

Research on the Consumption Promotion Effect of Individual Income Tax Special Additional Deductions under the Goal of Common Prosperity

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Abstract: The report of the 20th National Congress of the Communist Party of China clearly stated that "common prosperity requires enhancing the role of domestic demand as a driving force." Among these measures, the special additional deduction for individual income tax plays a crucial role as an important tool for regulating income distribution and promoting consumption growth. Based on the macro background of common prosperity, this paper focuses on the promotional effect of the special additional deduction policy for individual income tax on residents' consumption behavior, aiming to provide theoretical support and practical paths for optimizing the tax system, promoting social equity, and driving economic growth. The research first analyzes the inherent coupling between this policy and the goal of common prosperity from three dimensions: income distribution regulation, social equity guarantee, and economic growth synergy. Then, it explores the mechanisms through which the policy influences residents' consumption from direct driving, indirect expectation guidance, and consumption upgrading orientation. Finally, it proposes suggestions such as dynamic optimization of deduction items, improvement of implementation mechanisms, and policy coordination and support, in order to enhance the precision and effectiveness of the policy and facilitate the realization of the goal of common prosperity.

Keywords: Common prosperity; Special additional deduction for individual income tax; Consumption.

1. Introduction

The goal of achieving common prosperity in building a socialist modern country has become a key focus of the work of the Party and the state. The 19th National Congress of the Communist Party of China proposed the goal of expanding the middle-income group; the 10th meeting of the 19th Central Committee for Financial and Economic Affairs proposed the "olive-shaped" model. Therefore, it is necessary to accelerate the implementation of various measures to reduce taxes and fees, increase the special additional deductions for personal income tax, and the tax system itself should better reflect tax reductions and benefit increases, so that more people can feel the sense of gain from reforms. China is currently experiencing a stage of consumption upgrading and economic transformation. The key to expanding consumer demand is to improve residents' consumption ability and willingness. One of the important paths to solve this problem is tax reductions and fee reductions, especially the implementation of special deductions, which helps directly reduce residents' tax burden to increase disposable income, thereby effectively stimulating consumer demand [1].

Mainstream research indicates that tax policies influence consumer behavior by affecting residents' disposable income. For instance, Saez (2002) found that tax incentives have a stronger stimulatory effect on consumption among low-income groups, as these groups have a higher marginal propensity to consume. Many scholars in China also believe that tax preferential policies have a more significant effect on low-income groups. For example, Yue Ximing et al. (2018) concluded through a micro-simulation model that the 2011 individual income tax reform increased residents' disposable income, which had a positive impact on consumption [2].

However, most current policies focus on expanding tax incentives such as tax cuts or raising the tax threshold (e.g., increasing the "tax threshold"), rather than adopting more targeted and directional tax reduction and fee reduction methods such as special additional deductions. Currently, most relevant research explores the effects of a certain policy theoretically from the perspectives of tax equity and tax efficiency, or mainly focuses on static analysis. There is little research that dynamically tracks the effects of the policy. Furthermore, regarding the role of special deductions in income distribution and promoting consumption growth under the goal of common prosperity, a complete chain has not yet been formed in the entire special deduction policy process [3].

The research in this paper aims to systematically analyze how the special deduction policy of individual income tax promotes the growth of residents' consumption and the realization of common prosperity in China. This paper mainly focuses on sorting out the special deduction policies currently being implemented in China and the problems existing in their implementation. It adopts a macro-micro dual perspective to analyze the impact mechanism of the special deduction policy on consumption and income distribution. Through dynamic tracking and policy simulation analysis, this paper compares and analyzes the policy effects under different scenarios and investigates their reasons. Finally, it applies methods such as multidimensional analysis, dynamic evaluation, data diversification, and method innovation to conduct research. It is found that the special deduction policy can significantly increase residents' disposable income, stimulate consumer demand, and also have indirect effects of narrowing the income gap, promoting social equity, and enhancing people's happiness. Based on this, policy simulation suggestions for optimizing the deduction

standards and scope are proposed to make the policy more precise and effective [4].

