

A Study on the Tax Reduction Effect of Special Additional Deduction of Individual Income Tax

-- Based on the Analysis of Population Aging

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Abstract: In the current situation of the increasing population aging problem, the ordinary working class, especially the only child, is under great pressure to support them. The individual income tax reform aims to reduce the heterogeneity of taxpayers by adding two special additional deductions, namely, medical treatment for serious diseases and supporting the elderly. This paper will be based on the existing special additional deductions in China and supporting the elderly, introduce the relevant policies of other countries in the world, comparative analysis, "take the essence, discard the dross" from the experience and practices that China can learn from.

Keywords: Personal income tax for serious disease medical treatment, Special additional deduction for supporting the elderly.

1. Foreword

Since the 21st century, the aging of China's population has been increasing, and "supporting the elderly" has become the key livelihood issue of the current state. The report to the 19th National Congress of the CPC said, "actively respond to the aging population and build a policy system and social environment for pension, filial piety and respect for the elderly." How to deal with the challenges brought by the population aging to the economic society is a problem that must be considered today, so China has also issued a series of policies and regulations. In early 2019, the newly revised Individual Income Tax Law officially came into effect. It has been reformed in many aspects, such as special additional deductions and collection and management, and has given citizens practical benefits, such as "tax reduction and fee reduction". Especially in terms of the special additional

deduction, the special additional deduction for supporting the elderly and the special additional deduction for serious diseases also highlight the social concern about the pension problem, and also reduce the support pressure of taxpayers to a certain extent.

2. China's Current Medical Special Additional Deduction System for Serious Diseases Is Insufficient

2.1. Specific Provisions on Special Additional Deduction for Serious Diseases

China's special additional deduction for serious diseases in personal income tax shall be deducted in the form of pre-tax deduction in the final settlement of the next year. The specific provisions are shown in Table 1 below.

Table 1. Special Additional deduction system for serious disease medical treatment

Deduct the main body	① himself or spouse; ② minor child choose either parent
Scope of expenses included	The following conditions shall be met: ① himself or spouse, minor children; ② in one tax year; ③ in the list of medical insurance and private payments within \$15,000 to \$80,000 respectively
Expenses not included	Outside ① medical insurance coverage; ② does not exceed RMB 15,000; medical expenses of ③ taxpayers
computation time	The year of the actual expenditure of medical expenses recorded for the medical security information system

2.2. The Lack of Special Additional Deduction System for Serious Diseases

1. The subject of special additional deduction for serious diseases only includes taxpayers, their spouses and minor children, excluding the parents of both parties. In general, compared with teenagers and middle-aged people, the elderly are more old and frail. At the same time, because the group has no fixed source of income, so if the elderly are sick, their

medical expenses are mostly paid by their children and women. However, at present, China's special additional deduction regulation does not include taxpayers' parents, which is obviously not reasonable.

2. At present, the deduction scope of medical expenses in China is relatively narrow, limited to drugs. It can be appropriate consideration to include the corresponding medical services and related transportation expenses into the scope of special additional deduction for serious diseases.

3. China's Current Special Additional Deduction System for Supporting the Elderly Is Insufficient

3.1. Specific Provisions on Special Additional Deductions for Supporting the Elderly

"Individual income tax special additional deduction interim

measures" regulation, the only child supports the elderly, can deduct a quota of 2,000 yuan every month. However, if the only child is not allowed to support the elderly, the specific deduction per person shall not be higher than 1,000 yuan / month. In particular, the dependant has priority over the interchild agreement, and the specific provisions are shown in Table 2 below.

Table 2. Special additional deduction system for supporting the elderly

Deduct the main body	① supports the children; ② supports both deceased grandparents or maternal grandparents, grandchildren and grandchildren
Scope of expenses included	① shall be aged 60 and older; ② dependents are (other) grandparents and whose children have died
Expenses not included	Other dependents (such as in-laws, in-laws, etc.)
computation time	It is the month when the dependant reaches the age of 60 to the year of the termination of the support obligation

3.2. The Insufficiency of The Special Additional Deduction System for Supporting the Elderly

1. The special additional deduction for supporting the elderly is not deducted by the family unit, which is not in line with the actual situation of most families supporting the elderly in real life.

