

A Comparison of Chinese and American Tax System

Wei Zhou ^{1,2}

EMAIL: wei.zhou@lpunetwork.edu.ph; 1010482016@qq.com

¹ Lyceum of the Philippines University Manila, Manila, Philippines

² Ningbo University, Ningbo, Zhejiang, 315211, China

Abstract: China is currently promoting its tax reform. China may learn some best practice and experience of taxing of American. This study, firstly, explores major federal taxes, personal income tax, corporate income tax, social security tax, and estate and gift tax of American. Then, discussion goes to tax on state and local level. Eventually, we compare Chinese and American tax systems after briefing tax collection and management system and tax collection and management procedures of American. At then end of this paper, implications are proposed for Chinese tax reforming.

Keywords: Chinese tax system, American tax system, comparison

1 Introduction

The tax system is a crucial component of the economic and social development of a country. It affects the income distribution, public services, fiscal sustainability, and business environment of a nation. China is currently promoting reform on its tax system. Comparison on our tax system and American's tax system helps forward reform on Chinese tax system. This study compares the main features of the tax system in China and the United States, two of the largest and most influential economies in the world.

2 Major federal taxes

Major federal taxes are the primary source of revenue for the federal government of the United States. They include income taxes, payroll taxes, corporate taxes, estate and gift taxes, excise taxes, and customs duties. These taxes are levied on various types of income, transactions, property, and goods, and they affect individuals, businesses, and entities in different ways. The following is a brief overview of each major federal tax and its main features.

2.1 Personal income tax of American

Personal income tax is a type of tax that the federal government, and some state and local governments, impose on the income earned by individuals. The amount of personal income tax that an American must pay depends on various factors, such as their filing status, their taxable income, their deductions and credits, and the tax rates and brackets that apply to their income level. Personal income tax is one of the main sources of revenue for the federal government, and it helps fund various public services and programs, such as national defense, education,

health care, and social security. Personal income tax also serves as a tool for fiscal policy, as the government can adjust the tax rates and brackets to influence the economic activity and behavior of individuals.

2.2 Corporate income tax of American

Corporate income tax is a type of tax that has a long and complex history in the United States. The first federal corporate income tax was enacted in 1909, as an excise tax of 1% on corporate net income over \$5,000. The tax was later replaced by a graduated tax system, with rates ranging from 1% to 15%, in 1913. The corporate income tax rate has changed many times over the years, reaching a peak of 52.8% in 1968, and a low of 21% in 2018 [1]. The corporate income tax rate also depends on the state and local taxes that corporations must pay, which vary by jurisdiction. The average combined corporate income tax rate in the US is about 25.8%, according to the Tax Foundation. Corporate income tax is one of the main sources of revenue for the federal government, accounting for about 7% of total federal tax collections in fiscal year 2020 [1].

Corporate income tax levied on the profits of corporations in the United States. The federal corporate income tax rate is 21%, which was reduced from 35% by the Tax Cuts and Jobs Act of 2017 [2]. However, corporations may also face state and local corporate income taxes, which vary by jurisdiction. The average combined corporate income tax rate in the US is about 25.8%, according to the Tax Foundation. Corporate income tax is one of the main sources of revenue for the federal government, accounting for about 7% of total federal tax collections in fiscal year 2020.

2.3 Social security tax

Social security tax is a federal tax that is levied on the income of American workers and employers. The tax is used to fund the Social Security program, which provides benefits to retired, disabled, and surviving individuals and their families. The tax rate for social security tax is 12.4% of the taxable income [3], which is split equally between the employee and the employer. The tax applies only to a certain amount of income, which is adjusted annually for inflation. For 2023, the maximum taxable income for social security tax is \$147,000 [4]. This means that any income above this limit is not subject to the tax.

2.4 Estate and gift tax

The estate and gift tax of American is a federal tax that applies to transfers of property during life or at death. The tax is imposed on the donor of the gift or the decedent of the estate, not on the recipient. The tax rate is 40% for transfers above the exemption amount, which is \$11.7 million per person in 2021[5]. The exemption amount is indexed for inflation and may change in the future. The tax is unified, meaning that the same exemption and rate apply to both gifts and estates. However, there are some exclusions and deductions that can reduce or eliminate the tax liability, such as the annual exclusion, the marital deduction, and the charitable deduction.

