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Teaching Reform of a Graduate Course in Modern Tax Theory and Institutional Innovation: A Problem-Oriented and Research-Integrated Framework

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Abstract: *Modern Tax Theory and Institutional Innovation is a core degree course for master's students in Applied Economics, charged with connecting the discipline's four research directions: the modern fiscal and taxation system, digital finance, the international economy and the evolution of business, and industrial digitalization and regional innovation. Faced with the high-frequency iteration of institutions—value-added tax (VAT) legislation, consumption-tax reform, and the international "Two-Pillar" tax overhaul, among others—the traditional teaching model, organized around textbook chapters and dominated by the exposition of statutory provisions, is systematically misaligned with the goal of cultivating graduate students' capacity for innovation, across teaching content, teaching methods, and assessment. On the basis of an analysis of the course's characteristics and pedagogical pain points, this paper proposes a reform approach grounded in the core principles of "problem orientation, research–teaching integration, and outcomes orientation," threaded throughout by the central thesis that "institutional innovation is essentially the outcome of a multi-party game among the central government, local governments, and enterprises." It sets out concrete reform measures along six dimensions—content restructuring and dynamic updating, seminar-based and project-based teaching, research–teaching integration, digital empowerment, the organic embedding of ideological-political education, and diversified process-oriented assessment—and concludes by discussing the reform's effects, real-world challenges, and directions for continuous improvement, with a view to offering a reference for the pedagogical reform of comparable frontier-oriented, institution-focused graduate courses.*

Keywords: *Modern Tax Theory and Institutional Innovation; graduate teaching; problem-based learning; research–teaching integration; ideological-political education in the curriculum; institutional innovation*

1. Introduction: The Background and Significance of the Reform

Public finance is the foundation and an important pillar of national governance, and the tax system is the load-bearing core of that pillar. The Third Plenary Session of the 20th Central Committee of the CPC set out a systematic blueprint for a new round of fiscal and taxation reform [3], explicitly calling for a tax system conducive to high-quality development, social equity, and a unified market; the full implementation of the principle of statutory taxation; the study of tax rules suited to new business forms; and a series of arrangements to increase local governments' own fiscal resources, to shift the collection of the consumption tax to a later stage and steadily devolve it to local governments, to improve the direct-tax system, and to refine the individual income tax that combines comprehensive and categorized elements. This signals that, in the period ahead, China's tax system will enter a phase of intensive adjustment and deep restructuring.

Accompanying this reform blueprint is the unprecedented speed at which the tax system itself is iterating. As China's largest tax category—accounting for nearly forty percent of national tax revenue—the value-added tax now has its own dedicated statute: the Value-Added Tax Law of the People's Republic of China took effect on January 1, 2026[1], with its supporting Implementing Regulations entering into force simultaneously [2]. With this, fourteen of China's eighteen current tax categories have been enacted into law, marking landmark progress in implementing the principle of statutory taxation. Internationally, Pillar Two of the OECD's "Two-Pillar" Solution [4]—the global minimum tax—has taken effect in numerous jurisdictions since 2024; in early 2026 the OECD issued further administrative guidance finalizing a "side-by-side" implementation arrangement with the United States system, and the

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deadline for the first Global Anti-Base Erosion information return likewise falls in 2026. In short, the “institutions” this course teaches are being rewritten almost every semester.

Against this backdrop, the goal of graduate education is shifting rapidly from the transmission of knowledge toward the cultivation of research and innovation capacity. Modern Tax Theory and Institutional Innovation is a core degree course for master’s students in Applied Economics, carrying 2 credits and 36 class hours; its predecessor was the more traditional course Studies in Tax Theory. The course was renamed and rebuilt precisely to respond to the new demands that the discipline’s four research directions—the modern fiscal and taxation system, digital finance, the international economy and the evolution of business, and industrial digitalization and regional innovation—place on students’ knowledge structure and analytical ability.

Yet a core degree course that simultaneously bears the dual mission of “theory and institutions” and must stay abreast of the frontier will, if it continues to follow the traditional model—ordered by textbook chapters, dominated by the exposition of provisions, and capped by a closed-book final examination—inevitably become systematically misaligned with its training objectives on three levels: content that “cannot stay current,” methods that “cannot get students moving,” and assessment that “cannot reveal research ability.” Taking this course as its object, this paper analyzes its characteristics and pedagogical pain points and then proposes and argues for a reform program built on the pillars of problem orientation, research–teaching integration, and value guidance, while reflecting on the reform’s effects and challenges.