2. In real life, after the two couples get married, they often support their parents together, which is influenced by the traditional culture of the Chinese nation. At present, the taxpayers stipulated in the special additional deduction for supporting the elderly in China are only allowed to deduct their parents' alimony, but not the in-in-laws or in-laws, which can not fully reflect the benefit of the special deduction, and in a sense, it is not conducive to stimulating the enthusiasm of the widowed party to support the other party's parents.

4. International Practice for Handling Personal Income Tax on Medical Expenses and Expenses for Supporting the Elderly

4.1. Japanese Personal Income Tax Medical Expenses and Supporting the Elderly

4.1.1. Scope of Deductible Medical Expenses

It includes not only the cost of physical examination and surgery, medical supplies and other general medical expenses, but also the cost of buying drugs in a fixed place to maintain the physical condition and prevent diseases.

4.1.2. Allocation Method

The taxpayer himself, his spouse and his relatives living together can choose to deduct it by himself or the other party, and the Japanese residents must be required to apply the deduction of medical expenses.

4.2. Indian Personal Income Tax Medical Expenses and Maintenance of The Elderly

4.2.1. Scope of Deductible Medical Expenses

Indian income tax deduction items including endowment insurance premium, medical insurance, disability treatment such as rehabilitation, medical expenses, the repayment of

higher education loans, donations to charity, the rent paid, interest on certain securities, royalties from foreign companies, teachers and professors from abroad, professional income from abroad, provide services in India and abroad, the income of the blind and the disabled, and so on.

4.2.2. Allocation Method

When the taxpayer is in an individual, the deduction subject is himself or a dependent; when the taxpayer is in an Indian union family, the deduction subject is in any family member.

5. The Personal Income Tax Deduction System of Medical Expenses and The Expenses of Supporting the Elderly Is Used for Reference and Optimized

5.1. Special Additional Deduction for Serious Disease Medical Treatment

5.1.1. Appropriately Expand the Scope of Medical Expenses Deduction

According to the above analysis, it can be seen that the deduction or credit scope of international medical expenses not only includes drugs, but also the corresponding medical services, and some countries even include the transportation expenses related to medical treatment. Comparatively speaking, China's medical expenses deduction range is relatively narrow, limited to drugs. China can appropriately expand the scope of special additional deductions for medical treatment for serious diseases, and gradually include medical expenses such as dentures, artificial limbs and rehabilitation expenses.

5.1.2. Moderate Expand the Scope of Family Members to Further Reduce the Burden of Family Medical Expenses

On the one hand, in reality, the elderly are more likely to be seriously ill than the young people, including only the taxpayers, their spouses and children. On the other hand, in the countries we selected, the treatment of medical expenses is based on the family.

Therefore, it is necessary to increase the deduction of serious disease medical expenses for taxpayers' parents to further reduce the burden of family medical expenses.

5.2. Special Additional Deduction for Supporting the Elderly

China's tradition and national conditions should be taken into account, and it is suggested to take the deduction as a family unit, and expand the deduction object to taxpayers' in-laws or in-laws. At the same time, according to the physical health status of the elderly and other factors, it should also be divided into basic alimony and medical care expenses, as the deduction amount composed of "standard deduction + additional deduction".

6. Conclusion

Any reform is a process of continuous development and improvement. As a direct tax, individual income tax plays an important role in regulating income distribution. Individual income tax reform affects the vital interests of the broad masses of the people and has a far-reaching impact. It is hoped that in the future, we will continue to give priority to the areas of people's livelihood, consider more comprehensive additional deductions, make more scientific deductions, make the deduction standards closer to the actual life, give full play to the redistribution function of individual income tax, further improve tax fairness, and increase people's sense of happiness and gain.

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