

The reform of vertical arrangements of tax administrative agencies in China

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ABSTRACT

The decentralized tax administration has been in place for over two decades in China since 1994. In March this year, National People's Congress of China reviewed and approved the State Council Institutions Reform Plan and decided "we will reform the tax administrative system by merging the tax administrations on state and sub-national levels and assume it both tax and non-tax revenue administrative responsibility in the corresponding jurisdictions". The article aims to explain to readers that China's tax authorities have to a large extent absorbed common international practices and general experience. The history of the vertical arrangements of China's tax administration is revisited through descriptive and comparative analysis. The reasons for the cancellation of the sub-national tax bureaus in China are analyzed followed by the international experience of the vertical structure of the tax administration. It is contended in the article that the reform of the vertical arrangements of the tax authorities is an attempt to deepen the reform of the fiscal system and promoting tax administrative agencies reform in the broad sense from the perspective of the modernization of the state governance system and governance abilities. The article concludes with a summary of several features of this reform.

KEYWORDS

tax administration, China's tax authorities, vertical arrangement of tax agency, reform the tax administrative system, international practices of the tax administration, China

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HIGHLIGHTS

1. Since 2018 year the subnational tax agencies in China will be abolished gradually and the separate system of vertical administrative agencies will officially end
2. The removal of the subnational tax agencies is the result of balancing on the advantages and disadvantages of the separate tax collection agencies and new overall goal of reform in China. It is part of the reform of government institutions aimed at promoting the modernization of the state's governance
3. The reform is making full use of the advanced experience of foreign countries
4. The reform is based on the construction of a general public service supply system, with tax administration agency as part of it. It is a step forward in the direction of specialization and independence of tax administrations

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Реформа организационной структуры налоговых органов Китая

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АННОТАЦИЯ

Децентрализация налоговых органов существует в Китае уже более двух десятилетий — с 1994 г. В марте этого года Национальный народный конгресс Китая рассмотрел и утвердил План реформирования институтов Государ-

ственного совета. Данный план предусматривает реформирование системы налогового администрирования путем объединения налоговых органов государственного и субнационального уровня и передачи им администрирования налоговых и неналоговых доходов в соответствующих юрисдикциях. В статье показано, что при проведении реформы налоговых органов Китая в значительной степени используются общепринятая международная практика и мировой опыт. История взаимодействия налоговых органов различного уровня в Китае изучается с помощью описательного и сравнительного анализа. Причины ликвидации налоговых органов субнационального уровня рассматриваются в сопоставлении с существующим международным опытом построения вертикальной организационной структуры налоговых органов. В статье утверждается, что реформа вертикальных механизмов взаимодействия налоговых органов различного уровня является попыткой углубить реформу налоговой системы и содействовать реформированию налоговых органов в широком смысле, как части общей модернизации системы государственного управления. Статья завершается кратким изложением нескольких особенностей этой реформы.

КЛЮЧЕВЫЕ СЛОВА

налоговые органы, налоговые органы Китая, вертикальная структура налоговых органов, реформа системы налогового администрирования, международная практика налогового администрирования, Китай.

ОСНОВНЫЕ ВЫВОДЫ

1. С 2018 г. налоговые органы субнационального уровня в Китае будут постепенно упразднены, а отдельная система вертикального построения налоговых органов будет официально ликвидирована
2. Устранение субнациональных налоговых органов является результатом анализа преимуществ и недостатков практики разделения органов налогового администрирования по различным уровням управления и изменения общей цели реформ в Китае и является частью реформы государственных учреждений, направленной на модернизацию государственного управления
3. Реформа в полной мере использует передовой опыт зарубежных стран
4. Реформа налоговых органов является частью формирования общедоступной системы государственных услуг, в части предоставления таких услуг налоговыми органами и является шагом вперед в направлении специализации и независимости налоговых администраций

Introduction

The tax administration serves the tax system and aims to implement the tax law in a fair, efficient and effective manner and to obtain fiscal revenue. If a country lacks a good tax administration system, its tax laws perform practically less even no function. In this sense, the level of a country's tax administration is critical to determine the success of the country's tax system and its reform. For this reason, there are many scholars in the world who call for the goal of tax reform in developing countries and countries in transition to take into account the current situation and potential of their tax administration [1]. China's tax system is at the beginning of a new round of structural reform, and whether its

existing tax administration system can support current and future reforms is an important issue that cannot be ignored. A sound tax administration system is the basis for the implementation of tax administrative concepts and laws.

