

Problems and Improvement of the Special Additional Deduction System of Personal Income Tax

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Abstract: The new individual income tax law was officially implemented in 2019, and one of the highlights is the new six special additional deduction policies. The emergence of the special additional deduction policy aims to solve the problems of people's livelihood, reduce the tax burden of the people, and achieve social equity. At this stage, various special additional deduction policies have been implemented in various places. While achieving certain results, the disadvantages of the policy have become increasingly prominent. The policy still needs to keep pace with the times, spit out the old and accept the new. This paper will analyze the problems existing in the implementation of the special additional deduction system of personal income tax at this stage, draw lessons from foreign beneficial experience, and combine social reality to put forward scientific and feasible suggestions for improving the special additional deduction system.

Keywords: Personal income tax, Special additional deduction, Deduction scope, Deduction standard.

1. Introduction

Nowadays, China's economy has entered a high-quality development stage. At this stage, the main purpose of personal income tax collection is to adjust income distribution, make up the gap between the rich and the poor, and achieve social equity. With the rapid development of China's economy, the per capita income of residents is also increasing year by year, prices are rising, the cost of basic living is also increasing day by day, and the cost of living is under great pressure. Therefore, in the reform of the new tax law in 2019, a special additional deduction system has been added to the reform of personal income tax, focusing on issues closely related to people's daily life such as education, medical treatment, housing and pension, and relevant policies have been formulated to solve them, so as to help people's livelihood with taxes and reduce people's living pressure. The personal income tax system should also be improved step by step by increasing the special additional deduction.

Domestic scholars have conducted extensive research on the problems existing in the implementation of the special additional deduction system of personal income tax, and put forward countermeasures and suggestions.

Sun Zhulin (2019) pointed out that the special additional deduction system of personal income tax has the following shortcomings: quota deduction, without considering the economic development level of different regions. The starting point of serious illness medical deduction is high, and the limit is low. And put forward suggestions to improve the special deduction system of personal income tax [1]. Zhang Xu (2020) believes that there is a certain deviation in the understanding of the nature of its rights in Article 6 of the newly revised individual income tax law, which leads to the tax collection and management rules authorized by this article also focus on setting too strict obligations and responsibilities for taxpayers, while ignoring the "freedom" of taxpayers to enjoy deduction and the protection of their subsequent rights. Therefore, it is necessary to rectify the value orientation of Article 6 of the individual income tax law in concept, reshape

the entity norms and procedural rules based on the right orientation, and promote the complete maintenance of taxpayers' interests in the operation of special additional deduction, so as to realize the optimization and improvement of the overall system [2]. Luo Yifan (2020) pointed out that from the overall operation effect, the self declaration information of individuals is incomplete and inaccurate; There is no unified and efficient information exchange and sharing platform between tax authorities and relevant government departments and social organizations, so it is difficult to obtain tax related information from third parties; It is difficult for tax authorities to conduct spot check and comparison of tax related information provided by many individuals. Obtain relevant information from third parties for tax source monitoring, that is, the basis, type and amount of deduction items, the elastic adjustment mechanism of expense deduction, the transfer and sharing system of deduction among family members, and the optimization of tax risk collection and management mechanism need to be further improved [3]. Chen Zhiming (2021) believes that from the perspective of the implementation effect, this system plays a positive role in optimizing the collection and management mode of individual income tax, reducing the burden of taxpayers and promoting social equity, but there are also some problems in the implementation process, such as unreasonable deduction items, low base, improper deduction subject setting and so on [4]. Qing Jian (2021) pointed out that the initial implementation of the policy had a significant effect on benefiting the people. However, with the continuous implementation of the policy, the problems of the special additional deduction policy of the new personal income tax, such as small deduction range, low standard and unfairness, and tax collection and management to be improved, have gradually emerged [5]. Yuan Linyan (2022) pointed out that the special additional deduction of personal income tax in China includes children's education, supporting the elderly, housing loan interest, housing rent, serious illness medical treatment, and continuing education. There is still room for improvement in the special additional deduction system at

this stage. Put forward optimized policy suggestions for the existing problems, and provide theoretical support for further improvement and development [6]. Yan Hai and Xu Chenkai (2022) pointed out that after nearly two years of system operation, problems such as unreasonable deduction range, unscientific deduction standard and lax deduction subject of special education additional deduction have become increasingly prominent [7].

