

# CHINA FINANCE

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### HIGHLIGHTS

- Finance Minister Liu Kun met with Buti, Director General for Economic and Financial Affairs of the European Commission, and Guersent, Director General for Financial Stability, Financial Services and Capital Markets Union of the European Commission
- Director General of IEFI Zhou Qiangwu: We need to get used to the "Trumpian style"
- MOF published a circular on the implementation of state-owned asset management reforms for party and state agencies
- The State Council planned measures to make finance more accessible and affordable for small and micro enterprises
- China's tax revenues totaled 7.569715 trillion RMB in 2017

# Brief Introduction to IEFI

The International Economics and Finance Institute (known as IEFI) is the think tank of the Ministry of Finance of China. It is devoted to financial and economic studies at home and abroad, and to the promotion of global and regional economic cooperation and integration.

The think tank provides policy recommendations to the top decision-makers of MOF and other government agencies of China. It communicates with other government agencies, international organizations, prestigious domestic and foreign think tanks, and other academic groups to strengthen knowledge cooperation, idea exchanges and experience sharing. It publishes research papers and organizes high-level forums and seminars.

IEFI is committed to be a world-class economic think tank.

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## I. Policy Update

### 1. MOF published a circular on continuing the development of a service system for Intellectual Property rights (IPR) operation in 2018

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On June 1, the Ministry of Finance (MOF) published a circular on continuing the development of a service system for Intellectual Property rights (IPR) operation in 2018, which provided the following. First, the central government will provide 200 million RMB for each city. 150 million RMB will be allocated in 2018, and the remaining funds will be disbursed on the basis of assessment of annual performance. Cities may adopt methods, such as rewards, government procurement of services and equity investment, to support the development of IPR operation service system. Second, promote the development of an IPR protection system. Support the industrial intellectual property alliance to coordinate the resolution of international intellectual property disputes that have a significant impact on the industry, and launch IPR lawsuit for public benefits. Third, nurture IPR operation service providers. Cities with qualified conditions may adopt methods such as equity investment to nurture professional IPR operating agencies and develop new business models for IPR operation services.

### 2. MOF published a circular on further promoting the universal telecom services pilot project

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On June 1, MOF published a circular on further promoting the universal telecom services pilot project, which provided the following. First, in light of the size of annual budget, MOF will arrange funds in accordance with the overall costs of the pilot project approved by the Ministry of Industry and Information Technology (MIIT). Second, for pilot projects in remote administrative villages, the scale of subsidies shall be determined on the basis of the development costs and 30% of the 6-year operating costs; for pilot projects in key border areas, the scale of subsidies shall be determined on the basis of the development costs and 30% of the 10-year operating costs; for pilot projects in islands, support may be appropriately scaled up. MIIT will make proposals to MOF in light of the work plan submitted by local governments, and MOF shall determine the scale of subsidies according to actual conditions. Third, subsidies are arranged through existing channels. One-time allocation is made to the provincial-level finance authorities after the pilot areas are determined, and the performance targets are published at the same time.

### 3. MOF published a circular on the matters related to photovoltaic power generation in 2018

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On June 5, MOF published a circular on the matters related to photovoltaic power generation in 2018,

which provided the following. First, the scale of the construction of ordinary photovoltaic power plants in 2018 will not be planned. Before the State introduces document to initiate the construction of ordinary power plants, all localities must not arrange the construction of ordinary power plants requiring any form of state subsidies. Second, take stock of the distributed photovoltaic power plant construction in this year, and define the scope for including distributed photovoltaic power generation projects connected to the grid on or before May 31 into national administration. Projects not included in the scope of national administration will be supported by localities. Third, starting from the date of the publication of document, the newly-operationalized photovoltaic power plant's benchmark on-grid tariff will be uniformly reduced by 0.05 RMB per kilowatt-hour, and the on-grid tariffs for class I, class II, and class III resource zones will be adjusted to 0.5 RMB, 0.6 RMB and 0.7 RMB per kilowatt-hour respectively (tax included).

#### **4. The State Council planned the reform and innovation of administrative approaches to market supervision**

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On June 6, Premier Li Keqiang presided over an executive meeting of the State Council, which provided the following. First, speed up the establishment of a credit-centered regulatory mechanism by focusing on the improvement of business environment, and promote the informed commitment system. Second, establish a blacklist

system, strengthen credit constraints, and make public and rectify infringement of rights, counterfeiting, fraud, false advertising and other illegal acts to punish and deter the persons with breach of faith. Third, firmly stick to the bottom line of information security and protect business secrets and personal privacy. Fourth, accelerate the development of a credit system in key areas related to people's livelihood to enhance the well-being of people. Fifth, guide social forces to participate in credit development and develop third-party credit information services. Strengthen the integrity of government departments, and deal with the problem of "new officials disavow business of previous administration" in accordance with laws and regulations.

#### **5. MOF published a circular on the implementation of state-owned asset management reforms for party and state agencies**

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On June 7, MOF published a circular on the implementation of state-owned asset management reforms for the Party and state agencies, which provided the following. First, if assets or parts of assets of some subordinate units of the competent authorities are transferred, after the competent authorities of the transferor have checked and verified the assets to be transferred, the transferor and transferee, on the basis of consensus, may seek the approval of their respective competent authorities. The transferor, in line with the regulations of the state asset management of

public administrative institutions, may go through the approval procedures with MOF, the National Administration of Institutional Affairs, and the Government Offices Administration. Second, if the whole assets of the competent authorities are transferred to other departments or if the whole assets of multiple competent authorities are merged into a newly formed department, the transferor must first freeze the relevant assets, take stock of assets, check the asset accounts, prepare the catalogue of accounts, and make preparation for asset stocktaking and transfer.

## 6. MOF published a circular on extending the preferential VAT policies for the promotion of culture

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On June 11, MOF published a circular on extending the preferential VAT policies for the promotion of culture, which provided the following. First, from January 1, 2018 to December 31, 2020, newspapers and periodicals published specifically for teenagers and children as well as textbooks and other publications for primary school students would be allowed 100% refund of VAT in the stage of publication. Second, from January 1, 2018 to December 31, 2020, book wholesale and retail are exempted from VAT. Third, from January 1, 2018 to December 31, 2020, the ticket sales income of popular science institutions as well as the ticket sales income of the popular science activities organized by the Party and government departments and science associations at or above the county level are exempted from VAT.

## 7. The State Council published the Circular on Establishing a Central Adjustment System for Basic Pension Insurance Funds for Enterprise Employees

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On June 13, the State Council published *the Circular on Establishing a Central Adjustment System for Basic Pension Insurance Funds for Enterprise Employees*, which provided the following. First, the Central Adjustment Fund draws a certain portion of resources from the pool of pension insurance funds of various provinces. The portion is set at 3% and may rise gradually on the basis of the 90% of the average salary of workers and the number of employees participating in the insurance scheme in provinces. Second, the expenditures of the Central Adjustment Fund are determined by revenues, and all the funds raised in a given year will all be allocated to local governments. The Central Adjustment Fund is allocated on a per capita basis, and the amount of funds disbursed is determined on the basis of the number of retirees in each province as approved by the Ministry of Human Resources and Social Security and MOF. Third, the Central Adjustment Fund is an integral part of the pension insurance fund, and is included in the special financial account of the central-level social security fund. It manages the incomes and expenditures separately, is earmarked for special purposes, and must not be used to balance the fiscal budget.

