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PRELIMINARY NOTES ON TAXATION IN THE  
PEOPLE'S REPUBLIC OF CHINA\*

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*"To pay tax is a glorious duty of the people, and the patriotic concept of paying tax according to law should be established among the people. Tax workers should promote a closer relationship between the government and the people, raise the revolutionary standard, and hold fast to the splendid tradition of frugality and hard work."*

From Regulations on the Administration of National Taxation, 31 January 1950.<sup>1</sup>

So said the State Council in 1950. But what is the role of taxation in China today? As a modest prelude to answering that question, this paper attempts to summarize Western understanding of the development of the tax system of the People's Republic of China (PRC) in the 1950s. Western study of the PRC's system of taxation seems to be limited to this period and thus constitutes "the state of the art" on this subject. Principal sources are discussed in a footnote.<sup>2</sup> It is my impression that the study

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of taxation in China in the 1950s remains significant since the tax system has not changed in substance, if at all, in the last twenty years. This impression is supported by recent Chinese comments on the tax system, in published articles, and at a briefing on economics and taxation given by the China Council for the Promotion of International Trade in Peking on 10 December 1978.<sup>3</sup>

An initial question is how to define "taxation" in China. Should the taxes paid by a state enterprise, for example, be distinguished from the profits transferred by the same state enterprise to the government?<sup>4</sup> Should the agricultural tax be regarded differently from government purchases of grain at fixed prices?

China has classified profits from state enterprises and grain purchases as distinct from taxation. While arguments can be made that these are forms of indirect taxation, there are also reasons to support, at least for purposes of study, the distinction made by the Chinese. Taxes are obligatory payments, fixed by law, to the government budget from the incomes or other property of organizations or individuals, paid in specific amounts at specific times. Profits from state enterprises are not obligatory by law, and are not required to be paid at specific times in specific amounts. Unlike the agriculture tax, grain purchases are not added to the state budget.

It seems clear that the purpose for taxes, unlike other

government revenue in China, includes important elements of control and supervision. A China Council for the Promotion of International Trade spokesman recently responded to a question of why a distinction was made between taxes and other state revenue by saying, "It is convenient for us to carry out economic accounting."<sup>5</sup> He made clear that the surplus from Chinese state enterprises is not regarded as a tax.

Until a more complete understanding of Chinese taxation is developed, it would seem at least premature to challenge the Chinese definition of what are taxes. It is enough at this time to say "taxes" are shui, and shui are taxes.

The most important taxes in China in terms of revenue raised are first, the industrial and commercial taxes (gong shang ye shui), and second, the agricultural tax (nong ye shui). Prior to the Second Five-Year Plan which began in 1958, the industrial and commercial taxes consisted of four separate taxes on both private and state industry and commerce:

- (1) A Soviet-style turnover or circulation tax (liu tong shui) on 22 categories of key commodities, including tobacco products, alcoholic beverages, flour, matches, cotton thread, paper, cement, pig iron, nonferrous metals, rolled steel, coke, and others. The tax imposed only once in the production stream and was generally paid by the wholesale commercial organization upon receipt of the goods, or by the producer in case of a direct sale bypassing wholesalers. A different tax rate prevailed for each

item, some calculated on price or value of the goods, and some based on volume. This tax, instituted in 1953, at the start of the First Five-Year Plan, replaced overlapping wholesale and retail taxes which varied greatly among the regions and provinces.<sup>6</sup>

- (2) A commodity tax (huo wu shui) was imposed on the manufacturers (or transporters in the case of non-manufactured goods) of a range of commodities not subject to the turnover tax, including grain, silk thread, some edible oils. Beginning in 1953, the tax was computed using the specified percentage for each commodity on the basis of wholesale prices as set by state trading companies.<sup>7</sup>
- (3) A business tax (ying ye shui) was imposed on commercial (non-industrial) enterprises and on those industrial enterprises producing goods not subject to either the turnover or commodity taxes. The tax was assessed on volume of goods handled or produced at a rate fixed according to the commodity, varying from 1% to 15%.<sup>8</sup>
- (4) An income tax (suo de shui) was levied on the profits of joint state-private enterprises, cooperatives and private enterprises. State enterprises have always been exempt from the payment of income taxes. Profit is determined by deducting costs, losses, and other expenditures from receipts. Rates were progressive in 14 brackets from 5% on profits up to 300 yuan annually, to 30% on profits over 10,000 yuan. Special favorable provisions reduced

the income tax for cooperative enterprises.<sup>9</sup>

While the overlap and similarity of these taxes suggest needless complexity, they represent a dramatic simplification of the taxes on industry and commerce which had prevailed before the First Five-Year Plan. A further simplification occurred in 1958 when all the above taxes and a stamp tax (yin hua shui) on documents were amalgamated into a consolidated tax on industry and commerce. The income tax is not specifically mentioned in the new rules and regulations, presumably because it had largely disappeared as a result of the socialization of industry and commerce.

