

The Analysis of the Cause and Countermeasures of the County Financial Difficulties

A Case Study Based on the Research on Hanzhuang Town, Weishan County in Shandong Province

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Abstract—With the rapid development of our economy, the revenue is growing continually. But due to the current situation of the local economic development, local tax system and finance system in our country and many other reasons, the financial difficulty of county and township government has become a common phenomenon. Based on the research on Hanzhuang Town in Shandong Province, this paper will elaborate the problems of rural public finances and analyze the cause of the problems. Finally, corresponding measures will be put forward.

Keywords—Hanzhuang town; county finance; financial system; measures

I. INTRODUCTION

Since the tax reform of 1994, our financial and tax system has been constantly improved. The national revenue has also been increased. According to the statistics ranging from 2010 to 2013, the national revenue is respectively ¥ 8.3101 trillion in 2010, ¥ 10.3874 trillion in 2011, ¥ 11.7253 trillion, ¥ 12.9209 trillion. Among them, from 2010 to 2013, the local finance income is ¥ 4.0613 trillion, ¥ 52547 trillion, ¥ 61078 trillion, ¥ 69011 trillion

respectively, and their proportion of the national fiscal revenue respectively is 48.9%, 50.6%, 52.1%, 53.4%. For national fiscal expenditure, from 2010 to 2013, the corresponding data is ¥ 8.9875 trillion, ¥ 10.9248 trillion, ¥ 12.5953 trillion, ¥ 14.0212 trillion, among them, the local fiscal expenditure from 2010 to 2013 is ¥ 7.3884 trillion, ¥ 9.2734 trillion, ¥ 10.7188 trillion, ¥ 11.9740 trillion. And the proportion of the national fiscal expenditure is: 82.2%, 84.9%, 85.1%, and 85.4%. Through the above statistics, it can be proved that the proportion of local fiscal expenditure increases gradually. However, according to the budget spending levels in 2013, the expenditure ratio of provincial, municipal, county, township government was 20.8%, 45.5%, 27.4%, 6.3%. According to the data, few of them reach the county fiscal level. With devolution of administrative power to lower levels, the pressure of the local government fiscal expenditure is increasing. Taking Hanzhuang town in Shandong province as an example, this paper will analyze the current situation of our township finance, and the causes of the present situation of our township finance. At last, countermeasures will be put forward to improve the current township financial difficulties.

TABLE I. THE LOCAL FISCAL REVENUE OF THE WHOLE TOWN (2005-2012 YEAR)

(Unit: ¥ ten thousand)

The fiscal revenue	2005	2006	2007	2008	2009	2010	2011	2012
25% of national tax bureau	375	430	755	1472	1719	1150	1550	1875
80% of Business tax that land tax bureau	255	313	450	865.4	1133	1120	1240	1450
32% of Local branch of the corporate income tax	5	18						
25% of personal income tax that land tax bureau	3	3						
Other land tax bureau tax	74	89						
Financial department to complete			4	4	4	4	4	4
Cultivated land occupancy tax revenues	6	4						
deed tax	1							
Combined local fiscal revenue	723	864	1204	2339	2856	2269	2794	3329

(source: statistical yearbook) situated

TABLE II. THE LOCAL FISCAL EXPENDITURE OF THE WHOLE TOWN (2005-2012 YEAR)

(unit: ten thousand yuan)

The fiscal expenditure	2005	2006	2007	2008	2009	2010	2011	2012
agricultural expenditure	117	42	75	227	232	223	221	210
expenditure for Forestry	5	45	24	15	15	15	13	12
hydrology and meteorology	2	10		38	42	38	39	40
style radio operating expense	127	92	172	142	196	163	168	185
education spending	800	947	1445	32	30	48	50	69
expenditures for medical care and public health	60	70	125					
the operating expense of other departments	54	148	142		324	365	456	513
pensions and benefits of work-related accidents	26	13		296				
administrative expenses	347	340	432	652	734	685	720	850
the minor department spending (authority) of political science and law	9	2	15	28	17	18	15	13
urban and rural public infrastructure spending				104	93			
other expenses	51	79	80	178	292	325	354	376
local fiscal expenditure in total	1598	1788	2510	1712	1975	1882	2036	2268

(source: statistical yearbook) situated

II. THE CURRENT FISCAL SITUATION AND ANALYSIS OF HANZHUANG TOWN

A. Fiscal Revenue of HanZhuang Town, WeiShan County

From 2005 to 2012, according to the local finance income statistics, the basic situation of finance income of HanZhuang town can be clearly shown. Among them, the main source of the financial income is: the VAT income, enterprise income tax, personal income tax and business tax revenue in local taxes, and other little tax revenue like cultivated land usage tax and deed tax.

