

From the Perspective of Common Prosperity: A Probe into the Fiscal Reform of Chinese Path to Modernization

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Abstract: Common prosperity is an essential requirement of socialism with Chinese characteristics and a long-term historical process. As an important part of the public policy system, scientific financial and tax policies are indispensable tools for regulating income distribution and promoting common prosperity, and will play a more important role in the new historical period. Currently, China is facing a series of practical problems such as economic restructuring, uneven income distribution, and uneven regional development. To this end, it is necessary to continue active fiscal policies, promote high-quality economic development, optimize tax system structure to promote fair income distribution. At the same time, it is necessary to deepen the social security system, expand coverage, and ensure that every citizen can receive the necessary protection in critical moments such as illness and unemployment. In addition, based on the current issue of imbalanced regional development, it is also urgent to strengthen the division of financial powers between governments, improve the fiscal transfer payment system, to ensure that resources are tilted towards impoverished areas and truly achieve the goal of common prosperity. Through in-depth analysis of practical issues, this article will comprehensively explore the reform path of modern financial and tax systems, laying a solid foundation for common prosperity.

Keywords: Common Prosperity; Chinese Modernization Financial and Tax Reform; Practical Path

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Over the past 40 years of reform and opening up, especially since the 18th National Congress of the Communist Party of China, the reform of China's financial and tax system has been continuously promoted, and it is undergoing a transformation from compensating for "market failure" to focusing on "governing the country". Gradually, a financial system arrangement that meets China's basic national conditions and governance needs has been established. Under the socialist system with Chinese characteristics, socialist public ownership meets the fundamental prerequisite for China to achieve common prosperity. As the fiscal positioning based on public ownership rises to the level of national governance, striving towards the goal of modernizing the financial and tax governance system and governance capacity, and comprehensively building a socialist modernized country, finance plays a crucial role in promoting common prosperity. On the one hand, the financial and tax system promotes the development of productivity and wealth creation, which is conducive to expanding the cake. On the other hand, the financial and tax system promotes fair distribution of wealth, which is conducive to distributing the cake well.

1. Optimize resource allocation and improve initial allocation

The foundation of common prosperity is "prosperity". To achieve common prosperity for all people, it is necessary to

continue to expand the “cake” of the national economy and achieve high-quality economic development. The initial distribution is led by the market, adhering to the principle of distribution according to work as the mainstay and coexistence of multiple distribution methods. While emphasizing economic efficiency, paying attention to economic development and wealth creation, fairness should also be taken into account, and it should be the foundation and dominant position in income distribution. The financial and tax system, by adhering to the principle of tax neutrality and adjusting the structure of fiscal expenditure, avoids interfering with the allocation of market economy resources, improves enterprise production efficiency, ensures that residents receive fair and reasonable market income, and optimizes the initial distribution mechanism. The initial distribution is the distribution of the added value created by production factors among labor factors, capital factors, and government departments. The labor income obtained by residents in the initial distribution is market income. In the initial allocation stage, fiscal policy, as the main means of macroeconomic regulation, can adopt a combination of cross cycle regulation and countercyclical regulation to smooth out macroeconomic fluctuations, regulate market supply and demand structure, and promote stable, sustained, and healthy growth of the national economy.

On the one hand, in the initial distribution stage, taxation plays a policy regulatory role. Taxation is not omnipotent, and to play a regulatory role in the initial distribution stage, it is necessary to adhere to the principle of tax neutrality. From the perspective of resource allocation, market mechanisms have characteristics such as sensitive information, effective incentives, and flexible regulation, which are conducive to stimulating the vitality of economic development. Socialist market economy is the organic combination of socialist basic system and market economy, fully leveraging the decisive role of the market in resource allocation, and better leveraging the role of the government. The role of taxation in promoting common prosperity also needs to be based on the decisive role of the market. In the initial distribution stage, the government influences national wealth creation through indirect taxes mainly based on value-added tax, with the main mechanism being to change the relative price of products sold in the market. This method of imposing indirect taxes on products will distort the formation of price mechanisms, affect consumer consumption choices in the market, and thus damage market efficiency. On the other hand, from the perspective of fiscal expenditure, the government can optimize the allocation of socio-economic resources and improve the production efficiency of enterprises by adjusting the structure of fiscal expenditure. A sound and complete infrastructure system can reduce the flow cost of products and production factors, promote market integration, and thereby improve resource allocation efficiency.

2.Adjusting excessive income and leveraging the progressive role of the tax system

The tax regulation mechanism is an important means of regulating income redistribution and promoting common prosperity. The government designs a progressive tax system to impose heavy taxes on excessive income, in order to stabilize the income distribution gap among residents and adjust the initial distribution pattern under market mechanisms. The degree of progression of a country’s tax system is mainly reflected in the relative weight of direct and indirect taxes in the overall tax system. In China, taxation mainly adjusts income and wealth redistribution through direct taxation. Direct tax mainly consists of income tax and property tax. Due to the difficulty in transferring the tax burden of direct tax, the tax burden of direct tax is usually attributed to the legal taxpayer themselves. Moreover, direct tax generally adopts a progressive tax rate structure, and the tax rate applicable to high-income individuals is also higher. Therefore, direct taxation can effectively regulate excessive income and help achieve the government’s “fairness” goals. Indirect taxes mainly include turnover taxes such as value-added tax and consumption tax, which are levied on the circulation of goods or labor. Compared to direct taxes, the tax burden of indirect taxes is easier to achieve and can be transferred to higher-level manufacturers or end consumers through forward or backward transfer. The tax rate structure of indirect tax usually adopts a proportional tax rate, and the setting of proportional tax rates makes indirect tax have a considerable degree of retroactivity. Compared to high-income individuals, the marginal propensity to consume is higher among middle and low-income groups, and their consumption expenditure accounts for a larger proportion of their total income. Therefore, the indirect tax burden is more borne by middle and low-income individuals. Therefore, the higher the proportion of direct taxes in a country’s tax system, the higher the degree of progression of the tax system, and the greater the role it plays in income redistribution.