2.5 Tax of State and local

The major tax of state and local in American are property tax, sale tax, state income tax. Property tax is a levy imposed by the state or local government on the value of real estate or personal property. Property tax rates vary by state and locality and are typically based on a percentage of

the assessed value of the property. Property tax revenue is used to fund public services such as education, health care, infrastructure, and public safety. Property tax of State of American is one of the lowest in the nation, with an average effective rate of 0.72% in 2022 [5]. This means that the owner of a median-valued home of \$250,000 in State of American would pay about \$1,800 in property taxes annually. However, property tax rates can vary significantly within the state, depending on the county, city, school district, and special district where the property is located. Some areas have higher rates than others, due to different levels of demand for public services and different methods of assessing property values.

Sales tax is a tax imposed by the government on the sale of goods and services. The sales tax rate varies depending on the state and the type of product or service. In the United States, sales tax is collected by the state government, but some local governments may also impose additional sales taxes. The State of American has a sales tax rate of 6.5%, which applies to most tangible personal property and some services. However, there are some exemptions and exclusions from the sales tax, such as food, prescription drugs, clothing, and educational materials. The sales tax is calculated by multiplying the taxable amount by the sales tax rate. For example, if a customer buys a book for \$10 in the State of American, the sales tax would be \$0.65 ($\10×0.065), and the total amount would be \$10.65 ($\$10 + \0.65)[6]. The seller is responsible for collecting and remitting the sales tax to the state revenue department.

The state income tax of State of American is a progressive tax system that applies to the income of individuals and corporations within the state. The tax rates vary depending on the income level and the filing status of the taxpayer. The state income tax is administered by the State of American Department of Revenue, which collects the tax and enforces the tax laws. The state income tax is one of the main sources of revenue for the state government, along with the sales tax and the property tax. The state income tax is used to fund various public services and programs, such as education, health care, transportation, and public safety.

3 Tax collection and management system

The tax collection and management system of American is a complex and dynamic system that involves multiple levels of government, various types of taxes, and different methods of administration and enforcement. The system is designed to raise revenue for public services, redistribute income and wealth, and influence economic behavior. The federal government collects income taxes, payroll taxes, corporate taxes, estate and gift taxes, excise taxes, and customs duties. The states and local governments collect income taxes, sales taxes, property taxes, and other fees and charges. The Internal Revenue Service (IRS) is the main agency responsible for administering and enforcing the federal tax laws, while each state and local government has its own tax authority. The tax collection and management system of American faces many challenges and opportunities in the 21st century. Some of the issues include tax compliance and evasion, tax reform and simplification, tax expenditures and preferences, international taxation and competition, fiscal federalism and intergovernmental relations, and tax fairness and equity.

The division of tax legislative power. This is a complex and contentious issue in federal systems. It involves balancing the fiscal autonomy and accountability of different levels of government, as well as ensuring horizontal and vertical equity among taxpayers. Different countries have

adopted different approaches to allocate tax legislative power among federal, state, and local governments, depending on their historical, political, and economic contexts. Some of the factors that influence the division of tax legislative power are:

- The degree of centralization or decentralization of the federal system
- The extent of fiscal equalization or redistribution among regions
- The availability and diversity of tax bases and tax instruments
- The administrative capacity and efficiency of tax collection and enforcement
- The intergovernmental coordination and cooperation on tax matters
- The constitutional and legal framework for tax legislation and adjudication

The division of tax enforcement power. The division of tax enforcement power of American states and the federal government is a complex and evolving issue. The Constitution grants the Congress the power to lay and collect taxes, but also reserves some taxation authority to the states. The states have the primary responsibility for administering and enforcing their own tax laws, but they also cooperate with the federal government in various ways, such as sharing information, collecting taxes on behalf of each other, and participating in joint audits. The federal government, on the other hand, has the authority to enforce its tax laws across the nation, but also respects the sovereignty and autonomy of the states. The balance between state and federal tax enforcement power is influenced by several factors, such as judicial decisions, legislative actions, administrative agreements, and political considerations.

