

# Research on the Fairness of Individual Income Tax Base: Based on Special Deductions

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**Abstract:** This paper studies the special individual income tax deduction policy, through the analysis of different family children education spending, continuing education expenditure, medical deduction, support the elderly special tax deduction, found in our country practice, because the special deduction policy failed to fully consider the specific situation of the family, lead to different regions, family through special deduction policy should reduce the lack of fairness. This leads to the adjustment of the income gap, and even the phenomenon of tax evasion. In view of this, this paper puts forward opinions on deduction supervision and how to implement more equitable deduction policies for different regions and families.

**Keywords:** individual income tax, special deduction, tax system malpractice, fair tax base

## 1. Introduction

With the continuous development of social economic level, the first rich drive after the implementation of the rich strategy, the national income gap in China, countries in order to promote the economic development of huimin policy, individual income tax as the adjustment of national income revenue, along with the advancement of tax reform, the increasingly important position in the tax. In order to reduce the personal income gap, the state has introduced a series of policies to adjust the income gap between the people. In the personal income tax, the tax base is usually the total income of the individual, including salary, salary, investment income, rent and so on. After deducting various exemptions and special deductions from this total income, you will get the taxable income amount, and this amount is the tax base. As the basis of tax, tax base is the key element to determine tax liability.

In personal and corporate income taxes, the taxpayer's total income is usually a major factor in the tax base. The state adjusts the national income gap based on the same tax threshold for each taxpayer, so that a higher income level usually means a larger tax base and hence the higher tax payment. Tax laws in various countries and regions usually also allow some deductions and deductions to reduce the tax base. These can include family relationship deductions, special deductions, tax credits, etc. Taxpayers' legitimate use of these deductions can reduce their tax base and thus reduce the tax burden. Due to the limited research energy in this paper, it is mainly based on special deductions.

Special additional deduction through targeted and differentiated tax treatment, in the initial stage of the policy, the scope, standard, allocation and deduction of the simple and fair, with the gradual improvement of the relevant system, the special additional deduction standard will be more accurate and effectively adjust the income distribution of taxpayers with different income levels; special additional deduction policy through the national income, make the overall tax system more fair, but due to the restriction of realistic conditions, the current policy is still insufficient.<sup>[1]</sup> This paper believes that in the future reform, the policy scope, standard, apportionment mode and deduction mode may need to be further improved to better adapt to the changing social needs and the diversified needs of taxpayers.

Therefore, in the following discussion, we will study in detail how to adjust the deduction standard, expand the scope of the deduction, and comprehensively consider personal and family factors, so as to promote the further improvement of the special additional deduction policy, so as to achieve a fairer and more reasonable tax system, and better meet the needs of the society and the people. At the same time, we will also discuss specific issues in the field of children's education and continuing education, and put forward concrete suggestions in order to provide useful reference and ideas for future policy reform.

## 2. The current situation and predicament of the current individual income tax special deduction system

China's special deduction policy for individual income tax has played a positive role in promoting social equity and reducing the individual tax burden, but it also faces some difficulties and challenges. China's special deduction policy for individual income tax is relatively complex, including multiple items, and each project has different conditions and standards, which makes it difficult for individuals to understand and make reasonable use of these deductions, and also brings complexity to the tax management. Some special deductions are easy to be abused, and individuals may fabricate or exaggerate the deductions to reduce the amount of tax payable, thus leading to tax evasion problems. In this regard, stronger regulation and regulatory enforcement are needed. And due to the different economic conditions and family conditions of different groups of people, some people can benefit more from the special deduction policy, while others will struggle to enjoy the same preferential treatment. This can lead to the problem of missing tax equity that needs to be better balanced. Therefore, in this paper, we will analyze and study the special deduction of the individual income tax policy in China, including covering children's education, family members, medical rental housing, supporting the elderly and so on.

### 2.1 Expenditure on children's education.

Article 5 of the special additional deduction method stipulates that the taxpayers' children's education expenditure shall be deducted by the standard quota of 1,000 yuan per month.

In order to fully take into account the difference in education expenditure at different stages, in fact, the proportion of family income spent by children from the age of zero to preschool education and the higher education stage is much higher than that of compulsory education stage. Therefore, the implementation of a one-size-fits-all policy is not in line with the fairness principle of the tax law. Another point is that China's eastern, central and western economic development is very different.

The chart below shows a table 1 of per capita disposable income by region from 2016 to 2022.

