

**THE ROLE OF TAXES AND THEIR IMPORTANCE
IN CHINA'S BUDGET REVENUES****Li Dongyang, master's student,****Liu Qinyuan, master's student,****Kononchuk Iryna, PhD in Economics, I_Kononchuk@mail.ru****Polessky State University**

Annotation. The article examines the role of taxes, the composition and structure of taxes in China's budget revenues, trends in tax revenues.

Keywords: taxes, China's budget revenues, the role of taxes.

The significant role of taxes as a resource for financing government spending, a tool for achieving the goals of the country's socio-economic policy, and an important lever for stimulating consumer demand indicates the need to study the composition of the structure of tax revenues to the budget. This allows us to reveal the shortcomings of the tax mechanism, identify effective tools for solving problems and identify prospects for increasing the efficiency of the tax policy pursued in the country.

The legal definition of tax in China includes the nature of collection, collection procedures, scope of tax types, and the rights and obligations of tax subjects. Taxation is one of the main sources of fiscal revenue for the Chinese government, supporting the country's public expenditure, economic development and social undertakings.

Taxation plays multiple important roles in China's economy, including the following aspects:

- fiscal expenditure and public service provision: Taxation is one of the main sources of fiscal revenue for the Chinese government, which is used to support the country's public expenditure, such as infrastructure construction, medical security, education, social welfare, etc. Tax revenue enables the government to provide various public services and promote social stability and development.

- controlling macroeconomics: The Chinese government adjusts domestic macroeconomic conditions through tax policies, such as lowering tax rates or raising taxes. Tax policy can be used to stimulate or dampen economic growth and respond to inflation or recession.

- resource allocation and industrial development: Tax policies can encourage the development of specific industries through tax cuts or tax incentives to promote economic growth and employment. On the other hand, high tax rates can be used to control the development of certain industries to achieve efficient allocation of resources.

- social equity and distribution of wealth: Tax policy can also be used to achieve social equity by imposing progressive tax rates to ensure that high-income groups contribute more taxes. This can help reduce the gap between rich and poor and promote social equity.

- investment and Innovation: The Chinese government encourages corporate investment, R&D and innovation through tax policies. Policies such as tax incentives and depreciation can reduce business costs and promote economic growth and technological innovation.

- international competitiveness: Tax policy is also related to international competitiveness. China's tax policies may affect the investment and development of foreign companies in China, as well as the competition of Chinese companies in the international market [4].

The importance of the fiscal purpose of taxes for China, is undeniable, as evidenced by the corresponding figures. During 2018-2022, taxes in China's budget revenues amounted to more than 82%, and in 2021 the tax burden settled at 85.3% (Figure, Table 1).

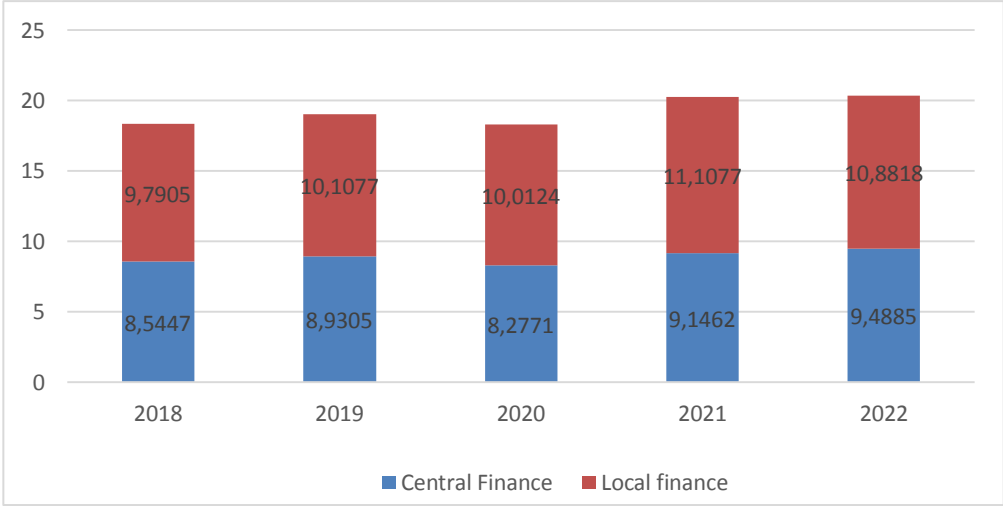


Figure - Composition of China's budget revenues for 2018-2022, trillion yuan
 Note - Source: developed based on [1]