2. Course Characteristics and the Main Problems in Current Teaching

Sound pedagogical reform must rest on an accurate grasp of a course’s own regularities. Compared with general economic-theory courses, Modern Tax Theory and Institutional Innovation has four salient features. First, it weighs theory and institutions equally: the course must teach normative theories such as optimal taxation, tax competition, and mechanism design, examining the evolutionary logic of specific tax institutions, and neither should be neglected. Second, its institutions update quickly and are highly time-sensitive: tax laws, rates, administrative rules, and even international rules are frequently adjusted, so a textbook risks becoming outdated as soon as it is published. Third, it is markedly interdisciplinary, spanning economics, public finance, law, and public administration, and requiring students to command analytical tools from multiple disciplines. Fourth, it is strongly policy-oriented and practice-oriented, and must serve several of the discipline’s research directions at once, which places higher demands on the breadth of its content and its mode of organization.

It is precisely these features that magnify the limitations of the traditional teaching model, which are manifested in the following six major problems.

First, teaching content lags behind institutional change. A textbook-centered organization of content struggles to incorporate the latest developments—VAT legislation, the later-stage collection and local devolution of the consumption tax, the landing of Pillar Two—in a timely way, so that students often learn the “previous version” of the tax system, detached from reality and from the policy context.

Second, knowledge transmission is overemphasized at the expense of capacity-building, and the memorization of provisions at the expense of logical insight. Traditional lecturing tends to stop at the level of “what” and to avoid “why”. Why do local governments engage in a race to the bottom to attract investment? Why is the platform economy so hard to tax? These are exactly the core questions that the theories of tax competition and mechanism design can explain. Lacking theoretical insight, students can only memorize the surface conclusions of institutions and find it hard to develop an independent capacity for institutional analysis.

Third, one-way lecturing predominates, and student participation in the graduate classroom is low. The essence of graduate education is research training, but a lecture-saturated classroom keeps students in a passive learning mode, with few opportunities for reading the literature, exchanging and contesting viewpoints, or inquiring collaboratively—making it difficult to cultivate the problem awareness and critical thinking a researcher should have.

Fourth, theory is disconnected from the practice of China’s tax reform and loosely linked to the discipline’s research directions. If the course merely introduces Western normative theory, it can neither address major domestic issues such as central–local fiscal relations and regional tax coordination, nor effectively support research directions such as digital finance and industrial digitalization and regional innovation, thereby weakening the course’s role in guiding students toward research topics.

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Fifth, assessment emphasizes memorization over research. Assessment dominated by closed-book written examinations and the reproduction of knowledge points steers students toward rote learning; it can neither test their capacity for institutional analysis and policy evaluation nor accord with the outcomes-oriented philosophy of graduate training.

Sixth, ideological-political education is embedded stiffly and as mere labeling. Taxation is a hub of national governance and value distribution and is rich in resources for value education; but if such education is bolted on through external preaching, it dilutes the professional content and provokes student resistance, making it hard to achieve resonance between value guidance and knowledge transmission.

3. The Philosophy and Overall Approach of the Reform

In response to the problems above, the reform of this course establishes a tripartite core philosophy of “problem orientation, research–teaching integration, and outcomes orientation,” with value guidance running throughout. Problem orientation, or problem-based learning (PBL), emphasizes driving learning with authentic institutional problems, so that students construct knowledge while analyzing and solving them. Research–teaching integration emphasizes promoting teaching through research and letting the two reinforce each other, converting the instructor’s research resources into teaching content. Outcomes-based education (OBE) emphasizes designing the entire teaching process backward from expected learning outcomes, so that content, methods, and assessment cohere from beginning to end. Value guidance requires embedding ideological-political education organically into the professional fabric of the course, achieving a unity of knowledge, ability, and values.

In organizing content, the course establishes a logical throughline that runs from start to finish: institutional innovation is essentially the outcome of repeated games among multiple actors—the central government, local governments, and enterprises. This throughline subsumes seemingly scattered tax topics under a unified analytical framework: tax competition is a game among local governments; the adjustment of central–local revenue sharing is a game between the center and localities; the design of a digital tax regime is a game between government and platform enterprises; and international tax reform is a game among sovereign states. Using “incentives and mechanism design” as the theoretical hook satisfies the degree course’s requirement that theory take precedence, while also giving the course a consistent intellectual tension, so that what students learn is not isolated provisions but the “underlying code” for seeing through institutional change.

Around this philosophy and throughline, the reform strives to achieve “three shifts”: in objectives, from a knowledge-centered to a capacity-centered orientation; in content, from textbook-centered to problem-centered; and in method, from one-way lecturing to collaborative seminar-style co-creation. Correspondingly, the course distills its expected learning outcomes into four core competencies that constitute the “competency map” of the instructional design: first, the capacity for institutional analysis—using economic theory to explain the formation and evolution of tax institutions; second, the capacity for policy evaluation—conducting normative and empirical analysis of the effects of specific tax policies; third, the capacity for research and innovation—identifying problems, searching the literature, designing research, and producing communicable scholarly results; and fourth, the capacity for value judgment—making well-grounded value trade-offs amid the multiple tensions between efficiency and equity, center and locality, and state and enterprise.

