

# Effect Analysis and Improvement Direction of Tax and Fee Reduction—Taking Inner Mongolia as an Example

Yani Chen

*School of Economics and Management, Inner Mongolia University of Technology, Hohhot, 010000, China*

**Abstract:** *With the change of the economic reality of our country, the policy of tax reduction and fee reduction came into being and has been thoroughly implemented. In the 2021 government Work report, the optimization and implementation of tax reduction policy will still be one of the key work of this year. This paper first expounds the necessity of implementing the policy of tax reduction and fee reduction, then analyzes the main effects of tax reduction and fee reduction in Inner Mongolia from the macro and micro perspectives based on the relevant data of tax income and social insurance income in Inner Mongolia from 2017 to 2021, discusses the shortcomings existing in the implementation, and finally puts forward specific suggestions for improving the efficiency of tax reduction and fee reduction policy: Strengthen the implementation of tax reduction policy, improve the ability of tax payment service, improve the social insurance system.*

**Keywords:** *Tax and fee reduction; Policy effect; Macro tax burden*

## 1. Introduction

Nowadays, China is in the transition period of economic growth from the stage of high-speed growth to the stage of high-quality development. The economy is facing downward pressure, and the business situation of enterprises is not optimistic, especially for small, medium and micro enterprises, facing greater difficulties. Based on the new development stage, in order to reduce the cost of enterprises and promote the survival and development of enterprises, the government began to implement the policy of "tax and fee reduction". Tax and fee cuts have always been one of the key tasks of the government. The 2021 Government report once again pointed out that in order to restore the vitality of market players, local governments should implement tax reduction policies in a timely manner to ensure that market players enjoy their full benefits. The so-called policy of tax and fee reduction refers to tax reduction and reduction of government charges, social security contributions, business service charges, enterprise financing costs and other fees (Zang Jianwen et al., 2022)<sup>[1]</sup>. For example, the VAT rate has been reduced from four levels to three, and has been lowered continuously. Various tax categories, such as the increase in the proportion of additional deductions for research and development expenses, have reflected the increasing strength of tax incentives. We also reduced social insurance premiums and eased the pressure on enterprises and individuals to pay social insurance premiums. Since its implementation, the policy of tax and fee reduction has been upgraded from weak to strong and has achieved remarkable results. Yan Kun and Yu Shuyi (2018) showed through research that a series of tax reduction measures introduced in China played a pivotal<sup>[2]</sup> role in reducing the tax burden of enterprises, promoting supply-side structural reform and maintaining medium-high economic growth.

However, in the case of many tax reduction policies, the actual effect is limited, and enterprises still have a strong "sense of tax burden". Scholars devote themselves to studying the causes and express various opinions and ideas. Li Shuijun (2020) believes that the structure of government revenue, tax system and expenditure will affect the sense of gain of tax and fee reduction policies. <sup>[3]</sup>Pang Fengxi and Niu Li (2019) proposed that the effect of comprehensively implementing tax cuts is related to the transmission mechanism of enterprises' production and operation behavior influenced by the policy, as well as the characteristics<sup>[4]</sup> of the industry, domestic and foreign market conditions, bargaining power of trading partners and other factors.

Through the introduction of the connotation of tax reduction and fee reduction policy, the elaboration of its significant effects and the analysis of its shortcomings, this paper tries to prove that: The necessity

and rationality of the implementation of the policy of tax reduction and fee reduction, let everyone deeply feel its significant impact on the economy and society as well as the real preference for market players, so as to eliminate all obstacles as far as possible for the implementation of the policy of tax reduction and fee reduction, and promote its continuous and in-depth implementation.

## 2. The necessity analysis of the implementation of the policy of tax and fee reduction

At present, China's economic development is in a period of great transition. Facing increasing downward pressure on the domestic economy and complex international economic situation, implementing policies of tax and fee cuts on a larger scale will have a very important impact on high-quality economic development, job creation and people's livelihood.

From the perspective of supply and demand, the Keynesian school believes that the lack of effective demand is the main cause of economic crisis. To eliminate economic crisis and stimulate economic growth, it is necessary to expand the total social demand through government intervention. The fundamental purpose of government tax and fee reduction is to implement active fiscal policies to stimulate total social demand by expanding consumption and investment demand, and finally alleviate economic contradictions and stimulate economic growth (Yuan Ling and Xu Qing, 2020)<sup>[5]</sup>.