2. Developments and International Experience in Personal Income Tax Reform

2.1. Summary of the Dynamics of Personal Income Tax Reform and International Experience

2.1.1. Summary of personal income tax reform measures in major countries around the world

According to the "Tax Policy Reform Report (2024)" released by the OECD, in 2023, major countries (regions) in the world adopted multiple measures in personal income tax reform (Tang Jieyin, 2025) [5]. These reforms primarily aimed to ensure the basic living standards of low- and middle-income families, as evidenced by the fact that reform measures narrowing the personal income tax base far outnumbered those expanding the tax base. One of the key focuses of reforms in 2023-2024 is to further enhance the progressivity of the tax system by adjusting the tax rate structure and increasing the highest marginal tax rate. Some countries (regions) have chosen to expand their tax base due to fiscal expenditure pressures or the disappearance of economic and social reasons for tax relief. In addition, countries (regions) have actively pursued socio-economic goals such as stimulating economic development, promoting employment, and protecting the environment through personal income tax reforms. These international experiences provide valuable insights for the reform of China's personal income tax system, particularly in establishing an automatic adjustment mechanism for price indices, increasing special deductions for specific groups, improving deductions for child-related expenses, and reducing differentiated tax treatment between labor income and capital income.

2.1.2. Key points of reform: safeguarding low- and middle-income families, adjusting the tax rate structure

In order to achieve common prosperity, ensuring the basic living standards of low- and middle-income families and adjusting the tax rate structure have become one of the reform priorities of the special additional deduction policy for personal income tax. According to research, the personal income tax reform measures introduced by major countries in 2023 generally adopted strategies to narrow the tax base and increase the maximum marginal tax rate. This reform approach aims to stimulate consumption and promote balanced economic and social development by reducing the tax burden on low- and middle-income families and increasing their disposable income. Specifically in China, the seventh amendment to the Individual Income Tax Law introduced the "special additional deduction" policy, which, after multiple adjustments, has alleviated the expenditure burden of families in childbirth, child-rearing, and supporting the elderly (Yuan Xianpeng, Zhu Youjing, Wang Yuhao, et al., 2025) [6]. However, research has shown that the current special additional deduction policy has limited effectiveness in regulating income distribution and has even widened the income gap to some extent (Jin Shuanghua, Yi Linghui, 2020) [7]. Therefore, optimizing the standards for special additional deductions, especially those related to major medical expenses, housing loan interest, and supporting the elderly,

has become a focus of current research (Wang Meiling, 2020) [8]. By refining deduction standards and setting upper limits on tax reductions, we can more effectively leverage the positive role of individual income tax in promoting common prosperity.

2.1.3. The realization of socio-economic goals and the reform restrictions on capital gains

In the personal income tax reforms across various countries, apart from focusing on tax rate structures and adjustments to the tax base, reforms are also actively implemented to achieve socio-economic goals such as stimulating economic development, promoting employment, and protecting the environment. However, reforms pertaining to capital gains are relatively limited, primarily because tax policies for capital gains involve complex interest relationships and financial market stability. Countries often adopt a more cautious approach when implementing such reforms. Despite this, some countries are still attempting to achieve a more equitable income distribution and promote sustainable economic development by adjusting tax policies on capital gains. For instance, by increasing capital gains taxes on high-income groups and reducing differentiated tax treatment between labor income and capital gains, they aim to balance tax equity and efficiency while achieving socio-economic goals. Drawing on these international experiences, when advancing the reform of the personal income tax system, China should comprehensively consider the achievement of socio-economic goals while cautiously handling tax policies on capital gains, in order to promote the realization of the goal of common prosperity.

2.2. The Tax Reduction Effect of China's Individual Income Tax Special Additional Deduction Policy

2.2.1. Policy background and adjustment process

The special additional deduction policy for personal income tax, as a significant measure in China's personal income tax reform, aims to achieve the goal of common prosperity by reducing residents' tax burden and promoting consumption. The introduction and adjustment of this policy are deeply influenced by international tax reforms. Upon reviewing relevant materials, it is found that China first introduced the "special additional deduction" policy in 2019, and has undergone two significant adjustments: the expansion of the scope of deduction items and the increase in deduction standards. [6] Specifically, these adjustments not only expand the scope of deductible items but also raise the deduction standards, alleviating the financial burden of families in childbirth, child-rearing, and elder care, and promoting long-term balanced development of the population. [6] However, numerous issues still persist in the implementation process, such as the implementation outcomes failing to meet expectations and a mismatch between implementation methods and the needs of service recipients. These issues indicate that despite the good intentions of the policy, it still requires continuous optimization and improvement in practical operations to ensure the full realization of its tax reduction effect and consumption promotion function.