4. Concrete Measures of the Reform

4.1. Restructuring of Content and an Annual Dynamic-Updating Mechanism

Guided by the four research directions, the 36 class hours are restructured into four progressively layered modules. Part One, “Frontiers of Modern Tax Theory” (about 8 hours), teaches optimal-taxation theory, the theory of tax competition (the Tiebout model and yardstick competition), and tax contracts and incentive mechanisms, laying the theoretical foundation for the whole course and introducing the game-theoretic perspective in a concentrated way. Part Two, “Optimization of the Modern Tax Structure” (about 10 hours), focuses on the logic of China’s tax reform, the building of the local tax system and central–local games, and mechanisms of regional tax coordination, using the Yangtze River Delta and the Guangdong–Hong Kong–Macao Greater Bay Area as representative settings, responding to the “modern fiscal system” and “regional innovation” directions. Part Three, “The Digital Economy and Institutional Innovation” (about 10 hours), examines the taxation of data as a factor of production, the

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tax governance of the platform economy, and tax incentives for industrial digitalization (such as the super-deduction for R&D expenses and the recognition of high- and new-technology enterprises), connecting to the “industrial digitalization” and “digital finance” directions. Part Four, “Globalization and the Reconstruction of the Tax System” (about 8 hours), analyzes international frontiers such as the “Two-Pillar” Solution and the taxation of cross-border digital trade, echoing the “international economy and evolution of business” direction.

The key complement to content restructuring is the establishment of an annual dynamic-updating mechanism for teaching content. Before each academic year begins, the course team systematically refreshes the cases and materials of each module in light of the year’s latest legislation, policies, and developments in international rules. For the 2026 academic year, for instance, the newly effective VAT Law and its Implementing Regulations can serve as a vivid case of “statutory taxation” and “institutional carry-over,” while the OECD’s “side-by-side” administrative arrangement [4] for Pillar Two finalized that year can serve as the latest footnote to the game of international taxation. In this way teaching content stays continuously synchronized with the institutional frontier, fundamentally curing the chronic problem of content that “cannot stay current.”

4.2. Innovation in Teaching Methods: Seminar-Based and Project-Based Learning

The core of method reform is to transform the classroom from “the teacher talks, the students listen” into a scholarly community of “joint inquiry.” The first form is the literature-reading seminar: for each module, classic and frontier readings are selected; students take turns leading the reading while the whole class questions and debates, and the instructor comments and distills—training students’ command of the literature and their critical ability. The second is the discussion of authentic institutional cases: cases with genuine tension, both Chinese and international, are selected—such as the effect of devolving the consumption tax on local-government behavior, the governance of “tax depressions” and vicious regional competition, the administrative challenges of platform employment and live-streaming commerce, and the impact of Pillar Two on China’s investment-attraction incentives—guiding students to use theoretical frameworks to dissect the multi-party games within them. The third is the project-based “mechanism-design workshop”: students take on a simulated task in groups—such as designing a tax-incentive scheme for a free-trade zone that attracts investment without triggering a race to the bottom, or evaluating the effect of a tax-cut policy on industrial innovation—turning theory into the abilities of design and evaluation by “learning through doing.”

4.3. Research–Teaching Integration: Converting Research Potential into Teaching Energy

Research–teaching integration is what distinguishes a graduate course from an undergraduate one. There are three concrete pathways. The first is “bringing projects into the classroom”: instructors distill their own research projects, policy-advisory experience, and field data in the fiscal-tax field into teaching topics and discussion materials, authentic institutional problems and first-hand sources. The second is “bringing research into the process”: students are guided to complete the full workflow of a small study within the course—from posing a question, searching the literature, and collecting data, to reaching conclusions—and those who are able are encouraged to extend their coursework into thesis topics or conference submissions. The third is “bringing outputs into assessment”: well-crafted policy commentaries, literature reviews, or working papers are counted in the assessment, so that the course’s outputs themselves possess scholarly value. Through these pathways, research is no longer “something else” outside the classroom but an organic part of both teaching content and training methods.

4.4. Digital Empowerment and Scenario-Based Teaching of “Governing Taxation through Data”

Digital technology is both an object of study in this course and one of its instructional means. On the one hand, the philosophy of “governing taxation through data,” the Golden Tax Project, and the digitalization of administration through electronic invoicing are treated as important teaching content, guiding students to understand how technology reshapes the relationship between collector and taxpayer and the design of institutions. On the other hand, digital tools are employed to enhance teaching: tax big-data cases and visual analysis are introduced; an online repository of policies and literature is built so that students can search the latest rules at any time; and virtual simulation is explored to recreate the decision-making scenarios of tax administration or tax-system design, enhancing the sense of participation and realism in learning. The purpose of digital empowerment is not simply to add more technology, but to make abstract institutional logic observable, operable, and amenable to inference.