From the perspective of tax itself, high tax burden will inhibit economic development. Tax revenue may initially increase with the increase in tax rates, but it may decline after the tax rate reaches a certain point. In the long run, the implementation of tax reduction policies can broaden the tax base, which is not only conducive to the increase of tax revenue, but also promote sustained economic growth.

From the macro and micro perspectives, firstly, the implementation of tax reduction and fee reduction policies can not only reduce the tax burden of enterprises' production and operation, reduce the operating costs of enterprises, and promote the decline of commodity prices, thus stimulating consumption. At the same time, it can improve profits and create a favorable business environment, thus stimulating investment vitality. Second, tax cuts will increase personal disposable income, which will also boost consumption growth. Third, the increase<sup>[6]</sup> of export tax rebate rate in some industries plays an important role in reducing export costs of foreign trade enterprises and promoting export growth (Dong Huajie, 2020). In a word, tax reduction is conducive to promoting the coordinated development of production, consumption, export and investment. At the same time, the government also introduced a series of structural tax reduction policies for high-tech manufacturing and environment-friendly enterprises, which greatly helped guide industrial upgrading, optimize the economic structure and promote high-quality economic development.

## 3. An analysis of the effect of tax and fee reduction policies

### 3.1 Macro perspective analysis

#### 3.1.1 Overall effect analysis

Table 1: Macro tax burden in Inner Mongolia

Project	2017	2018	2019	2020	2021
Total tax revenue (ten thousand Yuan)	12869000	13999000	15397000	14578000	16710000
Gross regional product (in ten thousand yuan)	161032000	172892000	172125000	173598000	205142000
Macro tax burden rate	7.99%	8.10%	8.95%	8.40%	8.15%

Data source: Statistical Bulletin of National Economic and Social Development in Inner Mongolia (2017-2021)

In this paper, the tax revenue and gross domestic product data of Inner Mongolia from 2017 to 2021 are used to analyze the effect of Inner Mongolia tax reduction and fee reduction policies on the overall regional macro tax burden. Where, the macro tax burden rate = total tax revenue/gross regional product. In combination with Table 1, it can be found that the GDP of Inner Mongolia is on the rise, while the macro tax burden rate on the whole shows a trend of first rising and then declining. In 2020, the tax burden rate begins to decline significantly, with a year-on-year decrease of 0.55%. In other words, while achieving economic development in Inner Mongolia, the tax revenue does not increase in the same proportion. This effectively alleviates the pressure of tax cost for enterprises.

### 3.1.2 Analysis of social insurance expenses

With the standardization of the management of social insurance premiums, the total income of social insurance premiums collected in Inner Mongolia has been on the rise, increasing from 86,359 billion yuan in 2017 to 91,045 billion yuan in 2019, but will reach 85,948 billion yuan in 2020, a year-on-year decrease of 5.6%. This phenomenon may be caused by the outbreak of the novel coronavirus in 2020, the overall economic downturn, the decline in income, resulting in a year-on-year decline in social insurance income; At the same time, in order to ease the pressure on enterprises, the government lowered the rates of pension insurance and industrial injury insurance, which resulted in the decrease of social insurance income. It is worth mentioning that the pension insurance, the main part of social insurance, continues to decline, from 62.508 billion yuan in 2017 to 53.226 billion yuan in 2020, especially in 2020, the most obvious, down 11.41% compared with the previous year, the policy effect of tax and fee reduction has begun to bear fruit.

### 3.2 Analysis from the micro perspective

Firstly, by comparing the relevant data of 46 small and medium-sized enterprises listed on the New Third Board in Inner Mongolia, this paper analyzes the tax burden impact of tax reduction policy on micro enterprises. Among them, the tax burden rate of income tax is measured by income tax/business revenue. As can be seen from Table 2, the income tax burden rate of sample enterprises from 2017 to 2020 is in a free fall. As a relative index, the tax burden rate is more comparative. It decreased from 1.26% in 2017 to 0.51% in 2020, which can be said to significantly reduce the tax cost of enterprises and make a significant contribution to the improvement of enterprises' profit margin. However, in 2021, the tax burden rate increased to 0.61%, indicating that the effect of the policy of tax and fee reduction is not stable.