This paper first analyzes the existing main problems of China's special additional deduction system, and puts forward optimization suggestions for China's current special additional deduction system of personal income tax based on international experience and the actual situation of our country.

2. Existing Problems of Special Additional Deduction System

2.1. Children's Education

In March 2022, the notice of the State Council on the establishment of a special additional deduction of personal income tax for the care of infants and young children under the age of 3 was issued, which made up for the long criticized defect that the education additional age is set at the age of more than 3. However, the problem of "one size fits all" additional deduction of educational expenses is still obvious. In the stage of compulsory education, the state bears most of the tuition fees of students, and the family burden is small. In the stage of higher education, the cost is large, and almost all of them rely on their families for livelihood. The expenses borne at different stages are completely different, but the policies enjoyed are the same. It can be seen that the current policies are divorced from the actual living conditions and lack flexibility. And in real life, there are still some children who have lost their parents and their parents are unable to support them. At present, the tax law has not made relevant deduction provisions for this.

2.2. Serious Illness Treatment

At present, the most obvious drawback of serious illness medical deduction is that the deduction starting point is high and the limit is low. The existing policy stipulates that the part within 15000 yuan and more than 80000 yuan borne by the taxpayer shall not be deducted before tax. In real life, the medical cost of serious illness has already far exceeded 80000 yuan. 80000 yuan is a drop in the bucket for most families with severe cancer. Nowadays, many people are overwhelmed by the high medical expenses, and the 80000 pre tax deduction limit is undoubtedly worse for ordinary families.

2.3. Supporting the Elderly

Nowadays, the elderly population in China is absolutely large, developing rapidly, and there is also a widespread problem of "longevity and unhealthy". It can be seen that the aging situation is serious, and the pressure of ordinary people to support the elderly is great. The existing policy stipulates that taxpayers who support their immediate elders who have reached the age of 60 can directly enjoy the deduction, but the policy seriously ignores the actual family situation. In many families across the country, many elderly people under the age of 60 often need higher maintenance costs than those over the age of 60 due to serious illness and disability. In addition, in

today's society, many people also need to support their father-in-law and mother-in-law. The state has not issued corresponding solutions to these situations.

2.4. Personal Housing Loan Interest and Housing Rent

The existing policy stipulates that the interest of the first housing loan can be directly deducted before tax, but it does not define the type of housing. Ordinary housing, high-end residential areas and high-end villas have implemented the same policy, which is contrary to the concept of common prosperity and seriously refutes the principle of fairness. Secondly, the policy does not take into account the actual family situation of taxpayers. The same is the housing purchased. When three generations live together, the rental area required by two generations is larger, and the mortgage interest is also higher. When specifying the deduction standard of housing rent, the economic situation between provinces and cities is taken into account, but it ignores that no matter how rich there are, there are people with low income, and the deduction standard for developed provinces and ordinary provinces is still "one size fits all", which is seriously divorced from the taxpayer's income and refutes the principle of fairness. At the same time, there is no provision on the purpose of renting, which is also inconsistent with reality.

2.5. Continuing Education

At present, the special deduction system for continuing education mainly has the problems of low deduction standards and inadequate collection and management. The current quota deduction standard of 400 yuan per month is too low, which is seriously inconsistent with the current fierce education investment and inflation rate. Although the state has forcefully cut off the expenditure of extracurricular counseling institutions, the cost of materials and meals required for continuing education is also far more than 400 yuan. And most of the people who carry out continuing education are outside the school. The school basically does not provide accommodation, and the transportation and accommodation fees also come with it. For ordinary families, this is another cost pressure. Secondly, the tax department is not strict enough in the examination and management of taxpayers' application for special additional deduction for continuing education, such as "true registration, false learning", repeated deduction and so on.