4 Tax collection and management procedures of American

The tax collection and management procedures of American are complex and varied, depending on the type and level of taxation. The federal government, the 50 states, and thousands of local jurisdictions all impose taxes on income, property, sales, and other transactions. Each tax authority has its own rules, regulations, and deadlines for filing and paying taxes. The Internal Revenue Service (IRS) is the main federal agency responsible for administering and enforcing the federal tax laws. The IRS collects individual and corporate income taxes, payroll taxes, estate and gift taxes, excise taxes, and other taxes. The IRS also oversees tax-exempt organizations, retirement plans, and international tax issues. The IRS provides guidance, forms, and assistance to taxpayers through its website, publications, phone lines, and walk-in offices. The IRS also conducts audits, investigations, and litigation to ensure compliance and deter fraud.

The states have their own tax agencies that administer and collect state income taxes, sales taxes, property taxes, and other taxes. Some states have a single tax agency that handles all state taxes, while others have separate agencies for different types of taxes. The states also have their own tax laws, forms, and deadlines that may differ from the federal ones. The states may also offer tax credits, deductions, exemptions, and incentives to encourage certain activities or behaviors. The states may also cooperate with the federal government to share information and resources for tax administration and enforcement.

The local jurisdictions, such as counties, cities, towns, school districts, and special districts, also impose taxes on property, sales, income, and other transactions. The local taxes are usually

collected by the county or city treasurer or assessor. The local tax laws, forms, and deadlines may vary widely among different jurisdictions. The local taxes are used to fund public services such as education, public safety, transportation, health care, parks, libraries, and utilities. The local jurisdictions may also offer tax credits, deductions, exemptions, and incentives to attract businesses or residents.

5 Tax Rate Comparison between China and American

One of the main differences between the two countries is the income tax rate. China has a progressive income tax system, with seven brackets ranging from 3% to 45%^[6]. The United States also has a progressive income tax system, but with fewer brackets (four in 2021) and lower rates (10% to 37%). Additionally, China imposes a 3% social security tax on all income, while the United States only taxes up to a certain amount (\$142,800 in 2021) for Social Security and Medicare.

Another difference is the corporate tax rate. China has a flat corporate tax rate of 25%, while the United States has a federal corporate tax rate of 21%^[7], plus state and local taxes that vary by jurisdiction. However, China also offers various tax incentives and preferential policies for certain industries, regions, and types of enterprises, such as high-tech companies, special economic zones, and foreign-invested enterprises. These incentives can reduce the effective tax rate to as low as 15% or even zero in some cases.

A third difference is the value-added tax (VAT) rate. China has a VAT system that applies to most goods and services, with four rates: 13%, 9%, 6%, and zero. The United States does not have a federal VAT system, but most states and some localities impose sales taxes on certain goods and services, with rates ranging from zero to 10.25%^[8]. However, sales taxes are usually not applied to exports, while VAT is refunded for exports in China.

6 Conclusion and implications for China's Tax Reform

The comparison of the two tax systems reveals some strengths and weaknesses of each system, as well as some opportunities and challenges for China's tax reform. One of the strengths of the U.S. tax system is its ability to adapt to changing economic and social conditions, as well as to accommodate different preferences and needs of different states and localities. One of the weaknesses of the U.S. tax system is its lack of coordination and coherence among different levels of government, which leads to inefficiencies, inequities, and compliance problems. One of the strengths of the Chinese tax system is its consistency and clarity across different regions and sectors, which facilitates tax administration and enforcement. One of the weaknesses of the Chinese tax system is its inflexibility and rigidity in responding to changing economic and social circumstances, as well as to diverse demands and expectations of different stakeholders.

The implications for China's tax reform are manifold. On the one hand, China can learn from some of the best practices and experiences of the U.S. tax system, such as introducing more progressive elements in its personal income tax system, expanding its consumption tax base to cover more services and environmental goods, allowing more fiscal autonomy and discretion for its local governments, and simplifying its tax laws and procedures to reduce compliance

costs and enhance taxpayer services. On the other hand, China should avoid some of the pitfalls and problems of the U.S. tax system, such as creating excessive loopholes and exemptions that erode its tax base and distort its resource allocation, imposing excessive burdens on its taxpayers that undermine its economic competitiveness and social welfare, creating conflicts and disputes among different levels of government that hamper its fiscal coordination and cooperation, and neglecting its long-term fiscal sustainability that threatens its fiscal stability and security.

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