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4.5. The Organic Embedding of Ideological-Political Education

The field of taxation is naturally rich in resources for value education; the key lies in "organic embedding" rather than "external preaching." Value guidance can be embedded naturally at the joints of the professional content: when teaching VAT legislation, by explaining the rule-of-law significance of "public finance as the foundation and an important pillar of national governance" and of fully implementing the principle of statutory taxation; when teaching the income-distribution function of the tax system, by linking it to the goal of common prosperity and guiding students to consider the role of taxation in promoting social equity; when teaching central–local relations and regional coordination, by appreciating the institutional wisdom required for the modernization of national governance; and when teaching international tax reforms such as the "Two-Pillar" Solution, by using China's deep participation in shaping global tax-governance rules to deepen students' understanding of, and confidence in, China's institutions and its path of reform. In this way value guidance resonates with professional training, and the ideological-political elements dissolve "like salt in water," nourishing silently.

4.6. Reform of Assessment: Diversified, Process-Oriented Evaluation

Assessment is the "baton" of teaching. On the principle of outcomes orientation, the reform builds a diversified evaluation system covering the whole learning process, reducing the weight of a single closed-book final and replacing it with several output-oriented tasks that can test research ability: a literature review to assess command of scholarship; a policy commentary to assess the capacity for institutional analysis and expression; a term paper to assess comprehensive research ability; seminar performance to assess participation, reasoning, and collaboration; and the scheme and defense of the "mechanism-design workshop" to assess application and innovation. The tasks are combined into a final grade by set weights, and the evaluation rubric is made public to students so that the standards are transparent and traceable. Process-oriented, output-oriented assessment both truly reflects the increment in students' ability and, in turn, pulls them toward research-oriented learning.

5. Effects of the Reform and Reflection

From the standpoint of teaching practice, the reforms above are expected to produce positive effects on three levels. The first is an improved classroom ecology: seminar-based and project-based teaching markedly improves students' attendance and participation, turning the classroom from "silent listening" into "lively exchange." The second is enhanced research ability: through repeated training in reading the literature, writing policy commentary, and conducting small studies, students' problem awareness, command of the literature, and scholarly expression improve noticeably, and some coursework can be developed further into thesis topics or conference papers. The third is the manifestation of educational outcomes: the organic embedding of value guidance deepens students' understanding of, and identification with, the logic of the nation's fiscal-tax reform and governance, even as they master professional knowledge.

At the same time, the reform faces several real challenges that must be confronted rationally. First, it places higher demands on instructors: they must not only keep tracking the institutional frontier and refresh teaching content, but also possess the combined abilities to organize seminars, supervise research, and design projects—significantly increasing the investment in preparation and in student development. Second, dynamic content updating brings a continuous burden: the high frequency of tax changes means cases and materials must be updated year after year, which can be sustained only through institutionalized division of labor and the accumulation of resources within the course team. Third, students differ in their foundations: master's students in Applied Economics come largely from across disciplines, with uneven backgrounds in economics, law, and econometrics, so seminars and project work need to be supplemented with necessary prerequisite guidance and tiered support. Fourth, the constraint of class hours is evident: within 36 hours the course must both guarantee theoretical depth and unfold ample discussion and project practice, which requires careful design in the selection of content and the coordination of in-class and out-of-class work, making good use of online resources to extend the time and space of learning.

In response to these challenges, the course can pursue continuous improvement along three lines: establishing a long-term mechanism for course-team collaboration and a teaching-resource repository to distribute the pressure of content updating; easing the constraint of class hours through a blended arrangement of "online pre-class preview, in-class deepening of discussion, and post-class extension into

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research"; and, through ongoing feedback on learning and teaching evaluation, iteratively optimizing the module weights, the selection of cases, and the assessment rubric, so that the reform remains in dynamic calibration.

6. Conclusion

The pedagogical reform of Modern Tax Theory and Institutional Innovation is, in essence, an effort to let teaching "catch up" with institutions and to make the classroom "worthy of" the objectives of graduate training. Activating thought through problem orientation, connecting research and study through research–teaching integration, driving outputs through outcomes orientation, and shaping character through value guidance—and fusing these four into an organic whole through the throughline that "institutional innovation is a multi-party game"—this approach applies not only to this course but also offers methodological reference for the pedagogical reform of other graduate courses that are at once frontier-oriented, institution-focused, and interdisciplinary. Reform, of course, is always a work in progress; only through continuous reflection and calibration in practice can this course, which carries the very foundation of national governance, truly become fertile ground for cultivating high-caliber researchers in public finance and taxation.

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