B. The Fiscal Expenditure of Hanzhuang Town, Weishan County

According to the analysis of the table, there are more projects of annual fiscal expenditure of HanZhuang town, but part of the project were marked by investment of discontinuous phenomenon, such as, water conservancy meteorological spending in 2007, medical expenses, work-related accidents spending, urban and rural public expenditure. Project investment is not balanced, mainly used for agricultural expenditure and administrative expenses. The proportion of the administrative cost is especially higher. According to the data, the proportion of the total average annual expenditure from between 2009 and 2012 are at around 37%.

III. RURAL PUBLIC FINANCE PROBLEMS OF HANZHUANG TOWN

A. The Problems Existing in the Public Finances

1) The balance of payment contradictions increasingly prominent and funds is extremely inadequate

The specific income system has not been formed for the local government. At present, in our country rural agricultural economy is still the main body in the rural areas. In many places, economy is still underdeveloped and the degree of marketization is low, and the value-added processing of agricultural products is deficient. In order to

protect farmers' interests and increase farmer's income, the agricultural tax was canceled in 2006. At the same time, the reform of charges is undergone. The township government reduces the agricultural taxes. In JiNing city, agricultural tax, the agri-speciality tax are correspondently reduced. Although all kinds of tax are cut down, the financial pressure of the local government increased. Because of the low industrialization level, and slow development of township enterprises in the recent years, it has missed the opportunity to transition, so it can't bring rural finance increasing. The development of the third industry economy is relatively weak and difficult to provide stable tax sources to local governments. At present, the contradiction of county and township government's revenues and expenditures is increasingly conspicuous. The local government cannot meet the needs of the local public services.

2) The historical debt of the township government is more; local fiscal risk is inflating

According to the 2004 year's result of our national finance research team, by rough estimates, the debt of the township and village debt ranges from 0.6-1 trillion. Nearly 10 years later, the amount of local debt rapidly increased. In order to ensure the payment of the worker wages, guarantee the most basic administrative expenses and meet the demand of local basic public services, the villages and towns government have got to fiscal funds through debt, coupled with the previous accumulative total debt, local government's fiscal pressure is increasing. With the expansion of local government debt scale, the risks involved are also increasing. There is a common phenomenon in local government that getting new debt to repay the old debt. If the government income cannot repay debt interest and principal, the government will face financial risk. More seriously, the local financial risk will transit to financial risks.

3) The transition of government function does not reach the designated position and the restriction and supervision of finance in villages and towns is not enough

Under the impact that the long-termed fixed work pattern and the weak sense of law, many village and town government have not positioned accurately and not

conversed the role timely. They always put themselves in the "manager" position. For some new projects, the villages and towns government approved blindly without any market research. And the government always gives some useless administrative guidance. And they also offer some guarantee to the corporate of no prospect. Through all those behaviors, they get more financial burden. At the same time, the government officials take burden commitments and they always play multiple roles in one position. Mostly, they make decision first before they make any research. After the approval of one project, they begin to prepare and arrange the budget after the established fact. Normally, there is no auditing department in the township government, so it is difficult to supervise some illegal economic activities timely.

B. The Cause of Financial Difficulties in HanZhuang Town

1) The coordination of Finance power and business power in local government doesn't match well.

According to the classical finance theory, the three functions of finance is to keep the macroeconomic stability, to make the distribution fairly and to allocate resources. Tiebout model proves the assumption that if the public and the resources can be flowed freely among each region, it will be more effective for the local governments to provide local public goods. So main function of the local government is to allocate resource, in other words, to provide local public goods. However, the disposable fiscal revenue of local government is not enough, which causes the lack of coordination of finance power and business power. Seriously, in order to meet the demand of local public goods, local government is facing more and more difficult.

2) Local governments lacking the ability to raise revenue.

The main development on Hanzhuang town is agriculture, but the agricultural production equipment is backward, so production efficiency is low, and large-scale agricultural producing areas have not been formed. In recent years, although some projects such as coking project, crystallite glass plate production line, food processing enterprises, feed production co, LTD, etc. are introduced; most of these new enterprises are of small size and low production ability. Plus the great influence on the national economic regulation and control policy in recent years, new enterprises can reach producing standards in a short period of time, it is not realistic for new enterprises to reach the normal production and efficient standards and become the mainstay of the whole town [1]. The third industry of Hanzhuang town is still in the zero phase, so it does not bring in any revenue.

3) System of transferring payment under provincial level is not perfect.

The proportion of general transferring payment under provincial level in our country is low, which will not stimulate local public services equalization. Most of the Special Transfer Payment Funds are payed randomly. The proportion of artificially controlling factors is larger. With projects getting more and more, the lack of strict definition of the transfer payment and the amount will lead to low efficiency of using the transfer payment funds lower. In

addition, the tax rebates is based on the tax revenue, which will inevitably make more fiscal transfers in economic developed area and less in the backward areas. As a result, it creates a vicious cycle of "Matthew effect". Finally, the purpose of balanced regional public service will not be realized and it will cause the inequality of regional resources.

4) Lack of stable tax sources for township financial state.

