to ¥1, 600 in 2006, changed in 2008 to ¥2, 000, changed in 2011 to ¥3, 500), expense deduction unchanged for a long time, it is difficult to adapt to economic development.

Relatively speaking, the British deductions more detailed and comprehensive, not only to consider the price level rising every year, also considering the taxpayer’s age, marital status, work ability, health and other factors. Therefore, it can better reflect vertical equity and humanistic care13.

3.6 The comparison of tax rates

China’s personal income tax rate is set according to 11 categories of tax subjects. The personal income tax rate in the UK is set in accordance with the annual financial regulations. Comparing the personal income tax rates of the two countries, it can be found that the UK adopts an excess progressive tax rate, while China adopts different tax rates according to different types of income.

Tax rates should be reasonable. Britain’s excess progressive tax rate can effectively reflect the amount can be affordable, so its personal income tax rate of the third level is more reasonable. In 2011, the personal income tax law of the People’s Republic of China was amended for the sixth time. Change the tax rate on wages and salaries to 3-45%, and reduce the overage progression to seven. But there is still too much of a third tier in Britain, and there is no fundamental solution to the mismatch between tax rates and real income. And, working class as the main object of being charged, and some of the highest marginal tax rates unearned income is lower than the top rate of wages and salaries, so conducive to arouse the enthusiasm of the working class, also it is unfair.

4. The enlightenment and countermeasures of the British system to China’s personal income tax reform

At present, the reform of China’s personal income tax system has entered an important stage. Britain’s relatively complete tax system has certain enlightenment to the reform of China’s personal

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income tax system. It is beneficial to promote the reform of China’s personal income tax system by taking China’s reality into consideration and drawing on the reform experience of the UK’s personal income tax system. This chapter puts forward reasonable Suggestions from four aspects, including the mode of personal income tax, the scope of taxpayers, the project of exemption and exemption, and the tax rate structure.

4.1 Establish a comprehensive and classified personal income tax system

The third plenary session of the 18th central committee of the communist party of China (CPC) clearly proposed to gradually establish a comprehensive and classified personal income tax system. The implementation of the comprehensive and classified personal income tax system is conducive to reflecting equity, promoting tax enthusiasm, and laying a foundation for realizing the comprehensive income tax system. China can draw lessons from the combination of the personal income tax, comprehensive and classification of taxation pattern combined with the reality of the current situation, there will be a strong continuity or recurring income included in the comprehensive income project, the unified progressive tax rate; Other income collected at the end of the year is taxed at a proportional rate.

4.2 Improving the scope of taxpayers

At present, the scope of the taxpayer is adapted to the development process of the forty years of reform and opening up, but there is still a certain distance between the needs of the construction of the socialist modern power and the demand for talents. Therefore, it is necessary to adapt the scope of the personal income tax obligor in China to this trend of development, and it is necessary to connect with the international way of passage, and it is necessary to set a broader scope. In view of this, China’s personal income tax can be determined by residents’ taxpayers who live in China for 183 days or more in any 12 consecutive months.

4.3 Improve standards of tax-free items

When formulating personal income tax deduction items and standards, China should take into account multiple factors such as average annual income level and inflation. Raising the standard of deduction for expenses should take into account both the need of tax payers to reduce the burden and the financial capacity.

On the basis of meeting China’s national conditions, it is necessary to appropriately expand the scope of personal income tax exemption items and set normative limits to highlight their fairness, transparency and effectiveness. The following tax-free items can be added or improved by referring to the relevant institutional arrangements of the UK. Secondly, the income from welfare funds should be clearly defined as tax-free welfare. Third, for the income from insurance indemnity, relevant provisions should be formulated with comprehensive consideration of the items, amounts.

4.4 Optimal tax rate design

Taking into account the combination of comprehensive and classified personal income tax system, the combination of progressive tax rate and proportional tax rate can be used for personal income tax rates. A progressive tax rate is used for the comprehensive collection of items, and the

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proportional tax rate is adopted for the taxonomy. Reducing the maximum marginal tax rate is beneficial to the promotion of economic development and the more effective collection of personal income tax, and the reduction of the tax rate can be used to adjust the personal income of the high income people\textsuperscript{17}. Therefore, in keeping the proportional tax rate unchanged, we should appropriately reduce the maximum marginal tax rate of progressive tax rates, and expand the progressive tax rate and reduce the grade. Specifically, the maximum marginal tax rate of progressive tax will be reduced to about 40%, and the tax rate will be adjusted to about four.

5. Conclusion

It is helpful to provide theoretical and practical reference for the reform of the personal income tax system in China by studying the personal income tax system in Britain and comparing with the current personal income tax system in China. On the basis of studying the framework of modern personal income tax system in Britain, this paper explores specific methods for the reform of China’s personal income tax system. By using the historical analysis method, the historical evolution process of the personal income tax system in the UK is combed, and the basic framework of the current personal income tax system in Britain is analyzed by using the literature analysis and text analysis method, and the comparative analysis is used to compare the personal income tax system between the two countries and explore the individual’s individual. Finally, it puts forward strategies and suggestions for optimizing the personal income tax system in China.

Through the study of this paper, the following conclusions are obtained.

First, the British personal income tax system is more reasonable in the aspects of tax model, the scope of the residents, the tax exemption of scholarship, the deductions and the progressive tax rate, which can be used for reference to the reform of the personal income tax system in China.

Second, China’s personal income tax system is more reasonable in terms of insurance compensation tax and proportional tax rate. It should be retained and continued.

Third, the personal income tax system combined with the combination of comprehensive and classification, the expansion of the scope of the taxpayer, the construction of the personal income tax deductions and the dynamic adjustment system, the proper expansion of the scope of the personal income tax exemption items, the set of standard limits, and the implementation of the personal income tax rate should be adopted. The reform of China’s personal income tax system is carried out with progressive tax rate and proportional tax rate optimization scheme.

The research of this paper still has limitations. At present, the British personal income tax system is only analyzed. The future research can also make an in-depth analysis of the countries with better personal income tax in the United States, France and Japan, and provide a more extensive reference for the reform of personal income tax in China.

References