Table 2: Changes of income tax burden of listed enterprises on the New Third Board in Inner Mongolia

project	2017	2018	2019	2020	2021
Operating revenue	967668.04	1016383.00	1244806	1293605.12	1386355.89
Income tax expense	12179.47	7637.29	8013.15	6596.55	8475.11
Corporate income tax burden rate	1.26%	0.75%	0.64%	0.51%	0.61%

Source: wind Database

Secondly, this paper collects and collates the per capita disposable income and living consumption expenditure of urban and rural residents in Inner Mongolia from the statistical data of Inner Mongolia during 2017-2021, and analyzes the impact of tax and fee reduction policies on the income and consumption level of urban and rural residents. According to Table 3, the per capita disposable income of urban residents and farmers and herdsmen in 2017 was 35,670 yuan and 12,584 yuan respectively. After increasing year by year, the per capita disposable income in 2021 reached 44,377 yuan and 18,337 yuan, with growth rates of 24.41% and 45.72% respectively. At the same time, with the growth of disposable income, it can be seen from Table 4 that the per capita consumption expenditure of urban residents and farmers and herdsmen also increases. Specifically, from 2017 to 2021, the per capita expenditure on living consumption rose on the whole. Under the influence of the sudden epidemic, it declined in 2020, but under the effective prevention and control of the epidemic in 2021, the per capita expenditure on living consumption rose rapidly. In a word, the disposable income and living consumption expenditure of all residents are on the rise, and the quality of life of the people has been significantly improved.

Table 3: Disposable income of residents in Inner Mongolia

Project	2017	2018	2019	2020	2021
Per capita Disposable income of all residents (Yuan)	26212	28376	30555	31497	34108
Per capita disposable income of urban residents (yuan)	35670	38305	40782	41353	44377
Per capita disposable income of farmers and herdsmen (yuan)	12584	13803	15283	16567	18337

Data source: Inner Mongolia Statistical Yearbook 2017-2021

Table 4: Living consumption expenditure table of Inner Mongolia residents

Project	2017	2018	2019	2020	2021
Per capita living expenditure of all residents (Yuan)	18946	19665	20743	19794	22658
Per capita living consumption expenditure of permanent urban residents (Yuan)	23638	24437	25383	23888	27194
Per capita living consumption expenditure of Permanent residents in rural and pastoral areas (Yuan)	11463	12184	12661	13594	15691

Data source: Inner Mongolia Statistical Yearbook 2017-2021

#### **4. Analysis of problems in the implementation of tax and fee reduction policies in Inner Mongolia**

The implementation of tax reduction and fee reduction policy has achieved great results in reducing tax burden, increasing residents' income and stimulating consumption, but there are still deficiencies in the implementation process, which need to be further improved to maximize the effect of tax reduction and fee reduction policy.

##### ***4.1 Problems in tax reduction***

###### ***4.1.1 Enterprises do not have a strong sense of gain***

Generally speaking, tax reduction and fee reduction policies bring tax burden reduction benefits to enterprises, but different enterprises have different sense of preferential access. For some enterprises, the reason is not strong sense of preferential access is as follows: on the one hand, preferential policies are numerous and trivial, which makes it difficult for financial personnel to fully grasp, so that all policies can be used; On the other hand, there is a delay from the formulation to the implementation of the policy, and some preferential policies also have a lag, which makes the implementation of tax reduction and fee policies insufficient.

###### ***4.1.2 The level of tax service needs to be improved***

On the one hand, many tax reduction policies have been introduced in our country in recent years, and some of them have a stage stage, which requires that the specific contents, enjoyment standards and so on of each tax reduction policy should be vigorously publicized for taxpayers to know and take advantage of. In fact, although the tax department has carried out publicity on the official website and the public account, but the lack of specific and targeted publicity on the tax reduction policy, and the intensity of publicity is not enough, the publicity is relatively single, resulting in some enterprises do not know much about the latest policy, and fail to enjoy tax incentives in time. On the other hand, the imperfect tax service system makes it difficult for tax authorities to accurately provide specific and convenient services for different enterprises when taxpayers encounter problems in the various processes of tax declaration and payment, tax reduction and exemption, tax refund, etc., thus affecting the implementation of tax preferential policies (Li Jia, 2020<sup>[7]</sup>).

##### ***4.2 Existing problems in collecting social insurance premiums***

###### ***4.2.1 Micro subjects do not have a strong sense of insurance participation, and social insurance is not fully covered***

For the sake of their own development and survival, enterprises would rather bear the risk of being fined for underpayment or omission of social insurance, but also reduce their expenses by not offering employees insurance. And some employees with low wages also get higher wages by not participating in the insurance for short-term gains; In particular, laid-off workers, freelancers, floating population and other social groups have weak insurance concepts. Therefore, under the existing imperfect withholding system of social insurance premiums, comprehensive coverage<sup>[8]</sup> of workers from all walks of life cannot be realized (Wang Lu, 2020).

