



Research on the Impact of the Tax Cuts and Fee Reductions on Local Public Finance under the COVID-19 Epidemic

Ying Guo¹, Manping Tang^{1*}, Jiayi Bai² and Danyang Su¹

¹Sichuan Agricultural University, College of Management, Chengdu 611130, P.R. China

²State Administration of Taxation, The First Taxation Branch of Chongqing Taxation Bureau, Chongqing 401121, P.R. China

* Corresponding author: tangmanping@sicau.edu.cn

Abstract.

In order to reduce the negative impact of the COVID-19 epidemic on the business development of enterprises, China has implemented a series of new active tax cuts and fee reductions policies to ease the pressure on business operations. Since the implementation of these policies for nearly a year, the tax burden of enterprises has dropped significantly, while local fiscal revenues have dropped significantly, which has brought a greater impact on local finances. Based on the data of local fiscal revenue and expenditure and local government debt in 2020, this article analyzes the impact of the tax cuts and fee reductions on local public finance under the COVID-19 epidemic by region, tax type, and project. At the same time, through analyzing and sorting out the main problems facing China's local public finance, combined with the long-term effects of tax cuts and fee reductions policies, we put forward optimization suggestions for the development of China's local public finance in the future.

Keywords: Covid-19 epidemic; tax cuts and fee reductions; local public finance; local government debt

1. INTRODUCTION

Reducing taxes and fees is a major measure for China to boost confidence in economic development. It is also an important part of my country's proactive fiscal policy. Since General Secretary Xi formally proposed the "supply-side structural reform" in November 2015, the tax cuts and fee reductions" policies with "tax reductions and exemptions" and "cancellation or suspension of administrative fees" as the main content have been introduced successively ^[1]. In 2020, in response to the impact of the COVID-19 epidemic, on the basis of continuing the inclusive tax cuts and fee reductions policies that existed in 2019, China has urgently introduced 7 batches of 28 phased and institutional tax preferential policies, focusing on providing assistance in four major sectors: medical treatment, supply of protective materials, public welfare donations, and the resumption of work and production of enterprises. As of the third quarter of 2020, the country's tax and fee reductions amounted to 2,092.4 billion yuan, which is expected to reduce the burden on market players by more than 2.5 trillion yuan throughout the year.

At this stage, Chinese enterprises have achieved remarkable results in reducing their burdens, but government financial pressures have also increased, which is mainly reflected in the reduction of local fiscal revenue and the expansion of local debt. In the face of the COVID-19 epidemic and tax cuts and fee reductions, local finances are facing the dual pressures of temporary declines in revenue and rigid expenditures. How should governments at all levels resolve the real dilemma of local fiscal revenue and expenditure contradictions and ensure the healthy development of local finances is the most urgent problem.

2. THE IMPACT OF TAX CUTS AND FEE REDUCTIONS ON LOCAL FINANCES UNDER THE COVID-19 EPIDEMIC

2.1. Impact on local governments' general public budget

As shown in Table 1, this article divides the country into three major economic regions: the eastern, central, and western regions, based on the consideration of the

country's various economic development levels and geographic locations. Due to the superimposed impact of the COVID-19 epidemic and the effectiveness of tax cuts and fee reductions policies, as of October 2020, according to the collected fiscal data of 28 provinces across the country, except for Jiangsu, Zhejiang, Guangdong and Guangxi in the eastern region, Jiangxi and Henan in the central region, and Sichuan, Yunnan and Qinghai in the western region, the local governments' general public budget revenue of the remaining 19 provinces are still declining. Among them, the central region suffered the most serious damage. Hubei and Heilongjiang in the central region, Ningxia in the west and Tianjin in the east fell by more than 10% over the same period, which were -26.2%, -13.3%, -10.5%, and -14.5% respectively. On the other hand, general public budget expenditures are affected by the guiding ideology

of "governments at all levels must truly 'live tight'" proposed by Premier Li Keqiang in the government work report in May 2020. From January to October 2020, more than 40% of the province's general public budget expenditures are showing a new downward trend. However, due to the need for epidemic prevention and control and resumption of work and production, local general public budget expenditures in some provinces have rebounded, and local fiscal expenditure needs have remained unchanged. Based on comprehensive judgment, the recovery of local finances in the eastern region is the best. The possible reason is that the eastern region is an old economically developed region in China. The resumption of work and production of enterprises is in good condition. The impact of the epidemic is relatively small, and the local finances have better anti-risk capabilities.

