

Research on the Legal Regulation of Personal Income Tax in High-income Groups in China

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Abstract—In the process of collecting personal income tax, the contribution made by the high-income group is quite outstanding. With the rapid development of a socialist market economy, a large number of high-income groups have emerged. However, the income of high-income groups is characterized by diversification and concealment. China's personal income tax system and the level of collection and management are flawed, coupled with the residents' low awareness of taxation, etc., so that high-income groups have not played their due role in paying personal income tax and the disparity between the rich and the poor and intensify social contradictions is caused. Therefore, an in-depth analysis of the current situation and causes of tax revenue loss in high-income groups, and solving problems from a legal perspective is important for giving full play to the role of tax adjustment and narrowing the gap between rich and poor.

Keywords—high-income group; personal income tax; legal regulation

I. INTRODUCTION

Tax revenue is the main source of China's fiscal revenue. Tax payment is also the obligation of every citizen. In real life, it is inevitable that there will be various improper methods of tax evasion. Recently, Cui Yongyuan exposed a star for 4 days and 60 million remunerations, and the underlying rules such as suspected yin and yang contracts, tax evasion and caused heated public opinion. Since then, the local taxation bureau of Binhu District of Wuxi City has been involved in investigation and evidence collection, and the relevant situation needs to be subsequently issued by the authority on the tax authorities. Whether the actor's salary is reasonable should be judged by the market. There is no corresponding standard for the actor's salary. Because this is a type of market economy behavior, there should be no upper limit, because that is equivalent to interfere with market economic behavior. Whether the actor's pay is equitable or not should be judged by the market. The State Administration of Taxation will be further to strengthen the risk prevention and control measures, increase the collection and management efforts, and investigate and deal with violations of laws and regulations on the basis of the assessment and investigation of the taxation of some high-income film.

II. DEFINITION OF THE SCOPE OF HIGH-INCOME GROUPS

There is no very accurate definition of high-income groups, and there is no unified standard, but in real life, there is such a Group. It is generally believed that high-income industries mainly include: telecommunications, banking, insurance, securities, petroleum, petrochemical, electricity, tobacco, aviation, railways, real estate, football clubs, schools, hospitals, urban water supply, publishing houses, highway management, foreign companies, high-tech industries, intermediaries, etc. High-income individuals include private entrepreneurs, sole proprietorships and partnership investors, construction contractors, entertainers, sports stars, models, lawyers, accountants, auditors, tax agents, appraisers, college teachers, temporary performers, etc. Corresponding to these high-income groups is ordinary working-class, migrant workers, laid-off workers, urban low-income employees, and low-income rural residents. The ever-widening income gap has become an issue that is overlooked in China's economic and social development process. Defining the general scope of high-income groups can help us better study issues related to the loss of personal income tax for high-income groups.

Article 36 of the "Regulations on the Implementation of the Individual Income Tax Law" stipulates that if there is income of more than 120,000 Yuan per year, and wages and salaries from two or more places in China are obtained, the income obtained from outside China shall be taxed. The taxpayer who has no tax withholding agent, regardless of whether the tax has been paid in full at the time of income acquisition, must be reported to the tax authorities for three months after the end of the tax year. Self-declaration is a supplementary means of source deduction, and it is also a high risk of personal income tax loss for high-income groups. Therefore, in the practice of taxation, the high-income group is generally defined by the above-mentioned standard of 120,000 Yuan. However, due to the rapid development of China's economy, income distribution across the country is uneven. In more developed cities, this standard is obviously not applicable, especially compared with the performance of the entertainment industry, it is insignificant. In summary, we can determine the scope of high-income groups from various angles such as industry, income, and occupation. However, we should take into account the differences in regional economic conditions and determine the standards

for local high-income taxpayers according to regional conditions.

III. HIGH-INCOME PEOPLE EVADE THE MEANS OF PAYING PERSONAL INCOME TAX

A. *Yin and Yang Contract*

The so-called “yin and yang contract” refers to a contract in which two parties have different contents in the same matter, and the external one is not the true meaning of the two parties, but the purpose of evading the state taxation; One of the internals is the true meaning of both party, which can be written or verbally. The “Yin and Yang Contract” is a kind of violation, which also indicates the risk while giving the parties “interests”. The “Yin and Yang Contract” not only caused losses to the national tax revenue, but also swayed society’s confidence in integrity management, performance, and taxation, and disrupted the market economic order. The main purpose of “Yin and Yang Contract” is to evade state taxation. This is a violation and may even constitute a crime.