## 8. The State Council decided on several measures to further increase imports

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On June 13, Premier Li Keqiang presided over the executive meeting of the State Council, which provided the following. First, to keep up with the upgrading of consumption and meet the needs for supply quality improvement, the government will support the import of daily consumer goods, medicines, recuperation and old-age care equipments and other products related to people's wellbeing, cut import tariff rates on some products, reduce intermediate circulation links, clamp down on unreasonable price markups, and allow people to truly feel the benefits of tax cuts. Second, vigorously develop new service trade and promote the import of productive services such as R&D and design, logistics, consulting services, and energy conservation and environmental protection. Third, improve the duty-free shop policies and expand the import of duty-free goods. Fourth, increase the import of technical equipments that facilitate economic transformation and development.

### **9. MOF published a circular on the publication of the catalogue (7th batch) of subsidies for renewable power price surcharge**

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On June 15, MOF published a circular on the publication of the catalogue (7th batch) of subsidies for renewable power price surcharge, which provided the following. First, the coal-biomass or coal-waste hybrid power generation projects, other than the biomass, waster-to-energy and biogas power generation projects supported by the national

subsidies, would not be eligible for inclusion into the national catalogue of subsidies for renewable power price surcharge. Second, the renewable energy grid-connected projects, whether included or not included in the national catalogue of subsidies for renewable power price surcharge, would receive provincial power transmission and distribution subsidies determined by National Development and Reform Commission (NDRC) instead of the subsidies for renewable power price surcharge.

### **10. MOF published a circular on the demonstration program of promoting the integration of primary, secondary and tertiary industries in rural areas and industrial development in villages and counties**

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On June 15, MOF published a circular on the demonstration program of promoting the integration of primary, secondary and tertiary industries in rural areas and industrial development in villages and counties, which provided the following. First, the central government would provide rewards and other appropriate financial support for the demonstration towns with strong agricultural industry. The funds will be disbursed in two years. Subsidies will be offered in the first year; and rewards will be offered in the second year provided that the standards are met and may be withheld if the standards are not met. Second, the central government's subsidies, along with funds mobilized from other channels, should be used to support the growth of rural economy

and rural industries, promote industrial integration, and advance the establishment of a modern agricultural industrial system.

### **11. MOF published a circular on the implementation of green, circular, quality and efficient agricultural promotion projects with special features**

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On June 15, MOF published a circular on the implementation of green, circular, quality and efficient agricultural promotion projects with special features, which provided the following. First, select some provinces with good foundation in fruit, vegetable and tea production, and support the implementation of green, circular, quality and efficient agricultural promotion projects with special features in Hebei, Liaoning, Zhejiang, Fujian, Shandong, Guangdong, Guangxi, Yunnan, Gansu, Qinghai provinces (autonomous regions) as well as the Guangdong Provincial Land Reclamation Bureau. Second, the central government would provide rewards for the implementation of green, circular, quality and efficient agricultural promotion projects with special features. The Ministry of Agriculture and Rural Affairs and MOF would allocate the funds according to relevant factors. Each province (autonomous region, Guangdong Provincial Land Reclamation Bureau) may designate up to three projects on a merit basis, and each project would receive no less than 18 million RMB of central government funds.

### **12. The Customs Tariff Commission of the State Council published an announcement on increasing tariffs on 50 billion USD of imported products originating from the United States**

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On June 16, the Customs Tariff Commission of the State Council published an announcement on increasing tariffs on 50 billion USD of imported products originating from the United States, which provided the following. According to the *Law of the People's Republic of China on Foreign Trade and the Regulations of the People's Republic of China on Import and Export Tariffs* and the basic principles of international laws and rules, the Customs Tariff Commission of the State Council decided to impose additional 25% tariff on 659 products of approximately 50 billion USD imported from the United States, of which 545 products of approximately 34 billion USD will be subject to the additional tariff starting from July 6, 2018, and the time for implementing additional tariff on other products will be announced separately.

### **13. MOF published a circular on the preferential urban land use tax policies for land rented by logistics companies for warehousing**

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On June 20, MOF published a circular on the preferential urban land use tax policies for land

rented by logistics companies for warehousing, which provided the following. From May 1, 2018 to December 31, 2019, urban land use tax levied on land rented by logistics companies for warehousing would be cut by 50%.

#### **14. The State Council planned measures to make finance more accessible and affordable for small and micro enterprises**

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On June 20, Premier Li Keqiang presided over an executive meeting of the State Council, which provided the following. First, increase relending and rediscount credit line for small and micro enterprises as well as farmers, agriculture and rural areas, and lower the relending rate for small and micro enterprises. Improve the assessment mechanism, make the loans for small and micro enterprises with a total credit of 10 million RMB or less per single enterprise grow faster than other loans, and make the number of enterprises with outstanding loans higher than the level of the same period of last year. Second, from September 1, 2018 to the end of 2020, the interest income from loans for eligible small and micro enterprises and individual industrial and commercial businesses will be exempted from VAT if the credit line is no more than 5 million RMB, up from 1 million RMB in the past. Third, small and micro enterprise loans with a credit line of 5 million RMB or less would be eligible as collaterals for medium-term lending facility.

#### **15. The Customs Tariff Commission of the State Council published a circular on the implementation of zero tariffs for certain goods under CEPA in the second half of 2018**

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On June 22, the Customs Tariff Commission of the State Council published a circular on the implementation of zero tariffs for certain goods under CEPA in the second half of 2018, which provided the following. According to the provisions of the Mainland and Hong Kong Closer Economic Partnership Arrangement and its supplementary agreements, the Customs Tariff Commission of the State Council decided to implement zero tariffs for four Hong Kong products newly negotiated for origin standards starting from July 1, 2018.

#### **16. MOF published *Several Opinions on Strengthening the Construction and Development of National Key Laboratories***

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On June 25, MOF published *Several Opinions on Strengthening the Construction and Development of National Key Laboratories*, which provided the following. First, further improve the supporting mechanisms and link financial support to performance assessment. With a focus on the priority areas, weak links and performance, the central government will steadily support the operation and capacity building of national key laboratories such as national research centers and national key disciplines. Second, actively

encourage national research centers and national key laboratories to take the lead in undertaking major national R&D projects. Promote diversified investment, and encourage greater investment in laboratory construction and development from competent authorities and local governments. Incentivize enterprises and private sector to increase investment in basic research through government guidance and tax levers.