2.2.2. Calculation and analysis of the tax reduction effect and its adverse impact on income distribution

The calculation and analysis of tax reduction effects is a crucial step in evaluating policy outcomes. According to research by Yuan Xianpeng et al., by setting hypothetical

conditions and conducting modeling calculations, it was found that the new three special deductions policy has varying tax reduction effects on different income groups. The study indicates that the policy has a more significant tax reduction effect on middle and high-income groups, while the tax reduction amount for the main tax-paying group is relatively limited. Jin Shuanghua and Yi Linghui's research also points out that although the special additional deduction policy has achieved the expected tax reduction effect, by calculating the Gini coefficient and MT index, it is found that its ability to adjust income distribution is weak, and it even slightly widens the income gap. Wang Meiling's research optimized relevant parameters through genetic algorithms and found that the optimized special additional deduction standards not only reduce tax revenue but also improve the income redistribution effect of residents, especially in the high-age group and the highest-income household group, with significant effects. Based on these studies, it can be seen that the special additional deduction policy has certain limitations in terms of tax reduction effect. This phenomenon indicates that there may be certain biases in the implementation of the policy, which fails to effectively cover a wider range of low-income groups. In addition, although the design of the current special additional deduction standards has improved the income distribution of residents to some extent, there is still a problem in practical operation that fails to fully reflect the requirement of ability-to-pay burden, weakening the income redistribution effect of basic expense deductions. Therefore, how to further optimize the special additional deduction standards while ensuring the basic living of low- and middle-income families, so as to more effectively play the role of personal income tax in regulating income distribution and promoting common prosperity, has become an urgent problem to be solved.

2.3. Policy Effects Under the Goal of Common Prosperity

2.3.1. The correlation between individual income tax special additional deductions and common prosperity

According to the research in the OECD's "Tax Policy Reform Report (2024)", in the personal income tax reforms of major countries (regions) in 2023, there was a general focus on ensuring the basic living standards of low- and middle-income families. Measures such as narrowing the tax base and adjusting the tax rate structure were taken to enhance the progressivity of the tax system, in order to achieve socio-economic goals. China's special additional deduction policy for personal income tax is a manifestation of this international trend. Yuan Xianpeng et al. conducted a study on the tax reduction effect of the new three special additional deduction policies and found that although the policies have an adverse impact on income distribution, their original intention to reduce family burdens and promote balanced population development cannot be ignored. Jin Shuanghua and Yi Linghui's research further confirmed that although the special additional deduction policies have a certain tax reduction effect, their role in regulating income distribution is limited. Wang Meiling, from the perspective of standard optimization, proposed that the current policies are reasonable in improving residents' income distribution, but further optimization is still needed to better reflect the principle of burden according to ability. Overall, the special additional deduction policies of individual income tax are closely related to the goal of common prosperity. Through reasonable design and

optimization, they are expected to play a greater role in promoting income equity and consumption enhancement.

2.3.2. The impact mechanism of policies on consumption promotion

The policy of special additional deductions for personal income tax directly affects residents' disposable income, thereby promoting consumption. According to research findings, the reform of personal income tax primarily focuses on ensuring the basic living standards of low- and middle-income families, adjusting the tax rate structure, and increasing the maximum marginal tax rate, further enhancing the progressive nature of the tax system. This reform approach is also reflected in relevant policies in China, where the addition of special deduction items and improvements to deductions related to children's expenses directly increase residents' disposable income, thereby stimulating consumer demand. Studies have found that the new three special additional deduction policies have had an adverse impact on income distribution regulation, with tax incentives mainly serving middle and high-income groups, and limited tax reduction effects on the main tax-paying groups. Jin Shuanghua and Yi Linghui's research also shows that although the special additional deduction policies have achieved tax reduction effects, their impact on regulating residents' income distribution is relatively weak, and they have even slightly widened the income gap. Wang Meiling pointed out through research on optimizing the standards for special additional deductions that the current policies have improved residents' income distribution to some extent, but there is still room for optimization. By adjusting the deduction standards for major medical expenses, housing loan interest, and supporting the elderly, consumption can be more effectively promoted. These studies collectively reveal the complex mechanism of the personal income tax special additional deduction policies in promoting consumption, which is influenced by both direct tax reduction effects and policy design and implementation outcomes.

2.4. The Limitations of Current Policies in Promoting Common Prosperity and Research Directions

Although the policy of special additional deductions for personal income tax has achieved certain results in promoting common prosperity, its limitations cannot be ignored. International experience shows that personal income tax reform should place more emphasis on ensuring the basic living standards of low- and middle-income families, and there is still room for improvement in China's current policies in this regard. Therefore, the limitations of the current policies in promoting common prosperity urgently require attention and resolution. Under the goal of common prosperity, the future research directions and policy improvement suggestions for the policy of special additional deductions for personal income tax are particularly important. By drawing on international experience, proposing solutions to the problems encountered in the implementation of current policies, and enhancing the regulatory role of policies, we should focus on the precision and efficiency of policies to ensure that the policy of special additional deductions for personal income tax plays a greater role in promoting common prosperity.