B. *Cash Transactions*

In the case of the above-mentioned “yin-yang contract”, in many cases, the performance of a large-value contract is generally not through online payment methods such as bank transfer, it is through private cash transactions, which not only evades national taxation but also is actually difficult to trace. In the usual life, there are often cases of private cash transactions, such as expert training fee, entertainment actor pay and consulting fee, etc., especially in some popular industries such as professors, doctors, and lawyers. The way in which cash transactions are conducted privately is not reflected on the individual's taxable amount. This allows some high-income groups to adopt such measures and reduce their taxable amount to achieve tax avoidance. Moreover, this method is difficult to grasp the specific clues, and it is very difficult to pursue it.

C. *Reducing Tax Rates by Passing on Tax Credits*

By some private business owners, the tax evasion of personal income tax is often carried out through a series of methods such as related party transactions, conversion of personal income into corporate earnings income, and other consumption offset to the company's profit. Some enterprises deliberately reduce the amount of personal controllable income by means of non-distribution of corporate profits and then use some more subtle methods (such as reimbursement) to pay income outside the personal tax control, thereby achieving the purpose of evading personal income tax.

For the entertainment stars, may choose to set up a studio, because the studio enjoys a good tax policy, all aspects can get tax benefits, and the preferential policies of taxation vary from place to place. At present, many studios are registered on film and television bases such as Khorgos, Zhejiang Dongyang, Shanghai Songjiang, etc., and will further enjoy local tax incentives. For example, Khorgos expressly stipulates that by the end of 2020, newly-qualified

enterprises will be exempted from corporate income tax within five years from the tax year in which the first production and operation income are obtained. Most star personal studios are individual proprietorships or self-employed individuals. Inquiring into the "Personal Income Tax Law" and the "Regulations for the Implementation of the Individual Income Tax Law" promulgated by the state, it is found that the star pay is different from the salary, and it belongs to the labor remuneration. If all are calculated according to the labor remuneration category in the personal income tax, the payment of 60 million Yuan is abnormally high income. If it is a star registration studio, then the tax rate will be very different, and the two can save millions of dollars in taxes.

D. *Loss of Taxes in E-commerce*

In recent years, China's network economy has developed rapidly. The state encourages e-commerce. The scale of online transactions has grown rapidly. A considerable number of people had profited from it, which has effectively impacted traditional trade methods and greatly reduced the tax base. The traditional taxation system and the collection and management model have been greatly challenged. Since China has not yet introduced the basic law of e-commerce, and the network stores are mostly peer-to-peer transactions, they have strong concealment, and the invoices for e-books in e-commerce are all filled in by computers, which are easily modified, and the tax authorities cannot verify their authenticity. The kind of information asymmetry has caused e-commerce to become a “blind zone” for taxation. It is difficult for the regulatory authorities to grasp and control the tax source, resulting in serious tax losses.

IV. REASONS FOR THE LOSS OF PERSONAL INCOME TAX IN HIGH-INCOME GROUPS

A. *The Tax System Is Unreasonable*

China began to levy a personal income tax in 1980, and the tax system model of personal income tax — the classified income tax system has been used until now. This model uses different income taxes for incomes from different sources as stipulated in the tax law. The advantage of this mode is that the procedure is simple, the calculation is simple, and the source tax deduction is suitable. It lacks comprehensive consideration of the true tax burden of taxpayers, and it is easy to cause the tax burden of the two individuals with the same income from a single source and multiple sources to be different, and it is against the principle of tax equity. According to the income and taxation of the items obtained, the adjustment of individual income distribution has certain limitations compared with the annual tax collection of various incomes, and cannot fully reflect the principle of a fair tax burden and reasonable burden. Different tax rates and deductions are applied to different income items, which tend to cause taxpayers to decompose income and deduct expenses several times. There are many loopholes in tax evasion and tax avoidance. If a combination of comprehensive and classified tax system

is adopted, the individual's part of the recurring income item will be collected into the personal income tax, regardless of the source of income, while other personal temporary and accidental income may be separately collected, avoiding the tax burden caused by repeated deductions is unfair.