According to Figure, the budget revenue of China has been increasing over the past five years. In 2018, the total budget revenue was 18.3352 trillion yuan, and in 2022 it increased to 20.3698 trillion yuan. This shows that China's economy has been growing and generating more revenue for the government (Table 1).

However, it is worth noting that in 2020, there was a slight decrease in the budget revenue (18.2895 trillion yuan) compared to 2019 (19.0382 trillion yuan). This decrease can be attributed to the impact of the COVID-19 pandemic which affected businesses and economic activity.

The data also shows that the local finance contributes a larger portion of the budget revenue as compared to the central finance. This indicates that local governments in China play a significant role in generating revenue through various sources.

The most significant taxes for China's budget revenues are value added tax (VAT), sales tax (ST), corporate income tax (CIT), and personal income tax (PIT) (Table 1).

Table 1. – Composition of tax revenues in the Chinese budget for 2018-2022, trillion yuan

Year	VAT	ST	CIT	PIT	Other taxes	Total
2018	7.7671	1.1537	3.549	1.3872	1.4412	15.2982
2019	6.2346	1.2562	3.73	1.0388	3.5396	15.7992
2020	5.6791	1.2028	3.6424	1.1568	6.6084	18.2895
2021	6.3519	1.3881	4.2041	1.3993	3.9297	17.2731
2022	4.8717	1.6699	4.369	1.4923	4.2585	16.6614

Note – Source: developed based on [2]

VAT, which is a tax on the consumption of goods and services, has been China's main source of budget revenue for the past five years. However, its contribution decreased from 7.7671 trillion yuan (50.77% of all tax revenue) in 2018 to 4.8717 trillion yuan (29.24% of all tax revenue) in 2022 (Table 2).

Table 2. – Structure of tax revenues in the Chinese budget for 2018-2022, %

Year	VAT	ST	CIT	PIT	Other taxes	Total
2018	50.77	7.54	23.2	9.07	9.42	100.00
2019	39.46	7.95	23.61	6.58	22.40	100.00
2020	31.05	6.58	19.92	6.32	36.13	100.00
2021	36.77	8.04	24.34	8.10	22.75	100.00
2022	29.24	10.02	26.22	8.96	25.56	100.00

Note – Source: developed based on [2]

The reduction in indirect taxes is accompanied by a simultaneous increase in the share of direct taxation. Thus, the share of corporate income tax has increased over the past five years from 23.2% to 26.22%. This can be attributed to the government's efforts to reduce tax burdens and stimulate economic growth.

Sales tax (ST) and corporate income tax (CIT) also contribute significantly to China's fiscal revenue, but their contributions have fluctuated over the years. Personal income tax (PIT) and other taxes make a relatively smaller contribution to total budget revenue.

The ongoing changes in the structure of tax revenues indicate that the Chinese government is actively adjusting its tax policies to adapt to changing economic conditions [3].

Thus, Taxation plays a key role in China's economy, not only supporting the country's financial needs, but also being used for macroeconomic regulation, resource allocation, social equality and stimulating entrepreneurship. Budget Revenue Analysis has shown the significant role of local finance in revenue generation, highlighting the importance of local governments in China's financial sector. Shifting our focus to China's tax revenues, we note that VAT has been a major contributor to China's fiscal revenues over the past five years. However, its contribution has decreased while the share of corporate income tax has increased, reflecting the government's efforts to reduce the tax burden and stimulate economic growth.

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