Table 1: China Statistical Yearbook 2021<sup>[2]</sup>

Year(Yuan)	2016(Yuan)	2017(Yuan)	2018(Yuan)	2019(Yuan)	2020(Yuan)
East area	30654.7	33414.0	36298.2	39438.9	41239.7
Central Region	20006.2	21833.6	23798.3	26025.3	27152.4
Western Region	18406.8	20130.3	21935.8	23986.1	25416.0
North-east area	22351.5	23900.5	25543.2	27310.6	28266.2

According to the above chart, we can clearly see that the economic development of eastern, central and western China and northeast China is quite different. According to China Statistical Yearbook 2021, we can get different education expenditure from different regions. Among them, the average expenditure in northeast China is 10,000 yuan per year, followed by the 10,400 yuan, which is 7,000 yuan per year.<sup>33</sup>

In addition, China's current special additional deductions do not consider special groups. In 2020, 880,800 people were studying in 2,244 special education schools. After further reform of the higher education system, college tuition fees have increased, and children's spending in the higher education stage has increased rapidly. In order to help more families with economic difficulties, many governments have introduced interest-free or low-interest student loan policies, but student loan interest is not included in the deduction of children's education expenses.

### 2.2 Continuing education expenditure:

Article 9 of the special additional deduction method stipulates that: if the individual accepts the bachelor's degree or below (degree) continuing education, the deduction subject can choose his parents or himself. Such provisions of the deduction subject is unreasonable, did not take into account the family as the unit as the subject of the deduction. For example, if undergraduates and graduate students at school or graduates who are not yet employed take a vocational qualification examination, these subjects have no income in the year when they obtain the qualification certificate, and their continuing education expenses are borne by their parents or spouses, then The parents or spouses of this group should be the subject of additional education deductions.

In addition, the current policy stipulates that taxpayers can only be allowed to enjoy the vocational

qualification continuing education once a year, which is unfair to taxpayers who can obtain multiple certificates. For example, a taxpayer obtains the intermediate accountant certificate and tax accountant certificate at the same time, but it can only deduct 3,600 yuan from one certificate in 2020.

### ***2.3 Housing rent expenditure.***

The special deduction system for housing rental expenditures is to better support the housing population and ensure the people's normal production and living needs. China's current deduction standards for housing rental expenditures fully take into account the price differences caused by the differences in economic development between regions, reflecting the tax is fair, but the maximum monthly deduction limit of 1,500 yuan is still low compared to the 4,000-5,000 yuan or even tens of thousands of yuan a month in first-tier cities such as Beijing, Shanghai and Guangzhou. The setting of this limit may not be enough to cover renters' actual rent expense. Moreover, the supervision system of the special deduction policy of housing rent expenditure in China is not perfect, and there is not enough supervision measures to prevent the abuse of the policy. For example, the inflated rent or providing unreasonable rental conditions.

### ***2.4 Medical expenditure for serious diseases.***

Article 12 of the Measures for Special Additional Deductions stipulates that only taxpayers and their spouses and minor children are eligible for special additional deductions, but the parents of taxpayers are not taken into account. However, as parents get older and suffer from illness, the probability of illness has greatly increased, and many elderly people have lost their ability to work and live on meager pensions. Most of the high medical expenses are borne by their children, so the medical expenses of the taxpayer's parents are not included in the deduction scope, increasing the burden on taxpayers.

In addition, the special additional deduction threshold for serious disease medical treatment is 10,000 yuan, which is equivalent to the difference of taxpayers near the critical point, with a large tax burden rate. It is unfair for taxpayers near the critical point.

### ***2.5 Expenditure for supporting the elderly.***

For the expenditure of supporting the elderly, some special circumstances are not taken into account. Such as parents although under 60 years old but due to physical reasons can not work nor pension even life cannot care for their children support, and some family couples have work and the other party has no work, the income needs to support both parents at the same time, in this case only allow one party to support the elderly spending is unfavorable to reduce the burden of taxpayers' family endowment. Some families still support their great-grandparents, but they is not taken into account in the special deduction for supporting the elderly.

In addition, because between different areas, the different level of economic development, support the cost and difference, the rural and urban conditions and conditions are different, also considering the old man health and income level, the rural old man almost no source of income, urban retired veteran cadres, most can achieve self-financing, even have margin can give their children, but their children in the enjoy policy is the same.