###### ***4.2.2 The burden of social insurance premium is heavy***

According to the provisions of the social insurance withholding system, social insurance is paid in a certain proportion based on the basic salary of employees. According to the calculation, the proportion of social insurance paid by enterprises can account for more than 26% of the total basic salary of employees, and the proportion of social insurance paid by individuals accounts for 10% of the total salary of employees. This is a large cost for both enterprises and employees. But at present, for enterprises and individuals, social security costs are still a relatively heavy burden. This restrains the creation of corporate profits and the improvement of personal income levels.

## 5. Policy suggestions

### **5.1 Further enhance the effectiveness of tax reduction by strengthening the implementation of tax reduction policies and improving the ability to provide tax service**

#### **5.1.1 Accelerating policy implementation and implementation**

Speed up the pace of policy implementation, reduce unnecessary approval and transmission processes, so that the issued policies are quickly communicated to the grassroots; In the actual work at the grassroots level, the handling procedure and submission of materials should be simplified as far as possible to promote the rapid implementation of preferential policies.

#### **5.1.2 Strengthen the publicity and guidance of tax policies**

For each newly promulgated tax preferential policies, they should be supplemented by detailed policy interpretation or combined with typical cases to improve the practicality of taxpayers enjoying preferential policies. In addition, various forms of publicity should be adopted, such as regular tax promotion, promotion on wechat, Douyin and other new media platforms through cartoons, videos and other new forms, to strengthen publicity and guidance, so that taxpayers can enjoy the preferential policies in a timely manner.

#### **5.1.3 Improve the service awareness of tax administration**

It is suggested to train tax workers regularly to grasp the latest tax policies in time; And introduce more highly educated professionals to build a team with high business capability. Vigorously cultivate the service concept and business skills of tax workers. When taxpayers encounter tax problems, they can consult through telephone or other convenient channels. Tax workers can provide timely targeted and accurate suggestions to truly solve the actual needs of taxpayers and improve the sense of tax incentives for taxpayers.

### **5.2 Reduce the burden of social security expenses for enterprises, improve the social insurance system, and further promote the policy of tax and fee reduction**

#### **5.2.1 Expand the coverage of social insurance and promote universal participation in it**

For small, low-profit enterprises and high-tech enterprises, we will implement a structural fee reduction policy while implementing an inclusive fee reduction policy, and reduce the burden of social insurance premiums on individuals and enterprises by lowering social insurance rates and other measures. We will intensify publicity and education on the significance of social insurance premiums for the common people, raise the awareness of the whole people to pay social insurance premiums, raise the enthusiasm of the people to participate in insurance, and achieve full coverage of social insurance to the maximum extent possible.

#### **5.2.2. Further reduce the burden of social insurance premiums**

We will lower the base of social insurance contributions and the premium rates at a deeper level, raise the pooling of social insurance premiums across the country, and further reduce the burden of social insurance premiums on enterprises and individuals on the basis of ensuring the benefits of social insurance payers. In addition, we should pay attention to the management of social insurance funds, conduct professional investment management on them, and realize the investment appreciation of social insurance funds, which can not only reduce the pressure of paying the premiums of the whole society, but also contribute to the long-term and sustainable utilization of social insurance.

## References

- [1] Zang Jianwen, Li Mo, Li Weiguang, Liu Yan. [J]. *Southern Economics*, 2022(07): 1-18.
- [2] Yan Kun, Yu Shuyi. *Opening a new era of tax reduction and fee reduction: Expanding policy space by reducing "tax sense"*. *Tax Research*, 2018(03): 3-9.
- [3] Li Shuijun. *Effect of Tax reduction and fee policy: Macro-constraint and micro-subject perception* [J]. *Tax Research*, 2020(10): 107-112.
- [4] Pang Fengxi, Niu Li. [J]. *Tax Research*, 2019(02): 5-11.
- [5] Yuan Ling, Xu Qing. *Effect analysis of Tax reduction Policy from micro perspective* [J]. *Journal of Jilin Institute of Technology and Business*, 2020(04): 70-75.

[6] Dong H J. *Effect analysis of Tax and fee reduction policies in China [J]. China Finance, 2020(05): 21-24. (In Chinese)*

[7] Li Jia. *Discussion on the implementation of tax reduction and fee policy and countermeasures [J]. Tax Payment, 2020(15): 8-9.*

[8] Wang Lu. *Influence of Social Insurance Premium Policy Adjustment on Small and medium-sized enterprises and Countermeasures [J]. Modern Enterprise, 2020(02): 67-68.*