ISSN: 2710-0170

Research on the Improvement of China's Special Additional Deduction System for Children's Education of Individual Income Tax

Jiazhe Cheng

School of Civil Commercial and Economic Law, Henan University of Economics and Law, China

Abstract

China has implemented the new individual income Tax law since January 1, 2019. In order to further promote the implementation of tax reduction and fee reduction policy and reduce the burden of taxpayers, special additional deduction items were set for the first time. Changed the previous one-size-fits-all deduction method, so that the tax more in line with the principle of taxation. However, there is still some room for improvement in China's current special additional deduction system for children's education, considering children's different education stages, family structure differences and deduction standard design. Some advanced practices in the three aspects of foreign countries can be used for reference, suggestions can be adopted: (1) according to the different education stage to develop differentiated deduction standards; (2) The system design should pay enough attention to the family structure; 3. Scientifically design deduction standards and gradually improve the system of special additional deductions for children's education.

Keywords

Individual Income Tax: Special Additional Deduction; Children's Education; Tax Fair.

1. Problems in China's Special Additional Deduction System for Children's Education

(1) not considering different stages of education

Deducted from their children's education project with fixed deduction method, both in the nine-year compulsory education stage and higher education stage, the child deduction of 1000 yuan a month for each of the standard, the system design is simpler, for China's huge tax payment main body, is beneficial to reduce the tax collection and administration cost, improving collection efficiency and has certain practical significance. However, the design of deduction standard does not take into account the great differences in children's education expenditure in different education stages. The per capita family education expenditure is different in different education stages. The gap between preschool, primary school and junior high school education expenditure is small, and there is a big gap compared with senior high school. The per capita education expenditure of senior high school is about 2.5 times that of preschool and primary school, and about 2 times that of junior high school. This is because China's nine-year compulsory education, as a public welfare cause, does not charge tuition fees during the period of compulsory education, and usually only generates accommodation and board expenses. In high school, in addition to tuition fees, room and board expenses, there are also a large part of extracurricular tutoring expenses, which brings a great burden to families. The average education expenditure of the above stage is also different from that of the university stage. According to the 2017 White Paper on China's Family Education Consumption, education expenditure from primary school to regular high school accounts for 21 percent of a family's annual income, and 29 percent for college students. 15. This is because the living environment of college students receiving higher education is also improved compared with that of primary

ISSN: 2710-0170

and secondary schools. Both tuition fees and living costs will be increased, and the cost will be increased compared with that of primary and secondary schools. If the influence of the number of children is added, the difference of family children's education expenditure in different education stages will be more obvious. In addition, schools and public and private, the private school costs are much higher than that of public school, children education adopts unified standard can avoid the blind pursuit of private school ethos, on system design to avoid further education resource inequality, from this perspective, the unified standard more fairness. However, the current fixed deduction standard does not face the problem of differences in expenditure in different education stages, and fails to reflect the real tax capacity. Ignoring the differences in education expenditure at various stages and adopting a simple one-size-fits-all deduction standard will have a negative impact on the fairness of tax burden, which is not in line with the principle of quantity-energy affordability.

(2) The difference of family structure is not fully considered

Single - parent families and non-single - parent families in the cost of childbearing is very different. According to the 2020 Statistical Bulletin on the Development of Civil Affairs released by the Ministry of Civil Affairs on September 10, 2021, the marriage rate in China decreased from 8.3 per 1,000 in 2016 to 5.8 per 1,000 in 2020, and the divorce rate increased from 3.0 per 1,000 in 2016 to 3.1 per 1,000. The analysis of the reality of China's judicial practice shows that the younger the child, the higher the probability of being brought up by the mother. Considering the substantial increase in parenting costs after marriage breakdown, women in childbearing age will be more cautious about whether to have a second or third child. In addition to the breakdown of marriage, some families will lose their spouse before their children are brought up, which also causes a great economic burden for parents to bear the cost of children's education. At present, there is no special consideration for single-parent families in the special additional deduction system for children's education in our country. There is a big difference between the financial pressure of single-parent families and ordinary families in the cost of their children's education, and the two situations should not be confused. In the event of a marriage breakdown, the cost to the person who has custody is much higher than the cost to the person who only has to pay maintenance. In the case of the death of a spouse, the financial burden on the spouse is greater than that of the family in which the marriage breaks down. According TO the current deduction rules, either the choice of unilateral full deduction or the equal distribution of both parties is unfair to the tax fairness, and it is also against the principle of tax law.