### **17. MOF published a circular on the extra pre-tax deduction of relevant R&D expenses incurred from enterprises entrusting overseas institutions to undertake R&D**

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On June 26, MOF published a circular on the extra pre-tax deduction of relevant R&D expenses incurred from enterprises entrusting overseas institutions to undertake R&D, which provided the following. First, 80% of the actual expenses incurred from entrusted overseas R&D activities are included in the entrusting party's entrusted overseas R&D expenses. If the entrusted overseas R&D expenses are no more than two thirds of the domestically qualifying R&D expenses, deduction may be made before the payment of corporate income tax. Second, technology development contract shall be signed for entrusting overseas R&D activities, and the entrusting party shall register with the science and technology authorities. The relevant matters shall be administered according to the measures for the registration of technology contract and the rules for the determination of technology contract.

### **18. The Customs Tariff Commission of State Council published a circular on the implementation of the agreed tariff rate under the Second Amendment of Asia-Pacific Trade Agreement**

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On June 27, the Customs Tariff Commission of State Council published a circular on the implementation of the agreed tariff rate under the Second Amendment of Asia-Pacific Trade Agreement, which provided the following. According to the *Import and Export Tariff Regulations of the People's Republic of China* and the Second Amendment of Asia-Pacific Trade Agreement approved by the State Council, it is decided that from July 1, 2018, the agreed tariff rate under the Second Amendment of Asia-Pacific Trade Agreement will apply to goods imported from Bangladesh, India, Laos, South Korea and Sri Lanka.

### **19. The State Council planned measures to adjust the transport structure in order to raise the transport efficiency and cut the logistics costs of the real economy**

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On June 27, Premier Li Keqiang presided over the executive meeting of the State Council, which provided the following. First, take a gradual approach and focus on the priority areas to optimize the transport structure so as to give better play to the pillar role of railway in the bulk material transportation and long-distance transportation. Increase investment in infrastructure and promote

effective investment, and strive to connect over 80% of industrial and mining enterprises and newly built logistics parks with an annual freight volume of over 1.5 million tons to special railway links and connect over 60% of key coastal ports to railways by 2020. Second, further clean up the service charges in the area of transport, require the relevant departments to carry out inspections and focus on solving problems such as “arbitrary charges and arbitrary fines”, regulate rail freight charges, eliminate unreasonable charges, correct high charges, and reduce logistics costs.

## 20. MOF published a circular on the complete abolition of charges for the certification services of higher education academic degree

On June 28, MOF published a circular on the complete abolition of charges for the certification services of higher education academic degree, which provided the following. First, starting from July 1, 2018, the charges for the certification services of higher education academic degree will be completely abolished. Second, after canceling the charges for certification services of higher education academic degree, online enquiry and electronic verification should be used for the academic qualifications registered in the database of university student academic record information management system and degree information management system, while written certification through manual verification may continue to be used if the academic qualifications are not registered electronically. Funding for the

related services will be provided by the government according to regulations.

## 21. MOF published a circular on the tax policy regarding the refund of remaining VAT credits for some industries in 2018

On June 28, MOF published a circular on the tax policy regarding the refund of remaining VAT credits for some industries in 2018, which provided the following. First, the industries to which refund is applicable include advanced manufacturing industries such as equipment manufacturing, modern service industries such as R&D, and power grid companies. Second, the tax credit rating for the refundable taxpayers shall be A or B. Third, the taxpayers who have registered on or before December 31, 2014 will receive refund equivalent to the proportion of VAT indicated on the special VAT invoices, the special customs import VAT payment form and the VAT payment receipt for the three years of 2015, 2016 and 2017 to the credited input tax of the same period.

## II. Facts & Figures

### 1. China's natural gas production in April rose by 6.9% year on year

On June 1, the data released by NDRC showed that China's natural gas production in April was 12.9 billion cubic meters, up by 6.9% year on year; natural gas imports were 9 billion cubic meters, up by 42.2% year on year; apparent natural gas consumption was 21.7 billion cubic meters, up by 19.2% year on year. The data also showed that China's natural gas production from January to April was 53.1 billion cubic meters, an increase of 4.9% year on year; natural gas imports were 38.4 billion cubic meters, an increase of 41.3% year on year; and apparent natural gas consumption was 90.6 billion cubic meters, an increase of 17.7% year on year.

## 2. China's crude oil production in April fell down by 2.1% year on year

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On June 1, the data released by NDRC showed that China's crude oil production in April was 15.54 million tons, down by 2.1% year on year; crude oil processing volume was 49.49 million tons, up by 10.2% year on year; refined oil production was 30.97 million tons, up by 14.5% year on year; the apparent oil consumption was 27.72 million tons, up by 7.5% year on year, among them, gasoline and diesel increased by 10.4% and 4.7% year on year respectively. The data also showed that China's crude oil output from January to April was 62.35 million tons, down by 1.9% year on year; crude oil processing volume was 195.26 million tons, an increase of 6.4%; refined oil production was 121.75 million tons, an increase of 8.5%; apparent consumption of refined oil was 104.25

million tons, an increase of 6.6% year on year, among them, gasoline and diesel increased by 6.6% and 5.6% respectively.

## 3. China's CPI rose by 1.8% year on year in May

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The data released by National Bureau of Statistics (NBS) on June 9 showed that China's CPI rose by 1.8% year on year in May, and down by 0.2% month on month, among which, CPI rose by 1.8% year on year in urban areas, and down by 0.2% month on month, and rose by 1.7% year on year in rural areas, and down by 0.1% month on month. CPI went up by 0.1% year on year for food and down by 1.3% month on month; went up by 2.2% year on year for non-food and up by 0.1% month on month; increased by 1.3% year on year for consumer goods and went down by 0.2% month on month; increased by 2.5% year on year for services, and down by 0.1% month on month.

## 4. China's PPI rose by 4.1% year on year in May

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The data released by NBS on June 9 showed that China's PPI in May rose by 4.1% year on year, and up by 0.4% month on month. The price of the means of production jumped by 5.4% year on year, and up by 0.5% month on month; specifically, the figure surged by 8.1% year on year in the extractive industry, and up by 1.1% month on month; rose by 7.4% year on year in the raw material industry, and up by 0.8%

month on month; went up by 4.4% year on year in the processing industry, and up by 0.3% month on month.

## 5. The value-added of industrial enterprises above designated size went up by 6.8% year on year in May

The data published by NBS on June 14 showed that the value-added of industrial enterprises above designated size went up by 6.8% year on year and 0.58% month on month in May. Specifically, there was an increase of 3.0% year on year in the mining sector, an upswing of 6.6% in the manufacturing sector, and an upsurge of 12.2% in the electricity, thermal, gas and water sector. By enterprises of different ownership, there was an increase of 8.1% year on year in state-controlled enterprises, a decrease of 2.9% in collectively owned enterprises, an increase of 6.1% in joint-stock enterprises, and an upsurge of 8.4% in foreign-invested and Hong Kong, Macau and Taiwan enterprises.