## **3. Countermeasures and suggestions for innovating the special deduction system of individual income tax in China**

### ***3.1 Policy proposal mechanism***

#### ***3.1.1 Universal deduction mechanism.***

The universal deduction mechanism refers to the adjustment measures and action mechanism of individual income tax, and its implementation purpose is to ensure the unity of fairness and consistency. This mechanism is embodied in the following aspects:

First, the delineation of taxpayer standards and tax base types ensures that the tax scope of personal income tax is clear by clarifying the standards and tax base types. For example, the tax law stipulates the standard of residence and time of residence to determine the identity of taxpayers, and defines

different tax items such as labor income, business income and capital income, to ensure that various sources of income are covered and the tax obligations are stipulated.

Second, the unified deduction standard, the general deduction mechanism adopts the unified expense deduction standard, to ensure that the calculation process of individual income tax is fair and consistent. This means that for labor income or comprehensive income, a consistent expense deduction standard is usually adopted, while for other non-earned income, different deduction standards are adopted depending on the specific circumstances. For example, the cost deduction standard is used for operating income and property rental income, and zero Standard deductions apply to interest, dividends, bonus income and incidental income.<sup>[3]</sup>

Third, connect with the social insurance system and expand the scope of tax incentives through connection with the social insurance system. For example, the tax law stipulates deductions for social insurance premiums, enterprise annuities and occupational annuities, encouraging individuals to use part of their income for future savings investment, and also consolidating the social security foundation for each taxpayer.

In general, the universal deduction mechanism aims to establish a fair, consistent and orderly individual income tax system, through a clear definition of standard and tax base type, unified deduction standard and the social insurance system, provides certain tax incentives to promote tax fairness, promote the development of economy and society.

### ***3.1.2 Differential deduction mechanism.***

Differential deduction mechanism is a kind of individual income tax system, which realizes accurate tax adjustment by distinguishing the income amount of taxpayers, the specific situation of individuals and families, and implementing different ranges of differential tax deduction. This mechanism is mainly reflected in the following two aspects:

First, differential deductions are based on individual families and circumstances. The differential deduction mechanism takes into account the special circumstances of different taxpayers and their families to implement differentiated tax adjustments. This means that the personal income tax will vary depending on the taxpayer's family situation, the number of dependents, the cost of living and other factors. The purpose of this differential deduction is to ensure that the tax system is more fair and just, while also better reflecting the financial situation of individuals and families.

Second, we should expand the scope of special additional deductions. The differential deduction mechanism can also include expanding the scope of special additional deductions. For example, considering the impact of medical expenses on the family economy, the government can expand the scope of special additional deductions covering medical expenses to reduce the tax burden of taxpayers. This approach can better meet the tax needs of specific circumstances and ensure that taxpayers can reasonably reduce the amount of tax payable.

In short, the differential deduction mechanism aims to establish a fairer and more flexible individual income tax system, ensuring that, by accounting for individual and family factors and expanding the scope of specific deductions, the individual income tax system better adapts to the needs of different taxpayers, while maintaining the fairness and rationality of the tax. This mechanism helps to reduce the tax burden of specific groups and improve the social justice of the tax system.

## ***3.2 Specific mechanisms***

### ***3.2.1 Children's education deduction.***

In the special additional deduction items, the special additional deduction for children's education does not consider the significant differences in children's education expenditure in different stages and regions.<sup>[4]</sup> In order to better reflect the different stages of children's education expenditure, it is suggested to add preschool preschool deduction in the special additional deduction items. This deduction item will be specifically for preschool education expenses aged 0 to 3 to ensure appropriate tax incentives for family spending on early education; on the other hand, for the difference of education stages, it is recommended to list the school and school deductions, and specify the deduction standards and limits for each item. This will provide clearer guidance to taxpayers to clarify what makes tax benefits available. The deduction limit can be formulated in the form of recessive according to the number of children, and the deduction limit can be determined according to the number of children. In addition, in order to reflect the differences in education expenditure in different regions, it is suggested

to set different deduction standard adjustment rates according to different grades of cities (such as first-tier, second-tier, third-tier and fourth-tier cities). In this way, the actual education expenditure level of each region can be reflected more accurately, and the actual tax burden of taxpayers can be reduced. According to the difference of expenditure in different education stages, the coefficient relative to the expenditure of compulsory education can also be formulated to determine the deduction standard of different stages.