In addition, families with different numbers of children bear different economic pressures. According to the current special additional deduction system for children's education, the increase in the number of children can only be deducted by a simple superposition of 1000 yuan before tax. But in fact, the impact of the increase in the number of children on the family economy is not simply additive. For example, the housing cost and the opportunity cost of parents taking care of the second and third children will increase exponentially. Mothers tend to significantly increase the amount of time and energy they invest in their families after giving birth. With the increase of the number of children, mothers are unable to take care of their children independently, and fathers are required to devote some time and energy to the family. An increase in the number of children will not only significantly reduce the labor supply of the mother, but also affect the labor supply of the father. With ZangWei, Xu Hongyan (2020) to have two children's impact on household income as a reference, it is demonstrated with the one-child family, by contrast, have two child brought home "income", in the long and short term negative effects were greater than the birth of a child, the second child "fertility trap" in the influence degree is more obvious than birth a child. If the number of children is not fully considered when designing standard deduction, it will actually produce tax injustice, cannot better reduce the tax burden of families with many children, nor would it conform to the

ISSN: 2710-0170

construction of a child-friendly society of our country. Therefore, it is necessary to better match the deduction amount enjoyed by families with multiple children with the parenting cost in the design of the special additional deduction system for children's education, so as to better improve the implementation effect of the current fertility policy with tax policies.

(3) Rigid deduction standards

There is no dynamic adjustment mechanism for the special additional deduction for children's education and care. According to the Provisional Measures on Special Additional Deduction of Personal Income Tax, the deduction standard is fixed and unchanged. The law reflects the social economy. At the same time of social changes, the law needs to make corresponding adjustment according to the changes of social. But at present the deduction standard of the system of special additional deduction for children's education of our country is still state. Although it is stipulated that the standard of deduction should be adjusted scientifically and appropriately in light of changes in people's livelihood, there is no clear regulation on how to adjust it. Such a regulation is inflexible and should be improved.

2. The International Reference of the Special Additional Deduction System for Children's Education

(1) Differentiated deduction standards shall be adopted according to the education stage

By studying the deduction of children's education in different countries and regions, it can be found that many countries and regions take into account different family factors and adopt different deduction standards. For example, Korea sets different deduction rates for individual income tax according to different levels of education: 2 million won per child per year for preschool to high school education and 7 million won per child per year for college education. France stipulates that children's education expenses can be deducted before tax. Preschool, primary and secondary education expenses are included in the upbringing expenses of minor children, and the total deduction should not exceed half of the family's monthly income before tax. The standard deduction is €153 per child per month at the general education level and increases to €183 per child per month at the higher education level; Considering that single-parent families are under greater pressure in raising children, they are entitled to an additional deduction of 1,308 euros for raising children. Japan sets different deduction standards for education expenditure according to the age of taxpayers' children. The deduction amount for children under the age of 16 in compulsory education is 380,000 yen per person per year, and the deduction amount for children aged 16-23 is 630,000 yen. In Taiwan, a special deduction for preschool expenses has been added to the special deduction. Starting in 2010, families can enjoy an annual deduction of NT $25,000 for their children under the age of five, which will be increased to NT $120,000 in 2018. Their children's education in our country special additional deduction can draw lessons from the experience of different countries and regions, different education stage the difference of family education expenditure, set different deduction standards, claim additional deduction is used for the high school, college, or, for more than the basic deduction standard shall be applied to deduct a certain amount of education spending, promote the fairness of individual income tax in our country.

(2) Give full consideration to the particularity of family structure

In developed countries, there is a scientific consideration of family structure in the special deduction for individual income tax. Developed countries have special provisions on the issue of special additional deduction for single-parent families. In Germany, the amount of pre-tax deduction for single-parent families is different from that of ordinary families. The tax exemption for parents in single-parent families is increased to 4008 euros, which reflects Germany's care for single-parent families in individual income tax deduction. Single-parent families in Germany bear less individual income tax burden than ordinary families. In France,

ISSN: 2710-0170

the family coefficient method is adopted. When calculating the tax payment, the value of the total income of the individual or family divided by the family coefficient is matched with the tax rate of the corresponding level. For single-parent families, their total household income tends to be lower than that of ordinary families, and their tax bracket will be lower, reducing the amount of tax paid by single-parent families. In addition, the French family coefficient law also takes into account the special situation of widows and widowed families. In widows and widowed families, the coefficient of dependents is 1.5, which is higher than 0.5 in ordinary families, effectively reducing the tax burden of widows and widowed families in raising children and realizing the preferential care of widows and widowed families in individual income tax.