The new consolidated tax on industry and commerce was principally an expansion of the Soviet-style turnover tax to virtually all products and commodities. The tax is imposed only once on a finished product when the producer or wholesaler received proceeds. This eliminated taxation of raw and semi-processed materials utilized in the production of finished products. In certain commercial trades where the turnover tax would not apply, tax rates would be imposed on (gross?) business income. A few examples from the long schedule of tax rates issued with the new rules and regulations:

Tax on articles:

Grain	4	%
Cigarettes	40-69	%
Tea	40	%
Coal	7.5	%
Cement	20	%

Tax rates:

Retail Sales	3	%
Communications-		
Transportation	2.5	%
Service Trades	3-7	%

## Tax on articles:

Ordinary paper	10 %
Cotton cloth (unbleached)	1.5%
(printed or dyed)	5 %

Exemptions were provided for state banks, insurance enterprises, agricultural machinery stations, medical and health services, scientific institutions, and others. Local people's councils were directed to develop separate tax regulations on the consolidated industrial and commercial tax to be collected from agricultural production collectives and their members, individual peasants, remnant capitalists, handicrafters, small traders, and peddlers.<sup>10</sup>

The official reason for the consolidation was that with the large-scale socialization of industry and commerce completed, it was no longer necessary to maintain the complex system of taxes required by a mixed state-private economy. In the absence of subsequent fundamental changes in industry and commerce, this tax is presumably still in force in substantially the same form. Revenues from industrial and commercial tax increased consistently throughout the 1950s, and as a percentage of state tax receipts increased from approximately 50% in 1950 to over 75% in 1959. (See appended table.)

Agricultural tax. Beginning with the Second Five-Year Plan in 1958, and with the completion of agricultural collectivization, the agricultural tax was collected on a flat, proportional basis, with an average tax rate at that time of 15.5% and a maximum limit of 25%. Local surtaxes could not exceed 15% of

the regular tax. (Between 1949 and 1958, a progressive scale of agricultural taxation was used in many parts of China.) The tax was assessed not on the actual yield, but on the basis of the average annual harvest, defined as the crop harvested from land of a certain category under certain natural conditions, by the usual methods of labor, organization and planting. The tax was supposed to remain unchanged for periods of at least 5 years, except in cases of government capital investment. This was intended to provide the peasants with an incentive to increase production since any excess over average annual harvest would be tax-exempt.<sup>11</sup> Fixing the agricultural tax independently of actual production continues to be the practice in China today.<sup>12</sup> The tax is assessed on all land producing food grains, potatoes, and income-producing crops.<sup>13</sup> The tax is collected principally in the form of food grains. With collectivization,<sup>14</sup> the accounting unit and taxpayer became the cooperative. The average agriculture tax rate was officially reported to be 5%<sup>15</sup> in 1976.

Besides the industrial and commercial and agricultural taxes, there are two other taxes collected by the central government-- the salt tax and the customs duties. Unlike the former two taxes, the latter two taxes cannot be expanded by local surtaxes. Ease of administration is probably why the venerable salt tax was continued by the Communist government, despite its regressive burden on the consumer. It provided 1-3% of state revenues during the 1950s. Customs duties on both imports and exports



provided revenue to the state budget in the 1950s on about the same scale as the salt tax. Export duties were abolished in 1959. Duties on imports varied, with low duties on essential goods such as machinery and raw materials, higher duties on luxury goods.<sup>16</sup> Customs duties averaged 12% of imports in the early 1950s.

There are a number of minor local taxes in China which are not included in the state budget. There is an urban real estate tax and license fees on vehicles including bicycles.<sup>17</sup> There is a livestock tax.<sup>18</sup> In the 1950s there were taxes on hotels, restaurants, amusements, and slaughtering animals which may still be in force.

Based on the limited materials reviewed at the time of writing this draft, a few preliminary propositions can be put forth:

1. Taxes were considerably more important sources of revenue in the early years after liberation and are considerably less important now.