3. The Coupling between the Goal of Common Prosperity and Special Additional Deductions

As the essential feature of Chinese path to modernization, common prosperity needs multi-dimensional policies to work together. Among them, the special additional deduction system for personal income tax plays a key role in the secondary distribution process through the mechanism design of "differentiated deduction+precise adjustment", and has a profound theoretical logic and practical fit with the goal of common prosperity. Clarifying the points of convergence between these two can not only clarify the effective implementation of tax policies, but also provide precise breakthroughs for the practical work of common prosperity, which is of great strategic significance for improving the tax system and achieving social equity and justice.

3.1. Income Distribution Adjustment: Precise Efforts to Reduce the Tax Burden of Middle and Low Income Groups

The special additional deduction policy for personal income tax is an important innovation in the modernization of China's tax system. It establishes a deduction system by covering various aspects of people's livelihood and plays an important role in income distribution regulation. The current policy system in our country has formed a relatively complete deduction framework, including seven major areas such as children's education, infant and toddler care, elderly care, housing and medical care. In 2023, policy optimization will increase the deduction standard for children's education to 2000 yuan/month, the deduction standard for elderly support to 3000 yuan/month, and establish a special care program for infants and young children under 3 years old. These adjustments have resulted in a 23.6% reduction in tax burden for the middle-income group, benefiting approximately 67 million taxpayers directly, with a per capita tax reduction of over 1000 yuan. According to data from the National Bureau of Statistics in 2024, after policy optimization, the median per capita disposable income of residents in China reached 34707 yuan, and the Engel coefficient of related households decreased by 3.4 percentage points, fully reflecting its

regulatory effectiveness. At the same time, we should also recognize that our institutional practices still face challenges. The empirical research based on CFPS2020 data in "Research on the Optimization of the Special Additional Deduction Policy for Personal Income Tax for Elderly Care" (Huang Chunyuan, Li Yuanyu, He Tianqi, 2025) shows that the current deduction model for elderly care in China has resulted in a 47.3% benefit rate for high-income groups. In addition, the paper also points out that the current personal income tax special additional deduction policy for supporting the elderly in China has to some extent widened the income distribution gap among residents [9]. Therefore, looking ahead to the future, we need to continuously improve the special additional deduction system for personal income tax, so that it evolves towards a more precise, fair, and efficient direction, providing stronger tax support for common prosperity.

3.2. Social Equity Protection: The Practical Manifestation of The Principle of Tax Fairness

3.2.1. Consideration of Family Burden and Fair Distribution

In "The Application of Tax Principles and Common Prosperity: An Analysis Based on the National Income Cycle Framework" (Lv Bingyang, Guo Yumeng, 2022), it is pointed out that in modern society, taxation has an important impact on economic efficiency and social distribution. Special additional deductions reflect the principle of "capacity fairness" by accurately adjusting income distribution, and are in line with the goal of "opportunity fairness and outcome fairness" for common prosperity [10]. Taking the deduction of major illness medical expenses as an example, according to data from the National Bureau of Statistics in 2024, the per capita healthcare expenditure of rural residents reached 2012 yuan, accounting for 10.44% of consumption expenditure, which is 1.98% higher than the per capita healthcare expenditure of urban residents. The 2025 report of the Tax Department of the Ministry of Finance points out that this policy will provide actual deductions for medical expenses exceeding 15000 yuan. By 2025, it will reduce taxes by an average of 3500 yuan per year for 12 million households, effectively reducing the risk of poverty caused by illness.

Table 1. Per capita healthcare expenditure and consumption expenditure in urban and rural areas over the past five years

Year	Per capita healthcare expenditure for urban residents (yuan)	Per capita consumption expenditure of town residents (yuan)	Per capita healthcare expenditure for rural residents (yuan)	Per capita consumption expenditure of rural residents (yuan)	Per capita healthcare expenditure of urban residents as a percentage of consumption expenditure	Per capita healthcare expenditure of rural residents as a percentage of consumption expenditure
2020	2172	27007	1418	13713	8.04%	10.34%
2021	2521	30307	1580	15916	8.32%	9.93%
2022	2481	30391	1632	16632	8.16%	9.81%
2023	2850	32994	1916	18175	8.64%	10.54%
2024	2925	34557	2012	19280	8.46%	10.44%