Developed countries also set different deductions based on the number of children a family has. In France, the family coefficient method also considers the number of children as a parameter. Children under 18 and full-time students between 18 and 25 are considered dependents, with a coefficient of 0.5 for each child. The higher the number of children, the higher the family coefficient and the lower the tax bracket, thus reducing the tax burden on families with many children. In Korea, the deduction of family child support is based on the combination of the number of children and additional deduction, which is divided into two parts: basic deduction and additional deduction. The basic deduction depends on the number of family members; The additional deduction is determined by the number of children, and the larger the number of children, the larger the additional deduction. In Hungary, families are entitled to different amounts of additional deductions depending on the number of children they have. The deduction for families with one child is 66,670 forints; The deduction for families with two children is 133,330 forints; Families with three or more children are entitled to a monthly deduction of 220,000 forints per child. In addition, women who have four or more children are exempt from personal income tax for life. In Singapore, the special deduction for working mothers also takes into account differences in the number of children. When the mother is working full time, 15% of her income can be deducted for personal income tax calculation for raising one child, 20% of her income can be deducted for personal income tax calculation on the basis of 15% for raising two children, and 25% of her income can be deducted for raising three or more children. In other words, in Singapore, a stay-at-home mother with three children can deduct 60% of her income for tax when calculating personal income tax, which effectively reduces the personal income tax burden of mothers with multiple children.

(3) Setting up an adjustment mechanism for standard indexation deduction

The United States has established an indexation adjustment mechanism for individual income tax, taking the inflation rate of the previous year as the benchmark to adjust the tax base level and standard deduction amount of individual income tax. The individual income tax in the United States adopts a partial indexation mechanism, that is to say, it only formulates an indexation mechanism for specific contents of the individual income tax, mainly aiming at four parts: standard deduction, tax credit, tax base level and basic livelihood expense deduction. The United States will average consumer price index as the basic foundation of calculating the rate of inflation, and again on this foundation by indexing mechanism to reduce the tax burden, low and middle income earners become the main benefit of establishing the mechanism of tax indexation objects, reduce the adverse effects of inflation to the taxpayer, also effectively reduce because of inflation and the negative effects to the national tax collection.

Britain, like the United States, has also established an individual tax indexation mechanism. But unlike the US, the UK tax is fully indexed. The inflation rate in the UK has been on the high side, so the UK will adjust the deduction amount of livelihood expenses in individual income tax according to the changes of the price index. The dynamic adjustment mechanism of the UK takes the annual price index as the benchmark, and the pre-tax deduction amount, exemption amount and tax base can be adjusted accordingly with the changes of the annual consumer price index. This reduces the negative impact of economic fluctuations on taxpayers.

ISSN: 2710-0170

3. China's Countermeasures and Suggestions on Improving Special Additional Deduction for Children's Education

(1) Setting differentiated deduction standards according to different education stages

In view of the difference of family education expenditure in different education stages, in order to ensure fairness, it is suggested that children's education expenses are deducted according to different education stages and divided into different deduction standards. France stipulates that children's education expenses can be deducted before tax, each child can enjoy the annual deduction of 61 euros, 153 euros, 183 euros according to the school or university. Japan sets different deduction standards for education expenditure according to the age of taxpayers' children. The deduction amount for children under the age of 16 in compulsory education is 380,000 yen per person per year, and the deduction amount for children aged 16 to 23 is 630,000 yen. According to the educational expenditure in China, there is not much difference in the educational expenditure in preschool, primary school and middle school, while the expenses in high school and college rise significantly. Based on the consideration of the efficiency of tax collection and management, it can be stipulated that the preschool stage, primary school stage, junior high school stage three stages apply unified basic standards, enjoy fixed deduction. For high school and college students, additional deductions are adopted, with a maximum amount of additional deductions set above a uniform base standard. Taxpayers can enjoy additional deductions within a certain range according to the educational expenses actually incurred. If the actual expenses are lower than the maximum deduction amount, it will be deducted according to the facts. If the actual expenses are higher than the deduction amount, it will enjoy the maximum deduction amount.