As the figures on the appended table confirm, taxes provided more than half of China's state revenue until 1955, and very nearly half the state revenue until 1958. Although total tax revenues quadrupled between 1950 and 1959, the tax revenue proportion of state revenues declined from nearly 80% to less than 40% in 1959. The growth in tax revenue was attributable mainly to the industrial and commercial tax which increased by a factor of more than 6 between 1950 and 1959. The decline in the tax revenue portion of state revenues is attributable to

dramatic increases in profits from state enterprises during this period. In 1976, total revenue from state enterprises was stated to be around 90% of total state revenue.<sup>19</sup> These changes are consistent with the change from private to state ownership in the 1950s and the development of industry and commerce as state-owned enterprises.

2. Development of the Chinese tax system has been characterized by relatively sophisticated attempts to regulate the economy as well as raise revenue.

Premier Chou En-lai stated the government's tax policy at a financial conference held in August 1953:

*"The task of state taxes is on the one hand to increase to the maximum the mobilization of accumulations, contributing thereby to the construction of very important projects and, on the other hand, state taxes should regulate the incomes of various classes, should assist in strengthening the alliance of the working class and the peasantry. In addition, the tax system should be a weapon for the defense and development of the socialist and semi-socialist economy, a weapon of the policy of gradual and differential utilization, limitation, and transformation (li yong, xian zhi, gai zao) of capitalist industry and trade... The tax policy should reflect a different attitude towards the state and private enterprises."*<sup>20</sup>

In the early years after liberation when capitalists still owned various means of production, the new Chinese government offered income tax incentives to induce private investment in certain industrial production, as opposed to commerce. The largest tax reduction of 40% was available to certain machine-building enterprises. At the same time, state enterprises received preferential exemptions and tax reductions which effectively

shifted the tax burden onto private enterprises. As noted, state enterprises were entirely exempt from the income tax. Beginning in 1954, they were exempted from paying turnover and business taxes on wholesale trade and turnover of semi-processed goods. In 1955, the business tax was increased on private trade but was reduced in cases of trade with or on instructions of state cooperative organizations. Artisans and traders were induced to form cooperatives by income tax exemptions and business taxes. Income taxes were automatically readjusted or indexed for inflation in the early years. Wage and price regulation prevented private enterprises from passing increased tax burdens onto consumers or employees.<sup>21</sup> Tax incentives of sorts still are afforded under the general principle of taxing industry lighter than commerce, and rural enterprises lighter than urban enterprises. A new tax reduction for rural industrial enterprises was announced in March 1979.<sup>22</sup>

After land reform, a progressive agricultural tax was imposed in some parts of China to restrict the development of rich peasants. Following collectivization when the tax was made proportional, a 10-50% surcharge was imposed on the few remaining individual farmers to encourage them to join the collective movement.<sup>23</sup> Setting stable tax levels for five-year periods has already been mentioned as one means of encouraging increased agricultural production, both before and after collectivization. Agricultural tax exemptions are provided for newly-reclaimed wasteland in order to encourage such reclamation.<sup>24</sup>

Taxation was not merely a revenue-raising system, but an important means of supervising and controlling both private enterprise and the financial and economic activities of cooperatives and state enterprises. The tax system was an effective check against the expansion or revival of petty trade, private capitalist and rich peasant economies.

3. There seems to be a surprising emphasis in the PRC tax system on regressive commodity and trade taxes.

On 22 March 1950, People's Daily commented that, "most of the taxation in cities takes the form of indirect taxes (jian jie shui) i.e. they do not burden the industrialist or the merchant, but are transmitted (zhuan jia) to a large number of consumers."<sup>25</sup> Notwithstanding the subsequent submission of the industrialists and merchants to nationalization, the fact remains that the Chinese tax system, possibly for good reasons, has favored relatively regressive commodity and trade taxes over what in the West are considered more progressive forms of taxation.

The salt tax is the clearest example of a regressive tax which is a heavier burden on the poor than on those with surplus income. Similarly, the industrial and commercial tax both before and after consolidation had the effect of raising consumer prices for all, though the potential regressive effect may be offset somewhat by the preferential rates on foodstuffs and necessary consumer goods. It is difficult to estimate whether the agricultural tax has a progressive or regressive impact.

Local adjustments in the generally flat-rate proportional tax may provide a measure of progressivity.

While there was an income tax on private business enterprises, at least prior to 1958, there has never been a tax on wages in the PRC, although wage differentials were large in the early years and still vary today, and although the First National Taxation Conference held in Peking in November 1949, had recommended instituting a tax on wages and rewards.<sup>26</sup> A 5% tax withheld on interest from bank deposits, bonds, and loans was instituted in 1950, but was repealed in 1959, although large bank deposits and government bonds were still outstanding at that time.<sup>27</sup> Although the First National Taxation Conference also recommended the establishment of a tax on inheritances, no inheritance tax has ever been established. So, the PRC remains a country where wealth can be freely passed from one generation to another, without taxation.