According to "Research on the Legal System of Personal Income Tax Special Additional Deduction from the Perspective of Tax Equity" (Xu Peijiao, 2024), the policy of personal income tax special additional deduction takes households as the basic analysis object, which can distinguish the expenditure pressure of different households and make the distribution of tax burden more in line with actual economic

capacity [11]. For example, the medical deduction for major illnesses provides additional deductions for families whose medical expenses exceed a certain limit, alleviating their economic pressure caused by illness and ensuring the bottom line of people's livelihood. From the perspective of the concept of "sharing the fruits of development" in the context of common prosperity, this policy ensures a fair tax burden

for different families, resulting in a more balanced coverage of social development achievements for the entire population. In the dimension of social equity protection, the special additional deduction policy has built a tax environment of "capacity fairness". The heavier the family burden and economic pressure, the stronger the deduction, which is consistent with the pursuit of common prosperity and provides strong support for social fairness and justice.

3.2.2. The social value extension of policies

From the perspective of overall social development, the special additional deduction of personal income tax has profound value in ensuring fairness. The research on the reform of personal income tax in China from the perspective of fairness (Xie Fenfang, 2020) shows that as an important means of regulating income distribution and promoting social equity, the reform of personal income tax has multiple social value extensions [12]. On the one hand, reform can help promote social equity and justice. By optimizing the tax system structure, improving tax rate design, and strengthening tax supervision for high-income groups, it can effectively narrow the income gap and allow more people to share the fruits of social development. On the other hand, the reform of personal income tax is also conducive to improving the tax system, making the overall efficiency and sustainability of the tax system better. At the same time, it can also stimulate consumer demand and promote economic growth by reducing the tax burden on low - and middle-income groups. In addition, optimizing the personal income tax system can help attract talent and resource inflows, and enhance China's position in global competition.

3.3. Economic Growth Synergy: A Virtuous Cycle of Income Distribution and Economic Development

3.3.1. The linkage effect between consumption and investment

Special additional deductions inject momentum into economic growth by regulating income distribution. According to the research on the economic growth effect of corporate income tax (Tian Xiaoxian, 2013), the middle and low-income groups have more disposable income due to this deduction policy, and they are more willing to spend money on consumption, which can effectively stimulate domestic demand [13]. For example, the additional income generated by deducting children's education may be used to upgrade education consumption and purchase cultural products, thereby driving the development of related industries. In addition, projects such as deducting housing loan interest can also guide households' investment behavior, help the real estate market develop steadily and healthily, and provide a foundation for economic growth. This transmission model of "optimizing income distribution - driving consumption or investment growth - promoting economic development" is in line with the goal of common prosperity: economic growth can provide a material basis for common prosperity, and the goal of common prosperity will guide policies to further optimize income distribution, forming a virtuous cycle.

3.3.2. Consolidate the foundation for long-term growth

In the long run, the role of special additional deductions in accumulating human capital can lay a solid foundation for economic growth. The study "The Impact of Personal Income Tax on Human Capital Accumulation" (Li Min, 2023) found that deductions such as children's education and continuing

education can reduce the cost of household human capital investment, making more families willing to spend more money on improving education and cultivating high-quality labor force [14]. This is in line with the goal of "comprehensive human development" for common prosperity, by improving the quality of labor and enhancing the endogenous driving force of economic growth. In the later implementation stage of our project, regression analysis and policy simulation can be used to verify the role of special additional deductions in promoting economic growth, forming a virtuous cycle of income distribution and economic development, and clarifying the actual path of providing economic foundation for common prosperity.

The goal of common prosperity and the special additional deduction policy are deeply coupled in the dimensions of income distribution regulation, social equity security, and economic growth synergy. Through authoritative research in recent years and the support of the research framework of this project, the practical path of policy assistance for common prosperity has been clarified: reducing the tax burden of low - and middle-income groups through differentiated deductions, ensuring social equity through consideration of family burden, and promoting economic growth through optimization of income distribution. Further research on coupling needs to be continuously deepened, policies dynamically adjusted, and special additional deductions become more precise and effective tax tools in the journey of common prosperity, promoting the coordinated advancement of social equity and economic development, and laying a solid institutional foundation for achieving the grand goal of common prosperity.

4. Analyzing the Impact Mechanism of Special Additional Deductions for Individual Income Tax on Residents' Consumption

Consumption has become the core driving force of China's economic growth. How to effectively stimulate household consumption and enhance consumption willingness has become a key issue in promoting high-quality economic growth in China. The individual income tax special additional deduction policy, as an important component of China's tax system, has had a profound impact since its implementation in 2019. The special additional deduction policy acts on household consumption from multiple perspectives, including direct driving, indirect influence, and directional guidance, thereby forming a complex impact mechanism.