The progressive effect of China’s tax system is mainly achieved by the excessive accumulation of personal income tax. The

method of comprehensive taxation can to some extent play a role in regulating excessive income, thereby smoothing out the initial income gap among residents. In addition, China also imposes a relatively high consumption tax rate on high-end consumer goods such as ultra luxury cars, high-end cosmetics, precious jewelry and jewelry, high-end watches, etc. This part of the consumption tax is mainly borne by high-income individuals and has a certain degree of progressiveness. According to calculations by Yue Ximing and others, the progressive index of China's consumption tax is positive nationwide, indicating that China's consumption tax also has progressive characteristics, which can to some extent alleviate income distribution inequality.

3.Assist low-income groups and achieve social security functions

A sound social security system is an important guarantee for achieving common prosperity for all people. Firstly, in terms of adjusting the income distribution gap, unlike the effect of lowering excessively high income through personal income tax, social security expenditures stabilize the income distribution gap by increasing the income of low-income groups. The government's social security expenditure covers social relief expenditure, social insurance expenditure, and social welfare expenditure. Social relief expenditure ensures the basic survival needs of vulnerable individuals by assisting low-income groups who cannot achieve the minimum living standard. Social insurance expenditure ensures the normal living conditions of ordinary workers, while social welfare expenditure is mainly used to provide high-quality material and cultural conditions for all members of society. Secondly, in terms of productivity in social security, improving the social security system is conducive to promoting economic development and expanding the cake. On the one hand, a sound social security system helps to improve the risk resistance and consumption level of residents, and the continuously increasing consumption potential will drive economic growth; On the other hand, a sound social security system helps to explore new growth models. In the era of digital economy, data has become an important factor of production. At present, China has established a fully functional social security system with social insurance as the main body, including social assistance, social welfare, and social preferential treatment systems. Government relief transfer payments and basic social insurance have significant poverty reduction effects. China's social security expenditure is the key to solving the problem of income distribution inequality and an important guarantee for achieving common prosperity for all people.

4.Ensuring basic livelihood and promoting equalization of public services

The common prosperity of all people is not only reflected in the narrowing of the gap in disposable income among residents to a reasonable range, but also requires the development achievements to benefit all people more and more fairly. As an important means for the government to redistribute wealth, equalization of basic public services is a prerequisite, solid foundation, and key link for achieving common prosperity. Basic public services focus on the most concerning, direct, and practical interests of the people, and are the most basic well-being of the people. The report of the 20th National Congress of the Communist Party of China clearly regards "achieving equalization of basic public services" as one of the overall goals for China's development by 2035, while emphasizing the need to "improve the basic public service system, enhance the public service system, enhance balance and accessibility, and solidly promote common prosperity.". However, as pointed out in the report of the Twentieth National Congress of the Communist Party of China, Chinese path to modernization is a modernization with a huge population. It is a very difficult and complex task to provide equal basic public services for more than 1.4 billion people in China. We should make progress while maintaining stability, step by step, and continue to advance. In the process of promoting the equalization of basic public services, it is inseparable from the reasonable arrangement and adjustment of fiscal expenditure. Fiscal expenditure should clarify specific expenditure responsibilities based on the service objects, service contents, and standards of various basic public services, and provide corresponding financial support on the premise of fiscal sustainability.

5.Encourage public welfare donations and promote the third distribution

Unlike the initial distribution led by the market and the redistribution led by the government, the third distribution has the characteristics of voluntariness and public welfare, and is a beneficial supplement to the initial distribution and redistribution. The third distribution is driven by morality, culture, social responsibility, etc., where individuals or enterprises who become

wealthy first voluntarily allocate their disposable income and operating profits to social wealth resources through charitable means such as donations, subsidies, and fundraising. Tax policies can promote the development of charitable donations and promote social equity, mainly reflected in tax incentives that encourage enterprises and individuals to participate in charitable donations. For enterprises, eligible poverty alleviation donations are exempt from value-added tax. When calculating corporate income tax, eligible public welfare donations that do not exceed 12% of taxable profits can be directly deducted in the current year, and the excess amount can be carried forward for three years for deduction. For individuals, the portion of their donations to eligible public welfare and charitable causes that does not exceed 30% of their annual taxable income can be deducted when calculating personal income tax. In addition, to cope with major natural disasters and other special events, China has timely introduced phased tax preferential policies and reduced relevant taxes and fees. These tax incentives play a certain role in encouraging individuals and businesses to actively participate in charitable and public welfare undertakings, thereby achieving the third distribution of income.

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