The justification for such a tax structure of indirect, regressive, or at best proportional taxes has to be its relative ease of administration. Collection of indirect taxes at points of production or distribution is clearly more easily accomplished than collecting directly from millions of individuals or collectives. It could also be argued that the reasons for a progressive tax structure had largely disappeared with the completion of the socialization of industry and the collectivization of agriculture around 1958. Differences in income today, it could be pointed out, exist only because it is government policy that such dif-

ferences be tolerated. If it were government policy to narrow the differences, more direct methods are available than progressive taxation.

4. Despite lack of detail and incompleteness in the tax regulations which could be expected to result at times in unevenness and uncertainty in application of taxes, the PRC tax system seems to have provided a reliable flow of revenue with minimal costs or problems.

In the early years of the PRC, despite the promulgation of tax regulations, a system of "democratic evaluation" was extensively employed by which businessmen were asked to suggest each other's tax obligations, which were then established by committee. Resort to this method could be attributable to poor accounting practices, as well as to insufficiently specific regulations. Committees were also widespread in the countryside to determine the average annual harvest for each piece of land.<sup>28</sup> Despite the simplification of the tax structure and the underlying social structure in the 1950s, it can be anticipated that the determination of average annual harvests would at least create problems as to the appropriate measuring period. The proper classification of commodities, and especially of new industrial products, would continue to be a problem in many cases under any system of industrial and commercial taxation.

It seems clear (see appended table) that the tax system was the principal source of state revenue in the critical early years of the PRC, and proved to be a consistent and reliable

source of increasing revenues in later years. While the relative importance of taxes may be less today, it is doubtful that the economy could have been stabilized and the new society established without the relatively efficient administration of the new tax system established after liberation.

Million Current Yuan

Tax Revenue	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Agricultural taxes	1,910	2,169	2,704	2,711	3,278	3,054	2,965	2,970	3,260	3,300
Salt Taxes	268	339	405	461	521	481	483	620	620	650
Customs receipts	365	693	481	505	412	466	542	460	580	650
Industrial and commercial taxes	2,363	4,745	6,147	8,250	8,972	8,725	10,098	11,300	14,179	15,698
Private business	1,910	3,312	3,458	3,422	2,872	1,671	640	240	N.A.	N.A.
Cooperatives	N.A.	N.A.	190	534	925	1,128	1,580	2,205	N.A.	N.A.
Joint public-private enterprises	N.A.	N.A.	184	265	422	556	1,580	2,855	N.A.	N.A.
State enterprises	453	1,433	2,315	4,029	4,753	5,370	6,298	6,000	N.A.	N.A.
Miscellaneous tax receipts	1	167	32	40	35	19	0	140	91	172
Total Tax Revenue	4,898	8,113	9,769	11,967	13,218	12,745	14,088	15,490	18,730	20,470
Nontax Revenue										
Profits from state enterprises			4,653	6,369	8,457	9,404	11,414	11,363	18,719	28,590
Depreciation reserves and other income from state enterprises	870	3,050								
Receipts from foreign loans	244	625	1,077	1,301	1,503	1,786	2,016	3,057	3,301	4,770
Receipts from domestic bonds	260	0	1,305	438	884	1,657	117	23	0	0
Receipts from insurance operations	260	0	0	0	836	619	607	650	790	0
Other Income	N.A.	N.A.	N.A.	52	70	84	0	27	10	N.A.
	247	1,179	756	1,635	1,269	908	501	410	310	330
Total nontax revenue	1,621	4,854	7,791	9,795	13,019	14,458	14,655	15,530	23,130	33,690
Total budgetary revenue	6,519	12,967	17,560	21,762	26,237	27,203	28,743	31,020	41,860	54,160