## 6. China issued 355.3 billion RMB of local government bonds in May

The data published by MOF on June 14 showed that 355.3 billion RMB of local government bonds were issued in May, among which, 236.6 billion RMB were general bonds and 118.7 billion RMB were special bonds. From January to May, local government cumulatively issued 876.6 billion RMB of bonds, among which, 600.2 billion RMB were general bonds and

276.4 billion RMB were special bonds. As of the end of May 2018, nationwide outstanding local government debts amounted to 16.6272 trillion RMB, a figure within the limit imposed by the National People's Congress, among which, general debts were 10.4526 trillion RMB, and special debts were 6.1746 trillion RMB; government bonds were 15.6038 trillion RMB, and the stock of government debts that are not in the form of government bond amounted to 1.0234 trillion RMB.

## 7. Revenue under China's general public budget totaled 1.7631 trillion RMB in May

The data released by MOF on June 14 showed that revenue under China's general public budget totaled 1.7631 trillion RMB in May, up by 9.7% year on year, among which, revenue at the central government level was 865 billion RMB, up by 8.8% year on year; revenue at the local government level was 898.1 billion RMB, up by 10.6% year on year. Expenditure under China's general public budget was 1.7003 trillion RMB, up by 0.5% year on year, among which, expenditure at the central government level was 298.1 billion RMB, up by 9.4% year on year; expenditure at the local government level was 1.4022 trillion RMB, down by 1.2% year on year.

## 8. China's housing provident fund deposit increased by 13.06% year on year in 2017

The data released by MOF on June 19 showed that China's housing provident fund deposit in 2017 was 1.872674 trillion RMB, an increase of 13.06% year on year. The number of employers contributing to the housing provident fund was 2.6233 million, an increase of 10.11% year on year; and the number of employees contributing to the housing provident fund was 137.3722 million, an increase of 5.15% year on year. In terms of withdrawal, the number of employees who make the withdrawal was 46.8949 million, accounting for 34.14% of the number of contributing employees; the withdrawal amount was 1.27298 trillion RMB, an increase of 9.49% year on year; the withdrawal rate was 67.98%, down by 2.22 percentage points year on year; withdrawal for housing consumption was 1.011895 trillion RMB, and withdrawal for non-housing consumption was 261.085 billion RMB.

## 9. China's tax revenues totaled 7.569715 trillion RMB in 2017

The data released by MOF on June 21 showed that China's tax revenues totaled 7.569715 trillion RMB in 2017, accounting for 107.5% of budgeted amount; non-tax revenues were 542.621 billion RMB, or 66.2% of the budgeted amount. In terms of expenditure, expenditure at the central government level was 2.985715 trillion RMB, or 100.9% of budgeted amount; central to local tax rebate and transfer payment were 6.505178 trillion RMB, or 99.1% of budgeted amount. Of the central level expenditures, education spending was 154.839 billion

RMB, or 101.9% of budgeted amount; science and technology spending was 282.696 billion RMB, or 99.5% of budgeted amount; diplomacy spending was 51.967 billion RMB, or 95.2% of budgeted amount; national defense spending was 1.022635 trillion RMB, or 100% of budgeted amount; public safety spending was 184.894 billion RMB, or 100.6% of budgeted amount; general public service spending was 127.146 billion RMB, or 100.9% of budgeted amount.

## 10. The operating incomes of State-owned Enterprises SOEs increased by 10.2% from January to May

The data published by MOF on June 22 showed that the operating incomes of SOEs totaled 22.29971 trillion RMB from January to May, up by 10.2% year on year, among which, the figure for central SOEs was 12.99734 trillion RMB, up by 9.8% year on year, and the figure for local SOEs was 9.30237 trillion RMB, up by 10.8% year on year. The operating costs of SOEs totaled 21.44817 trillion RMB, up by 9.7% year on year, among which, the figure for central SOEs was 12.32318 trillion RMB, up by 9.1% year on year, and the figure for local SOEs was 9.12499 trillion RMB, up by 10.4% year on year. The profits of SOEs totaled 1.29013 trillion RMB, up by 20.9% year on year, among which, the figure for central SOEs was 876.71 billion RMB, up by 21.8% year on year, and the figure for local SOEs was 413.42 billion RMB, up by 19.1% year on year. The payable taxes of SOEs totaled 1.86335 trillion RMB, up by 9.3%

year on year, among which, the figure for central SOEs was 1.34593 trillion RMB, up by 7.2% year on year, and the figure for local SOEs was 517.42 billion RMB, up by 15.0% year on year.

## 11. China's lottery sales totaled 40.689 billion RMB in May

The data released by MOF on June 28 showed that nationwide lottery sales in May were 40.689 billion RMB, up by 7.9% year on year. The welfare lottery sales were 19.556 billion RMB, up by 7.3% year on year. The sports lottery sales were 21.133 billion RMB, up by 8.6% year on year. By type, the lotto lottery sales were 24.677 billion RMB, up by 8.8% year on year; the toto lottery sales were 10.128 billion RMB, up by 15.0% year on year; the instant lottery sales were 1.826 billion RMB, down by 18.3% year on year; the video lottery sales were 4.047 billion RMB, up by 2.1% year on year; and the keno lottery sales were 10 million RMB, down by 39.0% year on year.

### III . MOF Events

1. On May 29, Finance Minister Liu Kun met with Lipton, the First Deputy Managing Director of the International Monetary Fund.

2. On June 5, Finance Minister Liu Kun convened the first meeting of the Inter-ministerial Coordination Mechanism for State-owned Assets Reporting.

3. On June 7, Finance Minister Liu Kun met with Singapore Finance Minister Heng Swee Keat in Beijing.

4. On June 11, Vice Finance Minister Zou Jiayi met with ASEAN Secretary-General Lim Jock Hoi.

5. On June 11, Vice Finance Minister Zou Jiayi met with Victoria Kwakwa, the World Bank Vice President for East Asia and Pacific Region.

6. On June 12, Finance Minister Liu Kun met with Buti, Director General for Economic and Financial Affairs of the European Commission, and Guersent, Director General for Financial Stability, Financial Services and Capital Markets Union of the European Commission. Buti and Guersent were visiting China for the 12th China-EU Financial Dialogue.

7. On June 24, Finance Minister Liu Kun met with Delphine Gény-Stephann, Minister of State for the Ministry of Economy and Finance of France.

8. From June 25 to 26, Vice Finance Minister Zou Jiayi attended the Third Annual Meeting of the Asian Infrastructure Investment Bank.