Relatively standard system of local taxes has not been formed in our country. As the main local tax---business tax, which mainly come from service industry and real estate industry. But there are few service industries in Hanzhuang town, so the government can gather little business tax. However, relatively stable income such as value-added tax, consumption tax, personal income tax, enterprise income tax and so on are all share tax, so the local government only get a few proportion. In addition, for the local taxes such as the property tax, inheritance tax, resource tax, an official tax system has not been formed.

IV. SUGGESTED STRATEGY AND WAYS TO STANDARDIZE PUBLIC FINANCE SYSTEM OF HANZHUANG TOWN

A. To Balance Financial Powers and Responsibilities of the Local Governments

According to our national standard definition of the national public goods, quasi public goods and the local public goods, we should clear at all levels of government powers, reduce the cross and dislocation phenomenon of part powers, delegate the local powers gradually to the local government, return the national powers to the central government. Provincial government is mainly responsible for the local affairs such as public infrastructure, environmental improvement. Cities and counties in financial should be used in the public service, public infrastructure and management as far as possible. The county government as a basic unit who knows the public demand of the people in the area best and they can provide public goods more targetedly and effectively. As the governance power localization, the financial powers should also be localized. At the same time, giving local government a certain administrative power and some legislative power, in this way, local tax system can be more perfect. Meanwhile, the fiscal revenue of local government should be increased and be given creditor's rights. To a certain extent, the local government financial resources can be increased which can provide local services more efficiently.

B. To Increase the Financial Revenue and Cultivate Rural Tax Revenue

First, increasing investment, bringing in more capital invested and guiding the potential revenue development., developing Hanzhuang town's own resources of agricultural and sideline products, adjusting the structure of agricultural product actively, and transferring surplus labor to the secondary industry and tertiary industry. Developing labor-intensive township industry, such as textiles, garment processing industry, etc. to speed up the industry- clustered development and make the existing industry keep growing.

Second, to encourage corporation restructuring, and transform existing enterprises which pay taxes. Township enterprises of Hanzhuang town have begun to take shape, and form a certain economic basis of villages and towns industry. But more township enterprises which are limited by many objective factors are unable to circulate well and hard to develop rapidly. Quite a number of township enterprises that are engaged in the primary production, raw material processing, management pattern. plus the sales channel is single, they depend highly on the old customers and have difficulty to resist the change of the market; Most of the township and village enterprises lack the independent innovation ability and adopt the method of family management, which hinder the development of enterprise. This requires us to encourage the corporation restructuring, to transform existing enterprises that pay taxes, to expand existing township economy and to increase tax source of township government.

C. Increase the Fiscal Transfer Payment under Provincial Level

With the transformation of government functions, governments at all levels must adapt to its Changes. According to the needs of the development of social reform and the interests of the public, the government must keep pace with times, increasing transfer payments to the village and towns; the governments of villages and towns should transform their functions, cutting down staff and controlling administrative expenses strictly. Thus it can reduce the financial burden and solve the township financial difficulties fundamentally.

Government should increase the proportion of general transfer payments appropriately. The scale of the fiscal transfer payment under province should be based on the unbalanced regional financial degree. While increasing capital scale, the structure of the transfer payment should be adjusted focusing on town finance. Funds should be allocated reasonably according to the county financial gap and income. The available resources of township government should be increased and the financial resources can be used efficiently and reasonably. The standard of special transfer payments should be defined scientifically and controlled appropriately. New projects should be controlled strictly. Repeated and crossing projects should be reduced.^[2] Strengthen the regulation of special transfer payments should be strengthened and, and specialized institutions of special transfer payments should be set up. Special personnel are responsible for the whole process about the policy-making, review, distribution and supervision of special transfer payment and transfer payment independently.

D. Establish and Standardize the System of Local Taxes

In the reform of tax allocation, the emphasis in the process of reform is that local government can have a stable fiscal revenue. At present, the major source of revenue of our local governments is business tax. Local tax system should be reformed and the local government has its stable financial income. And local tax system should be reconstructed.

First of all, financial property tax in cities and counties should be incorporated into the local taxes and gradually establish a property tax should be established attached to the local tax system. Charges of property tax should be stated clearly, and be merged to tax. A property tax system will be established gradually.

Second, clean up the regional economy and provide strong conditions for local economic development to promote the development of local economy. The tax revenue of local governments should be increased.

Thirdly, strengthen the management of resources tax. Tax authorities should grasp the tax basis of resource tax strictly. Tax on taxable mineral ores and avoid the interference of man-made factors. a resources tax should be imposed based on fact. Strengthen the management of low -grade mineral resource tax should be strengthened. The amount of tax should be verified and the taxpayer should be supervised strictly according to law. Fourth, the inheritance tax should be merged to local tax system and the financial resources of local government level should be increased.

Fifth, to strengthen tax collection and implement scientific and fine tax management methods to improve tax effort degree of the local government. To strengthen business tax levy of the local individual enterprises and reduce tax evasion and tax evasion phenomenon; to improve the quality and efficiency of tax collection and administration, to enhance the scale of fiscal revenue and solve the financial difficulty of local government [3].

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