3. Suggestions on Improving the Special Additional Deduction System

3.1. Improving Deduction System for Children's Education

In the theory of human capital, it is mentioned that education is an investment. Compared with material investment, the return rate of education investment is higher. Therefore, the author believes that the state can appropriately adjust the number of deduction limits according to the current consumer index and inflation rate to keep up with the pace of the economy. The current children's education deduction in the United States adopts a combination of actual deduction and quota deduction. Taxpayers can choose the deduction method between actual deduction and quota deduction. At present, there is a large gap between the rich and the poor in

our country, so we can learn from this system and implement this kind of collection method in combination with the actual national conditions to better achieve social equity. In terms of actual deduction, there is national policy support at the primary school and postgraduate stage, which requires less expenditure, and there is less national support at the high school and college, undergraduate stage. Therefore, the policy should be specifically differentiated and favor the stage with large expenditure. The author believes that the state can give a certain age limit. In the graduate stage, students can cancel the right to enjoy the policy when they are able to support themselves. For example, the age limit can be 24. At the same time, the policy should increase the situation of special groups, so that special groups can also enjoy preferential deductions to fill the vacancy in the tax law.

3.2. Improving Deduction System for Serious Illness Medical Treatment

Considering the current disadvantages of serious illness medical treatment, it is suggested to abolish the minimum amount system of serious illness medical treatment and adopt the method of proportional deduction. This not only avoids the imbalance caused by the cost close to but less than 15000 and the current situation of aggravating the current medical pressure by more than 80000, but also improves the efficiency of tax collection and management.

3.3. Improving Deduction System for Continuing Education

Knowledge is the backbone of human survival in society, and "lifelong learning" has become an indispensable goal for everyone in contemporary development. Continuing education is a good means to encourage people to learn knowledge and improve themselves. Therefore, based on the existing disadvantages of continuing education, this paper believes that the deduction standard amount should be increased, or the transportation expenses and meals expenses incurred in continuing education should be deducted directly. At the same time, in order to avoid fraud, repeated deduction and other problems, the system of deduction every six months can be implemented, and supervision efforts can be strengthened, and the expenses that have been reimbursed in the company are not allowed to be deducted. When applying for deduction, the taxpayer must provide the corresponding education certificate, otherwise it will not be deducted. China can refer to the deduction standards in Hong Kong and require that the vocational qualification continuing education engaged by taxpayers should be highly related to the work engaged by taxpayers, and it is forbidden to obtain other professional qualification certificates for the purpose of enjoying deduction.

3.4. Improving Deduction System for Supporting the Elderly

Singapore has a relatively complete deduction system for supporting the elderly, including a complete range of dependants. At the same time, different levels of certification standards are set for the age and health status of taxpayers' parents, and deductions are made according to different standards. Compared with the actual situation in China, the author believes that the certification of the health status of the parents of taxpayers under the age of 60 can be increased, and the existing deduction system for those certified as disabled and seriously ill over the age of 60 can be implemented;

Increase the amount of deduction for taxpayers' parents over 60 who are seriously ill or have disabilities; At the same time, the deduction standard will be expanded to include the situation of supporting father-in-law and mother-in-law into the existing deduction scope regulations.

3.5. Improving Deduction System for Individual Housing Loan Interest and Housing Rent

The traditional "home" attribute of Chinese people is very strong, and housing is just needed. With the popularization of urbanization and the development of urban-rural integration in China, more and more people buy houses, and the phenomenon of housing loans has become extremely common. The author believes that the certification of the standard of "housing" should be increased, and high-end houses and villas should be directly excluded from the deduction standard. The houses that apply for the deduction of the interest of the first housing loan must be ordinary houses that really meet the living needs. For housing rent, this paper believes that we can learn from India's current method of linking housing rent with taxpayers' income, and stipulate the deduction proportion and maximum deduction. At the same time, the standard of housing use shall be refined, and the rented house shall be used for daily living. At the same time, the author believes that the standard amount can be deducted according to the economic development of different provinces, in line with the living standards of local residents.

4. Conclusions

This paper briefly analyzes the problems existing in the existing six special deduction systems, and puts forward corresponding constructive suggestions for each malpractice. With the advent of the era of big data, the intelligent optimization of the tax system, the improvement of the power of tax collection and management, the improvement of taxpayers' awareness, the special deduction system of personal income tax will inevitably become more and more meticulous, professional and rigorous. Its function of regulating income distribution, narrowing the gap between the rich and the poor, and realizing social equity will be better played.

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