9. On June 27, Finance Minister Liu Kun met with Phillip Hammond, Chancellor of the Exchequer of UK.

## IV. Local Finance

### 1. The Finance Department of Shanxi Province adopted new approaches to increase the quality and efficiency of state-owned asset management

According to the news released by the Finance Department of Shanxi Province on June 5, it has further enhanced the finance authorities' comprehensive management function over state-owned assets and took 8 measures to promote high-quality management of state-owned assets and create a new system of fiscal asset management. First, implement the new ideas of fiscal asset management in the new era. Explore new systems, new models, new approaches and new methods built upon performance targets for fiscal asset management. Implement performance-based management across all stages, processes and areas of fiscal asset management. Second, meet new challenges and build a high quality reporting system for state-owned assets. Study and establish a special reporting framework system for state-owned assets, improve the performance assessment and evaluation mechanism for state-owned assets reporting work, and enhance the credibility of state-owned asset management. Third, benchmark against new standards and

improve the basic management of assets of administrative institutions. Integrate assets and budget management, improve the information and data of state-owned assets of administrative institutions, and improve the dynamic monitoring and management of state-owned assets. Fourth, consolidate new achievements and effectively perform the day-to-day tasks for assets of administrative institutions. Improve the resolution and income management of state-owned assets in administrative institutions, and ensure the safe, complete, and orderly transfer of assets during reforms. Fifth, focus on new tasks and promote the deepening of the reform of state-owned assets and SOEs. Push forward state-owned assets reform, raise funds through multiple channels, and establish a reasonable sharing mechanism between public finance and SOEs. Sixth, improve the state-owned capital operating budget management, ensure that the incomes of the provincial level SOEs are paid to the Treasury, and implement the income policies related to provincial level cultural SOEs. Seventh, take new actions and focus on the financial management of SOEs. Strengthen research and analysis of key industries and important financial indicators of SOEs, and closely track and explore the impact of changes in economic conditions on business operations and taxation. Eighth, implement new ideas and comprehensively strengthen party building work and clean government building. Make on-ground investigations, strengthen the education of the party's laws and regulations, and ensure the steady progress of Shanxi's fiscal asset management work.

## 2. The Finance Bureau of Hohhot of Inner Mongolia Autonomous Region deployed flexible fiscal policies to implement the five development concepts

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According to the news released by the Finance Department of Inner Mongolia Autonomous Region on June 6, the finance authorities of Hohhot, in recent years, have conscientiously implemented the five major development concepts, deepened the reform of fiscal and tax system, innovated and strengthened fiscal management, and promoted the development and revitalization of local economy in Hohhot. First, pursue innovation-driven development, enhance the incentives and enthusiasm of businesses and scientific research personnel for innovation through policy guidance, increase the relevance and effectiveness of fiscal policies and funds through fiscal levers, and build a government-led, business-based, and market-oriented technology innovation system with close cooperation among businesses, research institutes and universities. Second, pursue coordinated development, take into account regional characteristics and geographical advantages, increase targeted fiscal support, support the implementation of the rural revitalization strategy and coordinated regional development strategy, promote the intensive development of industries with regional characteristics, address the "farmer, agriculture and rural area" problem, foster more effective and balanced development, and accelerate the pace of development. Third, adhere to green development, innovate supportive fiscal policies, improve ecological

compensation mechanism, support comprehensive conservation and recycling of resources, promote sustained and steady growth of green GDP, promote the harmony between man and nature, and promote the development of a beautiful China. Fourth, adhere to open development, further liberate the mind, firmly uphold openness, give equal emphasis to outbound and inbound investment, adjust and innovate supportive fiscal policies, support the development of export-oriented economy, and promote win-win cooperation. Fifth, adhere to shared development, innovate fiscal policies and input mechanism, support the development of education and social security systems, tackle poverty and pollution, prevent and resolve debt, gradually improve the mechanisms for protecting and improving people's livelihood, promote social fairness and justice, safeguard social security and stability, and boost people's well-being.

## 3. Fiscal appraisal work is developing rapidly in Shandong Province

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According to the news released by the Finance Department of Shandong Province on June 12, all levels of appraisal organizations in Shandong went all out to implement the key tasks of fiscal and tax reform in 2017, effectively carried out project appraisal, and actively offered technical support for departmental budget management. First, the project appraisal work has reached a new level. The scale of appraisal has reached new heights, and the role of being the "housekeeper, wealth manager and advisor" has been brought into full play; the pace of functional

transformation has been accelerated, and a budget appraisal mechanism adapted to modern budget system has been established; effectiveness of appraisal has been significantly improved in service of key fiscal work and science-based decision making. Second, new breakthroughs have been made in the development of expenditure standards. It has strengthened overall planning and concentrated on the development of quota standards; strengthened exploration and research, and strived to build a complete, well-structured, science-based and regulated system of standards; strengthened system development and developed standards such as expenditure budgets. Third, new progress has been made in budget performance management. It started the performance target management, expanded the scope of performance evaluation, and made full use of the results of performance evaluation. Fourth, the project appraisal model has reached a new level. It standardized appraisal procedures, improved management level, ensured appraisal quality, and introduced more rigorous appraisal processes; made more regulated use of private appraisal providers, and moved to effectively raise the quality of project appraisal and meet the appraisal requirements for complex projects; made wider use of information technology, studied an integrated approach for fiscal work, and moved to increase the application of IT in appraisal.

#### **4. Honghe Hani and Yi Autonomous Prefecture in Yunnan Province launched a new round of financial resources mobilization plan**

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According to the news released by the Finance Department of Yunnan Province on June 13, the Honghe Hani and Yi Autonomous Prefecture in Yunnan has launched a new round of financial resources mobilization plan in this year. It moved to consolidate and enhance traditional industries such as tobacco and metallurgy, nurtured emerging industries such as new energy, new materials, equipment manufacturing, bio-pharmaceuticals, energy conservation and environmental protection, and electronic information, and comprehensively improved its ability to prevent and resolve government debt risks. First, the focus will be on biomedicine, electronic information, cross-border finance and other industries. Through policy support, catalytic capital and tax incentives, it sought to foster new growth areas. Second, increase support for key tax-paying enterprises. It established a list of key tax-paying companies based on the corporate value index, and increased targeted support for them. Third, develop financial resource mobilization plan. It established Honghe Financial Resource Mobilization Fund, increased support for enterprises in real economy, guided and crowded in financial capital and private capital to participate in financial resource mobilization. Fourth, strengthen the monitoring of key tax sources. It established a fiscal income dynamic analysis system to put in place a four-in-one monitoring and management system for fiscal revenue management, tax-related information sharing, coordination of fiscal and tax authorities, and tax-related law enforcement supervision. Fifth, provide rewards for counties, cities, and key tax-paying enterprises with notable achievements in financial resource mobilization. It formulated measures for assessing county and city fiscal income quality,

and determined rewards and punishments based on the growth rate of county and city tax revenues and the ratio of non-tax revenue. Sixth, strengthen the development of project pipeline. It strived to obtain financial subsidies and project construction funds to cover the increased expenditure and effectively address the shortage of funds for major project construction. Seventh, continue to push forward the management of state-owned capital operating budget and debt budget, and widen the scope of state-owned capital operating budget.