B. Expense Deduction Standard Is Not Scientific

China's current personal income tax is subject to a fixed deduction and fixed rate deduction according to the different circumstances of individual income. This method is relatively simple. It uses an individual as the taxpayer and applies the same amount of deduction standard for each person. However, in real life, a taxpayer who has formed a family and needs to raise children and raise the elderly and a single taxpayer must have a big difference in their living expenses, and their responsibilities are also heavier. The criteria for deduction of these two types of people are the same, which obviously ignores the actual cost of living off taxpayers and easily increases the burden on taxpayers. When the fee is deducted, it can be changed from the individual taxpayer to the family taxpayer. The family is the basic unit of society. Most economic behaviors are carried out on a family basis, and the gap between the rich and the poor between families is increased. The big reason is due to the unfair distribution of income in society. After the family is taxed, the family is also composed of individuals. When calculating the tax amount, it may be that the same family internal expenses are deducted once from everyone in the family. This is obviously unreasonable. It should be spread to everyone on a proportional basis to avoid repeated deductions. The number of members and income between families can completely eliminate the gap in income distribution between individuals. Therefore, it can better play the role of personal income tax to regulate income distribution and reflect the principle of fairness in taxation.

C. Imperfect Collection Methods

In real life, taxpayers, especially high-income groups, have a large amount of "invisible income" or "gray income", and this part of income is mostly completed by signing "yin-yang contract" or private cash transactions. This has caused information asymmetry between the tax authorities and high-income groups, making it difficult to monitor this part of the income, which will easily lead to the loss of personal income tax for high-income groups. At present, China has not formed a complete national networked tax management system, which makes it impossible for tax authorities to grasp relevant information on a timely and effective manner, which leads to the emergence of tax evasion and tax avoidance, especially the loss of personal income taxes for high-income groups. China's tax authorities should enhance the construction of information technology. Taxation data and income status of high-income groups are fully grasped through the networked system. The information files of high-income groups can be established to realize real-time control of income and tax information. After further integrating information, we must focus on the inspection of high-income industries and high-income groups. On the basis of increasing the scope and frequency of high-income taxpayers, we will increase the number of high-income tax evaders that

do not declare or report falsehoods. The penalties are such that they pay a higher cost and cost for evading taxes.

V. COUNTERMEASURES AGAINST THE LOSS OF PERSONAL INCOME TAX IN HIGH-INCOME GROUPS

A. Improving the Taxation Model

There are many problems of the classified income tax system currently adopted in China. Especially with the lack of control over high-income groups, it is imperative to improve the personal income tax system so that it is scientific and reasonable, in line with national conditions, and has strong operability. Different taxation modes have their own advantages and disadvantages. The comprehensive tax system can best reflect the principle of fairness. However, the level of tax collection and taxpayer's taxation awareness is very high, and the cost of collection is large. China does not currently have these conditions. After the revision of the Individual Income Tax Law, the basic fee reduction standard for comprehensive income will be raised to 5,000 Yuan/month (60,000 Yuan/year), and the calculated taxable income will be deducted from the income for each tax year. The fee is 60,000 Yuan and special deductions. Special additional deduction and other deducted balance determined according to law. The key word for this revision is the comprehensive income. After the reform, the wages, salary income, labor compensation income, remuneration income and royalties of the original tax will be combined and calculated, and various deductions will be deducted on this basis. This practice of learning from international experience marks an important first step in China's personal income tax system to the comprehensive tax system.

The mixed tax system is not only deducted by the source withholding, but also comprehensively levied on the means of expropriation, and it needs to be jointly declared. It is objectively beneficial to promote the promotion of taxpayers' action declaration, thus laying a solid foundation for the development of the comprehensive income tax system in China. Therefore, although the implementation of the mixed tax system is more complicated than the classified income tax system, it solves the inadequacies of the current national tax situation in China.