### ***3.2.2 Continuing Education Deduction.***

The deduction of the continuing education policy should verify the deduction qualification of taxpayers according to the characteristics of different continuing education types, and take full consideration of the learning time, learning method and learning place. This will ensure that policies more accurately reflect the actual costs and impacts of different types of continuing education, reducing taxpayer tax burdens. And set the highest deduction standard for different types of continuing education. For example, the costs of innovative continuing education that improve their work skills or job performance can be fully deducted to encourage individual innovation. Secondly, the government can determine the amount of deduction for the current period according to the increase of personal income of taxpayers receiving continuing education in the last period. If the data shows that the last period of continuing education did not bring a substantial increase in personal income, consider reducing the deductible amount for this period. This approach helps to better reflect the association of continuing education spending with personal income in tax policy.

### ***3.2.3 Housing rent expenditure.***

In terms of legislation, we should improve laws and regulations and strengthen supervision, standardize the housing rental market, and prevent false rents and lease contracts, so as to ensure the effective implementation of the special deduction policy for housing rent, and appropriately raise the standard and upper limit of the special deduction for housing rent, so as to reflect the rising rent level. This could reduce the tax burden on renters, especially in areas with high home prices. At the judicial level, the government should regularly evaluate the effect of special housing rent deduction policy, and adjust according to the actual situation, the housing rent special deduction policy to expand to more types of housing, such as rental apartment, elderly apartment, student apartment, etc., in order to better regulate housing rent deduction, prevent the abuse of special deduction. Taking the above suggestions into consideration, the special deduction policy for housing rental can be better improved to make it more in line with the needs of renters and help promote the healthy development of the housing rental market. This will also help to improve the fairness and transparency of the personal income tax system.

### ***3.2.4 Medical expenditure for serious diseases.***

At present, there is no unified definition of major diseases in China. Usually, more than 20 diseases, such as uremia, childhood leukemia, childhood congenital heart disease, lung cancer, esophageal cancer and gastric cancer, are included in the scope of medical assistance for serious diseases.<sup>[5]</sup> Therefore, this paper holds that the cost of medical expenses for serious diseases should be supplemented according to the needs of the treatment of different major diseases, rather than limited to the medical expenses. In addition, to avoid controversy and abuse, the government can work with medical experts and institutions to clarify the scope and diagnostic criteria for serious diseases and ensure that only those who really need serious disease treatment can enjoy the deduction. The government also needs to formulate clear deduction standards and limits, and determine the deduction amount of taxpayers according to the diagnostic opinions issued by medical experts and institutions, so as to ensure that taxpayers can obtain corresponding tax incentives according to their medical expenses.

### ***3.2.5 Support the old.***

The special additional deduction for supporting the elderly does not take into account the different burden difference caused by the different number of supporting the elderly. According to the interim measures for special individual income tax additional deduction, support a 60 + old man can enjoy 2000 yuan per month, regardless of the number, the old man has many children by children deduction of 2000 yuan, this paper thinks should clearly support the elderly special deduction support policy, including the definition of family members, the requirements of the support relationship, etc., in order to reduce abuse and controversy. With the aggravation of the aging population, the burden of supporting the elderly is increasing, so the standard and upper limit of the special deduction for supporting the elderly should be appropriately raised to reflect the rise of the living cost of the elderly. More types of supporting the elderly, such as raising parents or grandparents, should be considered to meet the support needs of different families.

In addition, this paper believes that the dependants can be divided into two main age groups by age: 60 to 80 years and 80 years and above. For different age groups, the government can set different deduction standards to reflect the actual differences in the living expenses, medical expenses for serious diseases and nursing expenses of different age groups. In the case that the number of taxpayers or their spouses is more than two, the government can consider increasing the deduction amount, so that the deduction policy can better promote the fairness of the alimony deduction between different families.

#### 4. Conclusions

This article combines the current situation of China's personal income tax special deduction policy and existing research and literature, and integrates relevant data to propose suggestions on how to improve the special deduction policy for households in different regions and situations. Through research, it is found that improving special deductions requires the government to comprehensively consider multiple aspects such as tax fairness, efficiency, and sustainability, in order to continuously improve policies and better meet national economic and social needs.

#### Acknowledgements

In the course of selecting and designing the topic, this paper was supported by the National 2023 innovation and Entrepreneurship Training Support Project for college students (project approval number 202310641047) and guided by several teachers from the Department of Law and Public Administration of Yibin University, thank you.

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