## **5. Finance authorities of Lishui City, Zhejiang Province pushed forward reforms to make it easier for budget units to access services**

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According to the news released by the Finance Department of Zhejiang Province on June 15, the finance and local tax authorities of Lishui City have pushed forward reforms to make it easier for budget units to access services. First, proactively visit budget units to enhance their level of satisfaction. Proactively visit budget units to seek their suggestions and make at least one visit to city-level government departments to provide services for them. Second, allow for authorized payment to reduce the pressure on budget units. Adjust the payment method, streamline approval procedures, enhance the effectiveness of fund use, reduce the need for visiting finance authorities, and raise the efficiency of financial services. Third, comprehensively streamline the work processes. Solicit comments and suggestions from budget units, review every

approval procedure, simplify the procedures and create a flow chart to make them easier to understand. Fourth, apply information technology to effectively accelerate the approval process. Develop and apply information technology software, enable the budget units to make applications for adjustment through the software system, and allow the finance authorities to make approval through the software system and make online examination and approval, so as to facilitate and improve the efficiency of serving the budget units and accelerate the budget implementation.

## **6. The Finance Bureau of Wuhan City, Hubei Province focused on four areas to promote high-quality development**

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According to the news released by the Finance Department of Hubei Province on June 19, the Finance Bureau of Wuhan City seriously planned the work priorities and strived to make due contributions to the development of a modern, eco-friendly, and international city of Wuhan. First, identify quality development as the top priority for the finance authorities. Fully implement various fiscal and tax policies; promote the upgrading of traditional industries and accelerate the development of emerging industries; implement supportive fiscal policies and focus on supporting the construction of four new national bases. Second, make rural revitalization a key task of fiscal support for "farmers, agriculture and rural areas". Deepen reforms to help boost the implementation of the strategy for rural revitalization

in Wuhan; provide supportive fiscal policies and fiscal funds for priority areas; strengthen supervision to improve the safety, compliance and effectiveness of the allocation, use and management of fiscal funds for agriculture. Third, prioritize spending on people's livelihood. Ensure the implementation of the policies related to people's livelihood, make long-term thinking and focus on sustainability. Fourth, make comprehensive and strict governance of the Party the fundamental guarantee for the development of fiscal reform. Place political building high on the agenda, promote the learning of the Xi Jinping Thought on Socialism with Chinese Characteristics among finance officials; strengthen the development leadership team and staff and strive to provide strong political backing for fiscal reform and development.

## 7. Finance Bureau of Xinxiang City, Henan Province took multiple measures to reduce poverty

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According to the news released by the Finance Department of Henan Province on June 26, it has fully played fiscal functions and taken four measures to reduce poverty. First, make in-depth investigation and strict administration, and address problems arising from poverty reduction projects. (1) Raise awareness. Formulate and publish the *Work Plan for Correcting Problems in Poverty Alleviation Funds in Xinxiang City*, and provide policy training for all cadres and staff on poverty alleviation. (2) Improve mechanisms. Hold weekly party leadership meetings to study the practical problems of poverty alleviation

funds and government support for poverty reduction as well as the solutions to problems. (3) Improve measures. Establish an inspection mechanism to strengthen compliance and accountability. Second, increase efforts to strengthen the implementation of budgeted funds. (1) Make regular notifications, establish a regular notification mechanism, and create a competitive atmosphere. (2) Enhance inspections, and carry out both focused and comprehensive supervision. (3) Increase guidance and improve the dynamic budget adjustment mechanism. Third, make bold exploration to enable financial innovation to better support poverty alleviation. Make efforts to solve the problems and difficulties of providing financial support for poverty alleviation, establish and improve risk-sharing mechanisms, increase government subsidies for loan interests and insurance premiums subsidies, and strengthen risk resilience of industrial development. Fourth, plan assistance measures on the basis of local conditions. (1) Strengthen organization and leadership. Select the first party secretary to be stationed in the village according to high standards, and establish a strong poverty alleviation team. (2) Increase financial support. For example, Daizhuang Village completed a number of practical projects such as safe drinking water, street lighting, and cultural plazas. (3) Innovate poverty alleviation mechanisms. For example, Gaodizhang Village established a poverty alleviation fund, developed an industry of spring manufacturing based on the advantages of local infrastructure, and focused on the development of agriculture with special features.

## 8. Finance Department of Shanxi Province strengthened the budget implementation and management and accelerated the pace of expenditure

On June 27, Finance Department of Shanxi Province published the Circular of the Shanxi Provincial Finance Department on Strengthening the Budget Implementation and Management and Accelerating the Pace of Expenditure and proposed six major work requirements. First, strengthen the management of expenditure budget. (1) Compile detailed budget at the beginning of the year. At the beginning of the year, the expenditure budget should be department-specific and detailed to specific projects; and the budget not yet allocated to the department and lower-level government at the beginning of the year should be implemented faster. (2) Strengthen project budget management. Improve project pre-preparation and strengthen the management of major project expenditures. (3) Expedite the disbursement of the transfer payment budget and accelerate the disbursement of budgeted funds to departments at the same level or lower-level finance authorities within the statutory period. Second, strengthen the management of fund appropriation. Make good preparations for payment, accelerate the examination and payment of funds, and earnestly strengthen the management of fund payment. Third, promote the coordinated use of the stock of fiscal funds. Surplus funds and carryover funds unused for two consecutive years shall be recovered for overall use; a mechanism for the periodic cleaning up of carryover funds and surplus funds shall be established. Fourth, ensure the funding for the reform of the Party

and state institutions and improve the allocation of funds. Coordinate the opening of accounts for the newly-established departmental budget units, and regularly review the fund use plan of the departments involved in the institutional reforms. Fifth, strengthen analysis and performance assessment of budget implementation, keep up with the development of budget implementation, and strengthen the analysis of revenue and expenditure budget execution, treasury deposits, and carryover and surplus funds. Sixth, strengthen financial discipline. Resolutely clamp down on frauds and misappropriation of funds and hold the wrongdoers accountable for life.

## V. Remarks & Opinions

### 1. Jia Kang: seven suggestions for the reform of real estate tax

In his recently published article, Jia Kang, Chief Economist of China Academy of New Supply-side Economics, wrote that the coverage of real estate tax should be expanded, while taking into account the adjustment function of tax to cut excessive tax breaks.

The real estate tax system is a combination of real estate related tax systems. It includes both taxes directly levied on the real estate industry and other taxes related to the real estate industry. China's real estate tax system has undergone many reforms such as the unification of internal and external tax systems, and the reform of

certain types of taxes. At present, China's real estate tax system still has some problems, which are not conducive to the taxation functions. First, the structure of the real estate tax system is not sound enough, and the design of current real estate tax system lags behind the actual economic needs. Second, there are many types of real estate taxes in China. Although those taxes are independent from each other in form, yet they are essentially double taxation on the same tax base, causing dissatisfaction among residents. Third, the tax system has not been adjusted for many years, and the basis for taxation is obviously unreasonable.