The term of so-called "structure of tax administrative agencies" usually consists of two aspects:

1. Vertical structure of the tax administrative agencies between the central and the subnational governments. In a country with a multi-level government, do governments at all levels need to set up their own tax administration systems and corresponding agencies to manage their respective revenues? That is, whether the central and the subnational governments should share the same set of tax adminis-

tration systems or have separate ones of their own.

2. Inner structures of the tax administrative agencies. Whether two or one set of agency is adopted for the vertical arrangement of the tax administration, the agencies as an organization should be arranged according to certain principles and operate based on certain models [2; 3]. That is, how the inner organizations should be structured in a modern tax administrative agency.

This paper will center on the first aspect rather than the second one.

Although the state and subnational taxation bureaus were established separately as an important part of China's fiscal and taxation reform in 1994, other reforms related to the vertical structures of the tax administrative agencies have remained unchanged afterwards and nearly all the reform initiatives thereafter have been carried out around the modernization of the inner organization of the taxation agencies. State Administration of Taxation of China's 2012 strategic goal of modernizing tax administration remains focused on the latter. In contrast, the reform of the vertical structures of the tax administrative agencies lagged behind. Few variations have taken place in this aspect while China's substantial tax laws, tax collection law and administrative technology have changed a lot in the past years. That's why this article centers on this issue.

It was not until March this year that National People's Congress of China reviewed and adopted the Party and State Council of China's plan for Institutional Reform whereby the government has decided to reform the tax administrative system, to integrate the state and local tax agencies at the provincial level and below and to assume it specific responsibilities for both tax and non-tax revenue administration within the corresponding jurisdictions. This means that the subnational tax agencies will be abolished gradually and the separate system of vertical administrative agencies will officially end.

It is still surprising when the reform plan, which was highly confidential before its release, was introduced although

its contents have been discussed a lot for many years. The reasons behind this policy choice of the Chinese government, and how to perfect the tax administrative agencies in the future, are still in need of further discussion in the following reform. The article aims to explain to readers that China's tax authorities have to a large extent absorbed common international practices and general experience. The article reviewed the history of the vertical arrangement of China's tax administration through descriptive and comparative analysis. The reasons for the cancellation of the subnational tax agencies in China were given followed by discussing the international experience of the vertical arrangements of the tax administrations. It is contended in the article that the reform of the vertical arrangements of the tax authorities is an attempt to deepen the reform of the fiscal system and promoting tax administrative agencies reform in the broad sense from the perspective of the modernization of the state governance system and governance abilities. The article concludes with a summary of several features of this reform.

1. The history of vertical arrangement of tax administrative agencies in China

1.1. Before 1994: one set of decentralized agency

During the same period, China implemented the fiscal contract system which actually is an approach to divide revenue between various levels of government. In most of the revenue-dividing schemes the ratio of addition income going to the central government was fixed. This led to most of the newly generated income flowing to the subnational governments. When it comes to tax collection, the tax agencies affiliated with sub-national governments as the agents of central government had a strong opportunistic motive to erode tax revenues of the principal (i.e., the central government) and cause great damage to central government's tax revenues. In the most difficult times, the central government had to borrow money from the subnational governments to meet the needs in expendi-

ture which seriously hurt the authority of the central government [4]. Data show that the proportion of the central fiscal revenue in the national fiscal revenue (excluding debt income) dropped from 38.4% in 1985 to 28.1% percent in 1992 (See Figure 1 below). This Seriously weakened the central government's macro-control capacity.