From Ecklund, Taxation in Communist China, 1950-1959 (C.I.A., 1961), p. 10



1. Regulations on the Administration of National Taxation (quan guo shui zheng shi shi yao ze), 31 January 1950. In Chao Kuo-chun, Economic Planning and Organization in Mainland China, Vol. 1, Cambridge, Mass., 1959, 226.
2. The most extensive study is by the Soviet scholar, A.I. Chekutov, Nalogovaia Sistema Kitaiskoi Narodnoi Respubliki, Moskva 1962. A US Joint Publications Research Service (JPRS) translation is available: JPRS 17, 675 (15 February 1963). This text is a long narrative description of the development of the Chinese tax system, very sympathetic, containing useful information in a straight chronological format.  
In July 1961, the US Central Intelligence Agency completed a report on Taxation in Communist China, 1950-1959, prepared by George N. Ecklund. The report bears the reference number CIA/RR ER 61-32. The report is not now classified. It is not known if the report was ever classified (i.e. secret). Another useful book is by Chao Kuo-chun, Economic Planning and Organization in Mainland Chian, A Documentary Study (1949-1957), published in 1959 by the Center for East Asian Studies, Harvard University. Included are selected translations from Chinese tax regulations and documents of the period.  
A shorter study, "Taxes on Industry and Commerce, 1949-1959", appears in China News Analysis No. 290 (28 August 1959). Original documentation is found in "Collection of PRC Laws and Regulations" (zhong hua ren min gong he guo fa gui hui pien). Some of this material is available in translation in Current Background or Survey of the China Mainland Press. A useful bibliographic guide is Chinese Law Past and Present by Fu-shun Lin, published in 1966 by the East Asian Institute, Columbia University.
3. See for example, Wei Min, "China's Tax Policy", 18 Peking Review 1975 No. 37, 23-25; and Peng Kuang-hsi, Why China Has No Inflation, Peking 1976.  
On 10 December 1978, the delegation of the National Steering Committee of the US-China People's Friendship Association received a briefing given by the China Council for the Promotion of International Trade. Answering the questions on taxation was Cheng Chin-wei, Researcher.
4. Ecklund, in his report for the Central Intelligence Agency, op. cit., note 2, treats revenue from state enterprises as one form of Chinese taxation.
5. Cheng Chin-wei, China Council for the Promotion of International Trade, 10 December 1979. See note 3, supra.
6. Chekutov, op. cit., note 2, at JPRS, op. cit., note 2, 127-129. Ecklund, op. cit., note 2, 25.

7. Chekutov, op. cit., note 2, at JPRS, op. cit., note 2, 129-130. Ecklund, op. cit., note 2, 21-23.
8. Chekutov, op. cit., note 2, at JPRS, op. cit., note 2, 130-134. Ecklund, op. cit., note 2, 19-21.
9. Chao, op. cit., note 2, 185-186. Chekutov, op. cit., note 2, at JPRS, op. cit., note 2, 49-50, 134. Ecklund, op. cit., note 2, 20.
10. "Draft Regulations...;" "Draft Implementation Rules of the People's Republic of China Governing the Consolidated Industrial and Commercial Tax, Current Background 1958, No. 527.
11. Chao, op. cit., note 2, 188-190. Chekutov, op. cit., note 2, at JPRS, op. cit., note 2, 83-86.
12. Wei Min, "China's Tax Policy", 18 Peking Review 1975 No. 27, 25. Also confirmed by Cheng Chin-wei, Briefing, 10 December 1978, op. cit., note 3.
13. Ecklund, op. cit., note 2, 12.
14. Id., 16.
15. Peng Kuang-hsi, op. cit., note 3, 40. Cheng Chin-wei estimated the average agriculture tax as 6% of the total value of agricultural production. Briefing, 10 December 1978, op. cit., note 3.
16. Ecklund, op. cit., note 2, 23-24, 29-31.
17. Peng, op. cit., note 3, 40. 21 Peking Review 1978 No. 2, 31.
18. Chekutov, op. cit., note 2, at JPRS, op. cit., note 2, 31-33. But none of these taxes were mentioned by Wei Min, op. cit., note 3; or by Cheng Chin-wei, op. cit., note 3.
19. Peng, op. cit., note 3, 39-40. Confirmed by Cheng Chin-wei, op. cit., note 3.
20. Chekutov, op. cit., note 2, at JPRS, op. cit., note 2, 124-125.
21. id., 47, 50, 73, 137, 154.
22. 22 Beijing Review 1979 No. 11, 12. See also Wei Min, op. cit., note 3, 25.

23. Chao, op. cit., note 2, 188. Ecklund, op. cit., note 2, 17. Compare Chekutov, op. cit., note 2, at JPRS, op. cit., note 2, 180, reporting surtaxes on individual farmers of only 10-15%.
24. Wei Min, op. cit., note 3, 25.
25. China News Analysis, op. cit., note 2,2.
26. Ibid. Chao, op. cit., note 2, 224.
27. Collection of PRC Laws and Regulations (zhong hua ren min gong he guo fa gui hui pien), January-June 1959, 121.
28. Chao, op. cit., note 2, 186, 192. Chekutov, op. cit., note 2, at JPRS, op. cit., note 2, 150-152.

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