The reform of the real estate tax system is a major systemic project, and thus merits strategic attention. In terms of overall design, it is important to tax both the transfer and the holding of real estate. The objective of improving the real estate tax system is to enable the real estate tax to better perform its income adjustment function during certain stages of economic development. Real estate regulation should not only focus on prices, but more importantly, aim at the healthy development of the market and the improvement of the price formation mechanism. Based on this, several policy suggestions are proposed to improve the reform of the real estate tax system.

First, abolish the urban land use tax and improve the design of real estate tax. The tax base of real estate tax already contains the land value, and the urban land use tax does not need to exist. Urban land use tax should be abolished and all land, including vacant land and above-ground buildings, should be included in the real estate tax collection.

Second, strengthen the collection and administration of real estate tax. In terms of tax collection and administration, it is imperative to levy taxes in accordance with the laws and enforce rigorous tax administration so as to avoid the negative impact of the loosening and tightening of tax collection and administration on the credibility of government policies.

Third, establish a real estate registration and appraisal system. Without the underpinning of real estate registration and value appraisal system, the real estate tax reform would be unsustainable. The establishment of a rating and value appraisal system is a pressing task for the current real estate tax reform, and it is also one of the important projects for the real estate tax reform in the future. To this end, it is proposed that cities across the country conduct timely real estate surveys and thoroughly work out the information of real estate stock to lay the foundation for tax collection and administration. At the same time, we must speed up the establishment of a nationwide network system of housing information.

Fourth, accelerate the process of real estate tax legislation. The effects and problems of the pilot policies on real estate tax reform have already been shown. At present, there is a need to improve the policies in light of the problems, accelerate the process of real estate tax legislation, and roll out the tax across the country step by step after the completion of legislation.

Fifth, in respect of taxation functions, various taxes

must have their respective focus. Taxes levied on real estate holding should gradually be geared towards the collection of fiscal revenues; however, it is necessary to design the tax deductions for the "first unit". In the design of tax system, the coverage of real estate tax should be expanded on the basis of the existing scale. At the same time, the adjustment function of taxation should be appropriately considered. Tax deductions should be made on the basis of the per capita housing space of city residents or the number of housing units of a family, and the details should be set out in the form of legal texts. Excessive tax breaks should be minimized.

Sixth, simplify the design of the land appreciation tax system to strengthen the collection and administration and better realize the adjustment function of land appreciation tax. There are some problems with the design of the current land appreciation tax system. The design of the tax system is too complex, and needs to be properly simplified; the corporate tax burden is too heavy and incentives for tax evasion tax too strong, so the corporate tax rate needs to be properly reduced. In addition, the tax authorities, faced with the huge workload in the collection and administration of land appreciation tax, may be allowed to hire an independent third party for accounting.

Seventh, make periodic adjustment of the taxation standard of farm land occupation tax to protect cultivated land. Farm land occupation tax is a specific-purpose tax, with the purpose of protecting farm land. It is suggested that the area of farm land be used as a tax basis, and

the taxation standard of farm land occupation tax should be adjusted periodically to adapt to changes in the economic situation and to maintain the adjustment function of farm land occupation tax.

## 2. Zhou Qiangwu: We need to get used to the "Trumpian style"

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Zhou Qiangwu, Director General of the International Economics and Finance Institute of MOF, recently published an article on Global Times. According to the article, not only China, but also the entire international community has to face Trump, a "non-mainstream" leader who is grand-standing, tough-talking, mercenary, fickle and even capricious. However, we should recognize that behind the unusual appearance of Trump is in fact the typical pragmatism and arrogant attitude of American politicians. The previous presidents of the United States were still bound by the mainstream values and international moral obligations, yet Trump seems to have no scruples and only talks about trading. To deal with Trump, it is important to adapt to his "Trumpian style", be mindful of the bottom line, stay firm and be patient in dealing with him.

This is especially true in the economic and trade field. Since the beginning of this year, in response to the pressure of the mid-term election, Trump has taken aim at the North Korea nuclear issue, the Middle East, and economic and trade issues, in particular, he imposed trade sanctions against major trading partners including China. Frankly speaking, due to its economic structural problems, the U.S. trade deficit

with China first appeared in 1985, and widened to 100 billion USD by the year of 2000. Since then, the deficit has become one of the unavoidable topics between China and the United States. This round of trade friction between China and the United States is the same with that in the past, but Trump's rhetoric is more heated and louder, and his demand even more outrageous.

In fact, China-U.S. economic and trade relations have always been full of "confrontation" and "cooperation". If you look back at the 5 rounds of the Strategic Economic Dialogue during Bush's term and the 8 rounds of Strategic and Economic Dialogue during Obama's tenure, China and the United States have produced more than 700 pragmatic outcomes on the economic track. Each gain has been hard-earned through negotiation, or in fact, through quarrel.

Whether it is the China-U.S. Economic Joint Committee, the China-U.S. Joint Commission on Commerce and Trade, or the subsequent China-U.S. Strategic Economic Dialogue or the China-U.S. Strategic and Economic Dialogue, the United States has always been making exorbitant demand, and frequently put forth a list of dozens or even hundreds of demands. Of course, we have been tit for tat and made reciprocal demands. The two sides are often playing tug of war and even rattling sabers at each other. The range of topics discussed is unbelievably broad, from reducing the trade deficit, increasing market access, deepening the SOEs reform, to strengthening regional and global governance and rule making. But in the end, both sides are always

able to reach an agreement and deliver satisfactory results for both parties. These outcomes have not only directly benefited the two countries and their peoples, but also made important contributions to regional and global economic stability and growth.

There are different ways to achieve the same goal. In the first year of Trump's administration, China-U.S. relations generally maintained its steady momentum of development. The two heads of state met on three occasions and made multiple phone calls to set the direction for the bilateral relationship. However, once it comes to specific issues, the willfulness of the "Trumpian style" will be fully displayed. Just recently, Trump pointed his finger at traditional allies such as Canada, Mexico, the European Union and Japan, and instructed the U.S. Department of Commerce to launch a 232 investigation into imported cars and parts. Under Trump's "America First" mindset, even traditional allies are not spared, no wonder frictions, big and small, are unavoidable between China and the United States.

In this connection, we must maintain strategic focus and should not be intimidated by his bluffing. Whatever rhetoric he may make, Trump must understand that the trade war will only hurt both sides, and at the end of the day, China and the United States must stop the fighting and return to the normal track of negotiations. China and the United States should fight a trade war and must resolve issues in the economic and trade fields between the two countries through consultations. This consensus not only reflects the fact that both countries are deeply integrated and highly interdependent, but also

aligns to the right direction of relations between the two countries over the past 40 years of ups and downs. For the "Trumpian style", we need to stay calm, and make strategic response. No matter how the situation changes, or how a certain incident develops, we must always stay unflappable and cool-headed, make efforts to strengthen ourselves while be ready to make response.