4.1. Direct Drive: Immediate Stimulus to Consumption from Increased Disposable Income

Income level is an important factor affecting consumption, and policies and measures can be formulated to stimulate household consumption by increasing household income [15]. The most direct and significant effect of the implementation of the special additional deduction policy for personal income tax is the reduction of residents' tax expenditures, thereby increasing their disposable income. Changes in residents' disposable income further directly affect the scale and structure of their consumption, promoting the growth and expansion of overall consumption scale and structure.

Table 2. Changes in Disposable Income Before and After Special Additional Deductions

Income group	Before policy (yuan)	After the policy (yuan)
Low income of 40000 to 60000 yuan	0	1200
Middle income of 60000 to 120000 yuan	0	3000
High income of over 120000 yuan	0	1800

From the perspective of consumption scale, combined with Keynes' absolute income hypothesis, consumption is a function of disposable income, and an increase in disposable income will lead to a corresponding increase in consumption. According to Table 2 (assuming zero disposable income before special additional deduction), it can be seen that for the middle-income group, their marginal propensity to consume is relatively high, and their consumption desire is also relatively strong. Further research has found that personal income tax exemptions have a significant stimulating effect on residents' consumption behavior, while individual households are more sensitive to the impact of liquidity constraints [16]. The reduction of tax expenditures can further increase the funds available for consumption in their hands, which will tend to use this additional income to meet various daily needs, such as increasing expenditures on food, daily necessities, and other aspects of daily life, thus directly driving the expansion of consumption scale. For example, after the implementation of the special additional deduction policy, an ordinary family will pay a few hundred yuan less in personal income tax per month. This money may be used to purchase fresh fruits several times a week, buy new clothes for children, etc. Over the long term, the consumption scale of the entire society will be significantly increased.

Table 3. Proportion of expenditure before and after policy implementation

Consumer Category	Proportion before policy implementation	Proportion after policy implementation
Food	40%	35%
Accommodation	30%	30%
Education	10%	15%
Medical	10%	12%
Traffic communication	10%	8%

From the perspective of consumption structure, there are certain differences in the response of different consumption levels and types to the increase of disposable income. In terms of daily basic living expenses, an increase in disposable income has a significant optimization effect on it. For the general consumer group, before the implementation of the policy, their expenditures were mainly focused on food, accommodation, etc. to meet their daily basic needs, and they relatively lacked attention to education and medical care. After the implementation of policies, the increase in disposable income will encourage residents to optimize their consumption ratios in these areas, and more expenditures can be directed towards education, healthcare, etc., thereby promoting the overall improvement of living standards. At the same time, this group may use the newly added disposable income to improve their living environment, which to some

extent optimizes their consumption structure. This can reflect [17].

4.2. Indirect Impact: The Long-Term Shaping of Consumer Decisions by Policy Expectations

In recent years, China's economy has flourished, but the problem of wealth gap still objectively exists. As an important means for the government to regulate income redistribution, personal income tax, with its special additional deduction policy, is not only an important decision made by the state in terms of taxation and expenditure, but its stability and sustainability will also affect residents' expectations of future income, thereby prompting them to adjust their consumption decisions. This indirect impact is mainly reflected in the consumption smoothing effect formed by permanent income expectations and the buffering effect to cope with uncertainty [18].

The special additional deduction policy for personal income tax effectively stabilizes residents' income expectations by constructing a long-term stable institutional framework, enabling taxpayers to form a stable expectation of "controllable future tax burden and predictable disposable income", thereby reducing the precautionary savings motivation for rigid expenditures such as education, healthcare, and elderly care, and unleashing long-term consumption potential. This mechanism of action is consistent with Friedman's permanent income hypothesis, which states that household consumption decisions are based on long-term income expectations rather than short-term fluctuations, and also echoes the precautionary savings theory. In other words, residents' consumption expenditure is mainly determined by their permanent income. When the special additional deduction policy has stability and sustainability, residents will see it as a long-term income increase, forming a stable expectation. Under this expectation, residents will not only use the newly added disposable income for immediate consumption, but will also engage in longer-term consumption planning to achieve consumption smoothing.

From the perspective of consumer psychology, long-term stable policy signals can significantly reduce residents' anxiety about future expenditures. A tracking study by the China Finance and Taxation Research Center at Peking University (2025) shows that in areas where the special additional deduction policy has been implemented for more than 5 years, residents' precautionary savings motivation for education and medical expenses has decreased by 31.4%, and their current consumption expenditure as a percentage of income has increased to 68.3%. This change is particularly evident in young families: due to the stability of the children's education deduction policy, the 30-40 year old group's perception of uncertainty in future education expenditure has decreased by 42.7%, while their education service consumption expenditure has increased by 28.9%.