TABLE 1. YEAR-ON-YEAR CHANGES IN LOCAL GENERAL PUBLIC BUDGET OF PROVINCES AND LOCALITIES ACROSS THE COUNTRY FROM JANUARY TO OCTOBER 2020

UNIT:%

Region	Province	Revenue	Expenditures
East	Beijing	-9.1	-3.8
	Tianjin	-14.5	-5.6
	Hebei	-1.4	7.6
	Liaoning	-2.5	5.1
	Shanghai	-2	-6.9
	Jiangsu	2.3	5.3
	Zhejiang	2.5	1.3
	Fujian	-2.4	-4.8
	Shandong	-0.4	-1.8
	Guangdong	1.6	0.6
	Guangxi	1.9	4.3
	Hainan	-9.8	5.2
Central	Shanxi	-9.8	5.4
	Neimenggu***	-8.7	-2.8
	Jilin	-2.6	0.5
	Heilongjiang	-13.3	0.6
	Jiangxi	0.7	1
	Henan	2	0.1
	Hubei	-26.3	0.1
	Hunan**	-4.3	-8.5
West	Chongqing*	-6.8	-7.5
	Sichuan	3.4	0.8
	Guizhou	-4	-11.3
	Yunnan	2.3	-0.1
	Shanxi	-7.4	-0.3
	Gansu	-0.6	-0.1
	Qinghai	0.9	2.9
	Ningxia	-10.5	1.9

Note: The data comes from the websites of the provincial finance departments. Among them, the data of Anhui, Xinjiang, and Tibet are missing. "*" indicates that the corresponding data is from January to September 2020, "***" indicates that the data is from January to August 2020, and "****" indicates that the data is from January to June 2020.

2.2. Impact on tax revenue of different local taxes

After the outbreak of the COVID-19 Epidemic in 2020, in order to relieve the economic pressure of various regions and stimulate the production vitality of enterprises, China has introduced a series of larger-scale and stronger tax cuts and fee reductions policies to help enterprises to relieve their development. At present, although my country's epidemic prevention and control has entered the normalized management stage, as of October 2020, tax revenues in most regions are still experiencing negative growth.

This paper selects 12 provinces including Beijing, Jiangsu, Zhejiang, Shandong, Guangdong, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Heilongjiang and Hubei as the research objects. Research on taxation categories found that value-added tax and enterprise income tax are most affected. In terms of value-added tax, all regions are still in a state of declining except Qinghai. Among them, Hubei, Heilongjiang and Shanxi fell more than 15%, becoming the main source of the decline in local fiscal revenue. In terms of enterprise income tax, a few provinces, such as Jiangsu and Qinghai, have returned to growth, driven by the policies of tax cuts and fee reductions to reduce corporate costs and helping companies resume work and production. Among them, the effect of enterprise income tax restoration in Qinghai is the most optimistic, with an increase of 16.0%. In terms of individual income tax, the resumption of work and production in the eastern industrial concentrated areas such as Beijing, Jiangsu, and Zhejiang have achieved better results. The income of residents has continued to increase and has taken the lead in achieving growth. However, the decline in individual income tax in central regions, such as Hubei and Heilongjiang, has not fully recovered. In terms of other local taxes, affected by the epidemic and the tax cuts and fee reductions policies, the overall trend is still in a downward trend. Among them, the real estate tax and farmland use tax have fallen the most. However, with the gradual recovery of the social economy, the stamp tax, land appreciation tax, deed tax and resource tax in some provinces have begun to rise.

2.3. Impact on local general public budget expenditure structure

From the perspective of the expenditure structure of the 12 provinces mentioned above, various people's livelihood expenditures, such as social security and employment expenditures, and health expenditures, will become the main sources of growth in local fiscal expenditures in 2020. Affected by the epidemic, local governments have increased their investment in basic public health services, especially disaster prevention and emergency management this year. For some areas where expenditures have slowed down due to the impact of the

epidemic in the early stage, such as education expenditures, science and technology expenditures, cultural tourism sports and media expenditures, transportation expenditures, have begun to resume growth with the orderly recovery of social production and life. At the same time, with the gradual advancement of the national rural revitalization strategy, local agricultural, forestry and water expenditures have begun to increase investment. Among them, Jiangsu, Guangdong and other places increased by more than 10%. However, in terms of expenditures in urban and rural communities, due to the impact of the epidemic, some infrastructure construction projects have been forced to postpone, and project expenditures have been drastically reduced. Most provinces such as Zhejiang and Shandong have fallen more than 20%.