(2) The system design should pay full attention to the family structure

Linking special additional deduction of individual income tax with family structure fully reflects the principle of volumetric taxation. The special additional deduction for children's education of individual income tax should fully consider factors such as single-parent families and non-single-parent families, and the difference in the number of children, so as to more accurately reduce the cost of children's education of families and better realize the substantive fairness of taxation.

When considering single-parent families and non-single-parent families, we can learn from the system of developed countries, so that single parents who bear the responsibility of raising children can enjoy higher deductions, and effectively reduce the tax burden of single parents raising children. In addition, the system should be designed to allow widowed parents to enjoy more additional deductions than the families with broken marriages, because the other parent does not have to bear a certain amount of child support, and their children's education is larger. For example, the amount of special deduction for children's education for widows and widowed families should be twice that of normal families, which means that widows and widowed families can enjoy 2,000 yuan of special deduction for children's education for each child they raise.

When considering differences in the number of children in a family, we can learn from the relevant practices of developed countries. When calculating the special additional deduction for children's education for families with multiple children, the method of progressive deduction is adopted instead of simple sum stacking method, and more special additional deduction for children's education is given to families with multiple children. For example, when the first child calculates the special additional deduction for children's education, it will be deducted according to the standard of 1000 yuan per month. When there is a second child in the family, the special additional deduction for children's education will be deducted according to the standard of 2,000 yuan per month. When there is a third child in the family to calculate children's education special additional deduction, according to the standard of 3,000

ISSN: 2710-0170

yuan per month to deduct. This can better reduce the economic pressure of children's education in two-child and three-child families, which is in line with the substantive fairness of taxation.

(3) Deduction standards for scientific designs

Nowadays, the price level of our country keeps rising, because the cost of children's education is also rising. The standard of special additional deduction should be adjusted along with the increase of price, to make better use of its role. Its necessity and rationality lie in the following: price rise will bring "hidden tax increase", this hidden tax increase increases the burden of low-income people, and violates the principle of energy and quantity affordability. The "illusory income" of taxpayers due to rising prices is not a real increase in income. Only when the increase in income due to inflation is deducted from the total income can a true reflection of the taxpayer's ability to pay tax. Seven special additional deduction standards, including special additional deduction for children's education, have adopted the norm deduction standard, which cannot be consistent with the actual needs of Chinese residents and lacks elasticity, leading to differences in the measurement of taxpayers' tax burden. In addition, this does not give full play to the role of the special additional deduction system. At present, the interim measures only stipulate the "timely adjustment of the scope and standard of special additional deductions", but no corresponding regulations have been set up to solve this problem, resulting in the lack of corresponding legal support for the adjustment of the scope and standard of deductions. To this end, we can learn from the relevant practices of the United States and the United Kingdom, and establish a mechanism to adjust the special deduction for children's education in line with changes in the price level and the consumer price index. Current domestic residents can better response time to buy consumer goods and accept the price of a service project is the consumer price index (CPI), and their children's education in our country special additional deduction standard can tax elastic mechanism, on the basis of the previous year of the change of the CPI, formulate annual deduction standard, in order to measure the taxpayer's tax right. At the same time, it avoids the complicated procedure of revising the deduction standard of special additional deduction for children's education according to inflation, and ensures the stability of tax policy.

References

[1] Xu, D.Q.(2013).On the principle of equal burden in tax law. Jurisprudence of China,(5),65-76.

[2] Qi, L.L.,Li,X.X.(2022). Inspiration from French fertility - friendly personal income tax policy. The tax research(4),102-106.

[3] Li, Y.J.,Li,M.N.(2022).The institutional origin, jurisprudential review and optimization strategy of Special Additional deduction for Children's Education. Study on Local Finance(7),79-85.

[4] Jiang, W.Z.,Yang,Y.X.(2022).Review and improvement of special additional deduction of individual tax by law.Dongyue review,(6),174-182.

[5] Feng, H.M.(2022).Remolding the system of additional deduction for children's education under the "three-child" policy.Journal of Southeast University (Philosophy and Social Sciences Edition), (S1), 19-22.