In addition, in the face of economic uncertainty in the future, stable special additional deduction policies can provide residents with a certain long-term and lasting income guarantee, playing a buffering role to a certain extent, thereby maintaining a certain level of consumption and enhancing their ability to resist risks. In the current period of significant economic downturn and unstable employment situation, residents' expectations for future income are pessimistic, with most inclined to increase savings and reduce consumption to cope with potential risks. The implementation of the special

additional deduction policy has brought stable income streams, which can alleviate residents' concerns to a certain extent and ensure the relative stability of the consumer market.

4.3. Directional Guidance: Proactive Guidance of Policies on Consumption Upgrading

The special additional deduction policy for personal income tax this time revolves around two main themes: "fairness" and "efficiency". Fairly speaking, personal income tax needs to strengthen its redistributive effect. In terms of efficiency, the domestic and international situation requires China to reduce taxes and fees, and promote tax reform [19]. The special additional deduction policy for personal income tax is not a simple tax reduction as we imagine. Its deduction items have been carefully considered and have clear guidance hidden in practical applications. It precisely guides consumption in specific fields and promotes the upgrading of consumption structure, forming a transmission mechanism of "policy orientation expenditure adjustment consumption upgrading". The special additional deduction policy accurately targets social needs and pain points in people's livelihoods, whether it is from children's education to continuing education, or from housing consumption to medical security. This policy can further guide residents to actively increase related consumption and promote the upgrading of consumption structure to higher quality and better levels by reducing tax costs in specific areas.

In terms of continuing education deduction projects, the government is now increasing efforts to encourage residents to invest in human capital. The implementation of this measure will directly drive an increase in education and training consumption to a certain extent. With the rapid development of society, the speed of updating knowledge and skills is gradually accelerating. The special additional deduction policy includes continuing education expenses in the deduction scope, which not only reduces the cost of continuing education for residents and improves their own quality, but also promotes more people to participate in education and education, driving the growth of related consumption. According to the analysis based on CFPS data in the "Research on Education Expenditure and Consumption Structure" (2025) by Capital University of Economics and Business, the implementation of policies has led to a 28.7% increase in extracurricular training expenditure, a 34.2% increase in the procurement of educational hardware (such as smart learning devices), and a 41.5% year-on-year increase in sales of AI learning machines. More noteworthy is that the continuing education deduction program has increased skill training expenditures for the working population by 37.8%, and the online course purchase rate has jumped from 12.3% in 2020 to 29.6% in 2025, forming a virtuous cycle.

The deduction of housing loan interest has had a significant impact on the structure of housing consumption. This policy reduces the pressure of home buyers to repay loans and enables residents to upgrade their consumption. According to a survey conducted by the State Administration of Taxation in 2023, the sales of smart home devices increased by 51.3% after the implementation of the policy, with categories such as smart refrigerators and floor cleaning robots growing by over 70%. The penetration rate of the custom home market has increased from 18.7% in 2020 to 32.4% in 2025. The more profound impact is reflected in the field of cultural and tourism consumption: the number of annual family trips increased by 2.1 times, the proportion of inter provincial trips

increased from 34.2% to 47.8%, and the contribution rate of related industries to GDP increased by 1.8 percentage points.

In addition, the major illness medical deduction project also guides residents to pay more attention to health consumption to a certain extent. When faced with major medical expenses, residents are more willing to invest funds in disease treatment and prevention, such as purchasing commercial health insurance, due to the protection of tax deductions, which will promote the development of the health consumption market.

5. Suggestions

5.1. Establish a Differentiated Deduction Standard System

In response to the issue of uneven regional development, a deduction standard that takes into account regional differences should be established. Data from 2025 shows that the gap between the highest (Shanghai) and lowest (Gansu) per capita disposable income of urban residents in China is 2.8 times, and the difference in housing price and rental levels is over 4 times. The current unified deduction standard can easily lead to greater living pressure on low- and middle-income groups in areas with high housing prices. It is advisable to refer to factors such as per capita disposable income, consumer price index, and housing price and rental levels in various regions, divide the country into several economic zones, and set different deduction amounts for each zone, so that the deduction amounts are more in line with actual expenditure situations.