2.4. Impact on the level of local government debt

In recent years, local special bonds have made outstanding contributions in urban transportation, public services, and rural revitalization. In 2020, in order to cope with the impact of the COVID-19 epidemic, but also to make up for the fiscal deficit caused by tax cuts and fee reductions, the central government proposed a series of policy measures, such as appropriately increase the fiscal deficit rate, issue special treasury bonds, and increase the scale of local government special bonds. From January to October 2020, the government issued 6,121.8 billion yuan of local government bonds, an increase of 43%. Among them, the issuance of special bonds was 3,980.6 billion yuan, accounting for more than 65% and an increase of 57.2%. By accelerating the process of bond issuance and expanding the scale of issuance, local governments can quickly fill the demand for fiscal expenditures in a relatively short period of time. However, special bonds are limited by the characteristics of strict management standards and relatively fixed users, which will make it difficult to support local fiscal expenditure needs in the long run.

At this stage, the issuance of government bonds has achieved remarkable results. Although it has eased the pressure on local governments' fiscal revenues and expenditures, it has also led to the expansion of local government debt scale. From 2015 to 2019, the balance of local government debt across the country rose from 14,822.4 billion yuan to 21,307.2 billion yuan, an increase of over 43%. As of October 2020, the debt scale has further expanded to 25,807.4 billion yuan. At present, China's local debt is facing problems such as large total amount, complex structure, mismatched debt maturity, and high cost^[2]. In the reality that income growth is weak and expenditure continues to expand, governments at all levels have a substantial increase in demand for bonds, which may form a vicious reliance on local bonds in the

future. It is not conducive to the future development of local finances.

3. THE MAIN PROBLEMS FACED BY LOCAL FINANCES UNDER THE COVID-19 EPIDEMIC

3.1. Economic downturn and uncertain external environment

At any time, the level of economic development will directly determine the level of fiscal revenue and expenditure of the country. From an international perspective, the current international situation is in a period of turmoil, the global economic downturn is obvious, the trend of anti-globalization is rising, and the emergence of the COVID-19 epidemic may add new variables to the global development situation [3]. From a domestic point of view, China is at a critical stage of economic transformation. The transformation of the economic development model has led to a slowdown in economic growth. Coupled with the impact of the COVID-19 epidemic, it is difficult for the "three major carriages" of domestic economic growth to achieve growth. In the first quarter of 2020, China's GDP growth rate dropped by 6.8%. The catering, tourism, transportation and other industries in many regions were forced to close down. The production capacity of labor-intensive enterprises dropped sharply, and the bankruptcies of small and micro enterprises increased significantly. Various issues are intertwined, further intensifying the inherent contradictions in China's fiscal revenue and expenditure, and hindering the healthy and orderly development of China's local finance.

3.2. Contradictions between local fiscal revenues and expenditures are prominent

Before the outbreak of the epidemic, the contradiction between China's local fiscal revenue and expenditure had already become prominent. In recent years, China's economy has shifted from high-speed growth to high-quality growth, and the growth of fiscal revenue in various regions has slowed down. Except for 2017, the growth rate of my country's local fiscal taxation has fallen for 7 consecutive years. At the same time, in order to meet the people's new needs for a better life, governments have increasingly expanded their responsibilities and obligations, which resulting in a continuous increase in the scale of expenditures. As of 2019, the revenue scale and growth rate of China's local finance have been outdated by expenditures for many consecutive years, and the fiscal deficit continues to expand, which is always endangering the development of local finance. After the outbreak of the epidemic, in order to help the economies of various regions to accelerate the recovery of blood, the state introduced unprecedented tax cuts and fee reductions policies, but the impact on the smooth and orderly operation of the fiscal is also unprecedented [4].

With the implementation of the policy, on the one hand, it has really helped enterprises to reduce the burden, but on the other hand, it has also deepened the local fiscal deficit gap.