B. Adding Special Deduction

The cost reduction is the minimum threshold for screening high-income taxpayers and is a deduction of the calculation of the tax amount to reduce the tax burden of low-income groups. Therefore, in the deduction design of personal income tax, China should learn from the common practices of all countries, consider family factors, consider the number of individual family members, age, number of dependents, physical health, education of children, etc. Such expenditures should be deducted or deducted by a standard. In addition, the speed of economic development is very fast, and it will inevitably affect the stability of the entire economic market, resulting in inflation. Under such circumstances, if the deduction is still carried out according to the original cost deduction standard, the taxpayer's tax burden will inevitably be aggravated. Therefore, when the

special deduction is applied, the objective impact of the current economic market should also be fully considered. Finally, because the development level of China's various parts of the country is inconsistent while formulating the national unified basic tax rules, authorize all localities to determine the cost deduction standard based on their own economic development status and price level to demonstrate tax equity.

In the revision of the "Personal Income Tax Law", five special additional deductions were proposed, and the current deductions of personal basic old-age insurance, basic medical insurance, unemployment insurance, housing accumulation fund and other deductions determined in accordance with the law were clarified. At the same time, the draft increases the supplementary special deductions that are closely related to the lives of the people, such as children's education expenditure, continuing education expenditure, major medical expenses, housing loan interest, and housing rent. This means that the personal income tax is taken into account, taking into account the differences in the actual situation of different taxpayers, more in line with the basic principles of personal income tax, and at the same time conducive to the principle of fairness of taxation, especially for high-income groups, it is better able to avoid tax evasion and is more easily accepted by taxpayers.

C. Optimizing Tax Rate Structure

Most Western countries adopt a comprehensive tax system. In terms of tax rate reform, they generally follow the principle of "reduction of grades and low tax rates" and reduce the overall tax burden. When formulating the tax rate in China, the first thing to consider is the taxpayer's ability to tax. The high tax rate does not necessarily lead to high tax. China should combine the current situation of China's economic development and the successful experience of tax reforms in other developed countries to adjust the tax rate at an appropriate time. Due to the rapid economic development in recent years, the income levels of different strata vary greatly, the changes are difficult to predict, and the constant tax rate is difficult to adapt to the changing objective reality.

The optimization of the tax rate structure is also a highlight of the revision of the Individual Income Tax. After the reform, it is still consistent with the previous 7-level tax rate, but the level of some tax rates can be optimally adjusted. Mainly reflected on: based on the current wage and salary income tax rate, it is proposed to adjust the monthly taxable income to be calculated on a yearly basis, and optimize the adjustment of the partial tax rate: increase 3%, 10%, 20% three low tax rate. The step size is correspondingly reduced by the 25% tax rate, and the 30%, 35%, and 45% third-order higher tax rates are unchanged. For the operating income, the tax rate of each grade is also adjusted appropriately, and the lower limit of the highest grade is increased from 100,000 Yuan to 500,000 Yuan.

VI. CONCLUSION

China's "Individual Income Tax Law" welcomes the seventh revision since its implementation. Personal income

tax, as a tax source with a wide range of sources and coverage in China, occupies a very important position in the entire tax system of China. It is reflected that the "Personal Income Tax Law" is also constantly adapting to the economic development of the entire society, and is also the embodiment of the principle of tax equity. There are various reasons for the loss of personal income tax for high-income groups. It is not only the shortcomings in China's personal income tax system and the collection and management but more importantly, the taxation awareness of high-income people needs to be improved.

The revision of the "Personal Income Tax Law" not only shows the transformation of China's individual tax from the classified income tax system to the comprehensive income tax system, but also adds five special additional deductions, and optimizes the current tax rate structure of China. And for the first time, the anti-tax avoidance clause was added, and the tax avoidance behaviors such as the individual not transferring property according to the principle of independent transaction, avoiding tax in overseas tax avoidance, and implementing unreasonable commercial arrangements to obtain improper tax benefits, and giving the tax authorities the power to make tax adjustments according to reasonable methods. The main purpose of the anti-tax avoidance clause is also to address the tax avoidance problem of high-income, multiple-income sources. It is believed that after the seventh revision of the Individual Income Tax Law, China's individual tax social security system and supporting facilities will be gradually established, coupled with the continuous improvement of tax authorities' ability and level of tax collection and management, and the loss of personal income tax for high-income groups. It will surely be able to get a real solution. The role of personal income taxes in raising financial revenue, regulating income distribution, and promoting social equity and harmony will be realized in a real sense.

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