







in 2005 and the redistributive effects was a negative. In 2006, after the adjustment of exemption from 800 to 1600, the post-tax Gini coefficient became less than pre-tax Gini coefficient by 0.2252% and the redistributive effects became a positive.

### 3.2. Analysis of empirical results

In the discussion above, we find reasonable Gini coefficient of residents and negligible redistributive effects of personal income tax. We will try further discussion about the causes:

**Tax system:** The tax system in China is executed with turnover tax system mainly and the personal income tax makes up small share of total tax revenue. In 2010, personal income tax accounted for 6.6% in total tax revenue. As a result, small share of personal income tax leads to limited income redistribution function.

**Income sources:** The existing of large amount of abnormal income, illegal income and gray income contributes to uneven income distribution in China. For a long time, these types of income are excluded from the taxing of personal income tax. In such case, the income redistribution function is certain to be limited. In this paper, we calculate the Gini coefficient based on normal income which may leave out much information and lead to results inconsistent with social reality.

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### 5. Conclusion

In fact, the key of wide income gap lies in the huge disparity of wealth distribution, and personal income tax cannot adjust the stock of income distribution. To solve the problem of huge income gap, new

policies are needed to accelerate the establishment of tax system, such as property taxes and inheritance taxes. The adjustment of personal income tax is limited in the part of income flow, which cannot fundamentally change the trend of widening income gap. So, government should put emphasis on primary distribution, enhance tax supervision, especially the tax supervision of abnormal income, to improve the situation of income distribution in China.

### 6. References

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