3.3. The difficulty of preventing local debt risks has escalated

In order to alleviate the financial difficulties caused by the increase in fiscal deficits, expanding the scale of local debt financing has become a common demand of governments. In 2020, in order to speed up the issuance of local fiscal bonds and open up a new situation of local financial difficulties, the Ministry of Finance issued a new local government debt limit of 1,848 billion yuan in advance in February to help local economies recover. At this stage, although the state has allowed various localities to issue bonds independently, the debt repayments of various localities are still repaid by local government revenues. As of October 2020, the balance of local government debt in 10 provinces across the country exceeded one trillion yuan, and the pressure on local debt cannot be ignored. In addition, affected by the epidemic, the fiscal revenue of various regions has decreased significantly this year, but the debt balance far exceeds the local fiscal revenue, and the risk of local government debt repayment has further expanded. At the same time, in the past, some regions used to raise debts illegally in order to make up for the fiscal gap. This behavior has formed a large number of hidden debts of local governments, which will lay huge hidden dangers to the sustainable development of local finances.

4. CONCLUSION

Through the analysis of the local fiscal revenue and expenditure and debt data of various provinces in China in 2020, we have obtained the following conclusions: First, in the context of the COVID-19 epidemic, the implementation of the tax cuts and fee reductions policies has indeed brought a certain positive impact on the Chinese economy, especially in terms of stimulating the growth of local fiscal revenue. Second, with increasing of the degree of tax cuts and fee reductions policies, the problems of China's local fiscal revenue and expenditure conflicts and debt risks have become more obvious, which need relevant departments to pay attention to.

5. SUGGESTIONS FOR THE DEVELOPMENT OF LOCAL FINANCE IN THE FUTURE

5.1. Continue to implement a proactive fiscal policy to hedge the impact of the COVID-19 epidemic

At present, China's epidemic prevention and control has achieved phased success, and the economy is recovering well. In the next step, China still needs to

resolutely implement a proactive fiscal policy and use greater macroeconomic policy to hedge against the impact of the epidemic. In order to ensure that the policies are effective, governments at all levels should strengthen their ability to judge the situation of the government; improve the accuracy of policy introduction; give full play to the advantages of various policies; reduce the tax burden of market entities, especially for small and micro enterprises.

5.2. Strengthen the supervision and management of budget, and strive to ensure a balance of revenue and expenditure

Local governments should manage various types of fiscal revenue, do a good job in fund allocation, and strengthen dynamic monitoring of revenue. In terms of expenditures, governments at all levels need to further reduce general government expenditures, resolutely prevent the emergence of invalid funds, and ensure that the budgetary revenue and expenditure reach a relative balance. At the same time, local governments also need to accept audit supervision, actively cooperate with relevant audit departments, dynamically track the implementation of revenue and expenditure budgets at all levels to ensure the quality of various audits.

5.3. Improve the level of local financial management to ensure a sustainable fiscal balance

Under the impact of the epidemic, tax cuts and fee reductions policies have made local finances even more strained. In order to ensure that local finance can maintain a stable and sustainable development trend in this situation, local finances at all levels have made concerted efforts to actively improve their own financial management level. Governments should improve the efficiency of the allocation of fiscal funds as soon as possible, comprehensively arrange the use of fiscal funds, prevent non-compliant and inefficient behaviors in fiscal management. At the same time, the government should also revitalize the fiscal stock funds through multiple channels. Regarding the long-term stranded funds in the special fiscal account, the relevant departments should strengthen supervision, effectively ensure the flexibility of fiscal funds, thereby improving the scientific and efficient use of local fiscal funds.

5.4. Promote high-quality economic development and lay a solid foundation for fiscal sustainability

Economic development is the source of finances. China's large-scale tax cuts and fee reductions policies seem to have a profound impact on fiscal revenue. In fact, the government hopes that these policies will boost

production, consumption and investment, help local economies recover and ensure the sustainable development of local finances. At the same time, governments at all levels should also establish new development concepts, accelerate the use of reform results, accurately identify new opportunities for economic development, actively promote new industrial changes, and ultimately form a virtuous circle between high-quality economic development and high-quality fiscal development.

REFERENCES

- [1] Qingwang Guo. *Management World* **35(06)**, 1-10+194(2019)
- [2] Ming Li, Xiaoyan Long. *Contemporary Economic Management* **42(09)**, 60-69(2020)
- [3] Yijian Hu, Yinghua Gong, Yu Wang. *Tax Research* **8**, 5-10(2020)
- [4] Chenglin Lu. *Local Finance Research* **3**, 1(2019)

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