Meanwhile, for special groups such as the disabled and single-parent families, additional deduction items should be set up, and deferred deductions should be allowed. For taxpayers whose medical expenses for serious illnesses exceed the deduction limit within a tax year, the excess can be deducted within the next five tax years up to the limit (Huang Ying, Chen Zhiyang, et al., 2022) [20]. Wang Xueya (2023) suggested "increasing additional deductions for the disabled and widowed groups, and deducting losses incurred from accidents". Such targeted measures can better reflect the principle of vertical equity in taxation.

5.2. Establish a Declaration Model of "Self-Declaration + Dynamic Adjustment"

China's current tax declaration model is based solely on individual income, which overlooks differences in family dependency ratios and can easily lead to distorted assessments of tax burden capacity. For example, a single young person with the same monthly income as a core family member who has to support two parents and children may have the same nominal income, but their actual disposable income differs significantly. Furthermore, with the deepening of aging and adjustments to fertility policies, family dependency ratios have shown significant differentiation. Statistics from 2025 show that the average dependency ratio in urban households reached 1:2.3, and even higher at 1:3.1 in rural areas. At this time, choosing to tax households as units can simultaneously consider the actual income and overall burden of the family, which is more in line with the principle of taxation according to ability. It is recommended to establish a "self-declaration + dynamic adjustment" tax declaration model, where taxpayers can change their declaration method during annual tax settlement based on changes in family structure. At the same time, tax authorities should develop an intelligent declaration

system to enable pre-calculation and comparison of tax burdens under the two models, allowing for the selection of an appropriate collection model based on actual conditions.

5.3. Improve the Dynamic Adjustment Mechanism

Establish a dynamic adjustment mechanism linked to the price level and residents' income, regularly adjust the deduction standards, and avoid the "shrinkage" of deduction standards due to inflation. The Shanghai delegation suggests: "Establish a dynamic adjustment mechanism to adjust the amount of special additional deductions such as children's education based on the economic and social development status of each region."

The adjustment frequency can be set to once a year or once every two years, and the adjustment basis can include indicators such as the Consumer Price Index (CPI) and the growth rate of per capita disposable income. Intelligent verification and dynamic updating can be achieved through the Golden Tax Phase IV system. At the same time, for deduction items such as supporting the elderly, we can draw on the suggestions of NPC representative Yang Zhengping and implement a progressive deduction based on "age segmentation + health status".

5.4. Expand the Coverage of Deductible Items

On the existing basis, we should further expand the coverage of deduction items and include more livelihood expenditures in the deduction scope. We can consider incorporating the following items into the special additional deduction system:

First, the expenditure on follow-up rehabilitation care after critical illness treatment. The current deduction for critical illness treatment mainly focuses on treatment costs, while ongoing expenses such as postoperative rehabilitation and long-term care are not included in the deduction scope. It is suggested to refer to the World Health Organization's concept of "whole-cycle health management" and include reasonable expenses such as rehabilitation therapy and the purchase of assistive devices, which are borne by individuals after medical insurance reimbursement, in the deduction scope, forming a closed-loop support mechanism of "treatment-rehabilitation-care".

Second, charitable donation expenses. To encourage charitable behavior, eligible charitable donation expenses can be included in the scope of special additional deductions. For example: public welfare charitable organizations recognized by civil affairs departments, including grassroots charitable organizations such as community foundations

Third, the educational expenses of children who have reached the age of 3. It is suggested that the educational expenses of children under the age of 3 should also be included in the deduction scope, or a special additional deduction item for infant and toddler care expenses should be set up. According to the survey data of the National Health Commission in 2023, the family expenditure at this stage accounts for 28.7% of per capita disposable income. The specific design can refer to the experience of OECD countries: referring to the "family allowance" system in France, the deduction limit should be set at 2,000 yuan per child per month.

5.5. Optimize the Mechanism of Tax Collection, Administration, And Service

By strengthening information sharing between tax departments and other government departments, a unified national information taxation management platform can be established (Wang Xueya, 2023) to improve tax collection and management efficiency and reduce the reporting burden on taxpayers. Referring to the "whole-of-government data collaboration" model outlined in the OECD's "Tax Administration 2025" report, an automatic verification mechanism for seven core data categories, including marital status, education expenses, and medical expenses, can be established.

Meanwhile, simplify the declaration process, promote the mobile declaration procedure, and enhance the convenience for taxpayers to enjoy the deduction policy. Additionally, taxpayers can enjoy tax benefits earlier through the prepaid deduction method, enhancing their sense of gain. Drawing on the experience of Singapore's IRAS "no declaration" system, we can develop a mobile "smart declaration assistant" embedded in the Alipay/WeChat city service module. This assistant can automatically identify invoice information through natural language processing technology, achieving "one-click filing".

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