### **3. Jia Kang: it is imperative to develop a credit reporting system based on big data**

Jia Kang, chief economist of China Academy of Supply-side Economics, recently said that credit reporting combined with big data, as the foundational mechanism of the credit system, is a necessary supporting condition for the healthy development of the credit system, and is both an objective requirement for the modernization of social credit and a necessary requirement for the development of financial inclusion. In practice, we should avoid the dominant mode of administrative monopoly to push forward the development of the credit market. To this end, the following constructive suggestions are made to accelerate the sound development of China's credit reporting industry.

First, the focus of supervision should be clearly defined to avoid excessive use of public power by the administrative authorities to interfere with the market. The focus of supervision should be on the privacy of credit information users and the independence of data security services. The effectiveness of credit

reporting products and credit service scenarios should be determined by the functioning market competition mechanism. On the basis of full protection of user privacy, collection of users' positive information should be allowed and the scope of data collection should not be restricted too much. The focus of supervision should gradually shift towards the creation of a relatively reasonable, stable and operable plan. This is central for the supervision of the credit reporting system under the premise of government power.

Second, it should be clear that the central bank's credit reporting center is a non-profit national financial credit information database. It is responsible for the timely storage of credit information of banking financial institutions and the access to external data, and it should not provide credit rating and credit reporting services directly to the market, nor should it directly participate in market competition. At the same time, its non-profit positioning must be compatible with market mechanisms. The central bank's credit reporting center shall open its data access services to various market-based credit bureaus, and the relevant price management authorities shall determine the reasonable charging standards for data access services according to the principle of users paying for public services.

Third, we should fully consider the characteristics of the era of big data and seek to incentivize the active participation of high-quality market players as we proceed with the top-level design of the market-based credit reporting industry. The future credit reporting industry will be increasingly globalized, so it is necessary to work on the top-level design of the

system. We should focus on how to guide the market entities with data sources, capital, technology and risk control capabilities to enter the credit reporting industry in China, and how to encourage various market entities to fully utilize advanced technologies such as big data, mobile internet, and cloud computing through technological innovation, in order to improve the competitiveness of China's credit bureaus. Quite a few high-quality market players are poised for economic globalization, and regulators should actively coordinate with them to cope with globalization.

Fourth, a licensing system should be established as soon as possible to promote the full launch of credit reporting services and avoid the occurrence of "bad money drives out good money". The issuance of a license is necessary because it is a kind of qualification determination. At present, some commercial data companies are seeking to infringe on user rights, which might negatively affect the healthy development of credit reporting industry. There should be a transparent licensing mechanism to encourage high-quality market players to exert more positive effects and promote synergy between the government supervision and the orderly operation of the entire market mechanism.

#### **4. Jia Kang: the individual income tax reform is expected to make breakthroughs on the comprehensive and classified taxation**

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Jia Kang, Chief Economist of China Academy of New Supply-side Economics, wrote that the individual income tax reforms that are of great interest to all parties have had important developments in recent days. On June 19, Finance Minister Liu Kun made explanations on the *Amendments to the Individual Income Tax Law of the People's Republic of China (Draft)* at the 3rd Meeting of the Standing Committee of the National People's Congress. According to the explanations, the amendment to be considered by the National People's Congress not only has a specific design for raising the "threshold" of the individual income tax, but also incorporates this design into the overall consideration of "gradually establishing an individual income tax system combining comprehensive and classified taxation".

First, in the draft amendment, improvements are made to the provisions concerning taxpayers, and international experience is drawn upon to clarify the concepts of resident individuals and non-resident individuals. The standards for determining non-residents are adjusted to whether one has resided in China for 183 days instead of a full year, and China's tax jurisdiction is also expanded.

Second, the current practice divides the taxable income into 11 categories and adopts different methods of collection, but in the draft amendment, some of the labor income will be subject to the comprehensive taxation (specifically, salaries, labor remunerations, author's remunerations and royalties are comprehensive income) and applicable for the uniform progressive tax rate.

Correspondingly, calculation of resident individuals' personal income tax is changed to a yearly basis, while non-residents' personal income tax is calculated on a monthly or itemized basis.

Third, in the draft amendment, the tax rate structure has been optimized and adjusted, and the tax burdens of taxpayers to whom tax rates of 3%, 10%, 20% and 25% are applicable as well as the members of social groups below the middle level of income will fall substantially; the tax burdens of the taxpayers to whom tax rates of 30%, 35% and 45% are applicable will remain unchanged. As the tax burdens of those to whom the first 4 tax brackets are applicable are falling, the taxpayers to whom the last 3 tax brackets are applicable will also see the reduction of their tax burdens in wages and salaries. But if we consider the comprehensive taxation after the merger of other incomes, the situation has to be specifically analyzed: the taxpayers whose author's remunerations and labor services incomes used to account for a big share of their or their family's total income will see their actual tax burdens increase significantly. At the same time, the 5-bracket excess progressive tax rate for operating incomes remains unchanged, but the lower limit of the highest-bracket tax rate is raised from 100,000 RMB to 500,000 RMB, which significantly reduces the actual tax burden of individual industrial and commercial businesses and contractors.

Fourth, in the draft amendment, the basic standard for deduction is proposed to be 5,000 RMB per month. This, together with the previous tax rate adjustment measures, will help lower the actual tax burden of the middle and lower income groups.

Fifth, in the draft amendment, special deductions for children's education and continuing education expenditures, major medical expenses, housing loan interest expenses, and housing rents have been added. This improvement is in line with international practice and will make China's individual income tax more differentiated and targeted, enable the reasonable sharing of burdens, and is conducive to the fairness of tax system.

In addition, anti-tax avoidance clauses have also been added to the draft amendment, which are conducive to strengthening the law-based administration of individual income taxes.

In short, the amendment of China's individual income tax this time will be a substantial step in the general direction of comprehensive and classified taxation, and this reform is by no means easy. Of course, in the long-term view, this is only a milestone of the current phase. Comprehensive taxation only merges labor incomes such as author's remunerations and labor services incomes on top of wage incomes, and does not involve non-labor incomes such as incomes generated from financial assets. This is the limitations of this round of reform program due to various constraints. During the deliberation process of the National People's Congress, it needs to discuss whether there can be appropriate preferential treatment (such as reduced calculation of the tax base) for the author's remunerations and lecturer's remunerations so as to recognize the value of knowledge.

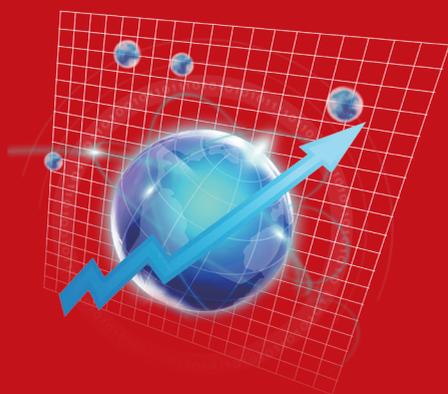
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