1.2. 1994–2018: two separate sets of tax agencies

In order to change this situation, strengthen the central government's control of the tax revenues and raise the ratio of the central tax revenues in total tax income, China switched its fiscal system from fiscal contracting system to tax sharing system. The central government decided to establish a special tax administrative agency, the State Administration of Taxation (SAT) with its own branches at subnational level, as one part of the fiscal reform in 1994, thereby introducing the separate state and subnational tax administrative agencies and assigning corresponding administration responsibilities on the basis of the a decentralized tax system. As it turns out, this move has played a critical role in reversing the financial strengths between the central and the subnational governments since 1994. In 1992 and 1993, before the implementation of the fiscal reform, the share of the central revenue in the fiscal revenue was only 28.1% or 22%. In 1994, the share rose to 55.7%, but it remained above 50% percent after 1999, despite a decline in subsequent years.

However, the separation of the tax agencies had negative impacts, too. On the one hand, the number of the personnel at the taxation agencies increased dramatically, resulting in a substantial growth in the costs of taxation; on the other hand, the taxpayers have to face two kinds of tax administrative agencies and the communication and coordination between the two kinds of agencies is insufficient which leads to higher compliance costs for the taxpayers. So the academic and policy circles had begun to explore the problem of restructuring tax administrative agencies as early as the around the year of 2000.

1.2.1. Discussions prior to the tax agency integration

Before then, a controversy has comparison in China between two distinct groups, i.e., the "integration" group and the "separation" group. The former advocated the merge of the state and subnational tax administrative agencies, believing that the agency integration would significantly reduce the administrative costs, save social resources and increase management efficiency and degree of taxpayer satisfaction. The latter, i.e., the "separation" group who favors maintaining the ongoing separation between the state and subnational tax administrations but splitted in how to keep them separate. To sum up, there were two views within the "separation" group generally: one was "collaborative tax administration", i.e., to strengthen cooperation and integration

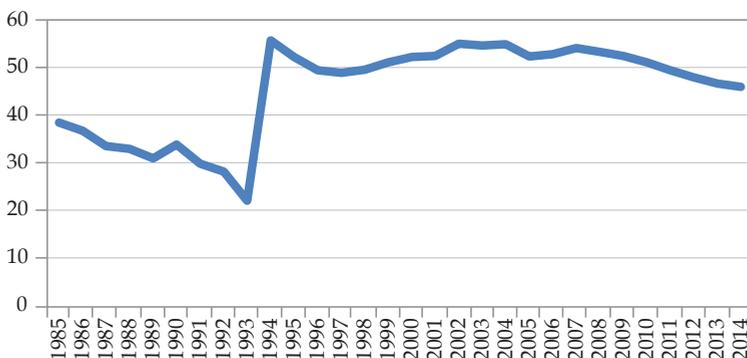


Figure 1. The ratio of central revenue to the total in China (1985–2014), %

Source: China Statistical Yearbook (various years)

during the operational process on the basis of the ongoing agency separation system; the other was to readjust the subnational tax agencies' administrative scope on the basis of the separation between two levels of tax administration. The "separation" group did not advocate to eliminate tax administrative agencies on subnational level mainly with the intention that China would switch its tax system from mail levy upon goods and services to upon individual persons; and subnational tax agencies would still have an important part to play as the proportion of personal income tax and property tax revenues increased. Therefore, from the perspective of development, the shrinking scope of tax administration due to the present "replacement of business tax with VAT" (this will be discussed in detail below) does not justify the assertion to abolish the subnational tax administrative agencies.

1.2.2. Reform in 2015: functional cooperation without agency merger

In terms of the policy, it is proposed in the fifth section of the Decision of the Third Plenary Session of the 18th Central Committee of the Communist Party of China to "deepen the reform of the fiscal and taxation systems" and to "improve the administrative system on the state and subnational levels", yet no details are provided on how to "improve" it. The official issuance and trial implementation of the Working Rules for the Cooperation between the State Taxation Bureaus and Subnational Taxation Bureaus (1.0 Edition) (hereinafter the "Working Rules") as of July 1, 2015 implies the official recognition of "collaborative tax administration based on two separate agencies"), the view of the "separation" group. On November 13 of the same year, the Program on Deepening the Reform of State and Subnational Tax Administration was adopted at the meeting of the Central Steering Group for Comprehensively Deepening the Reform, stressing that the separation of the state and subnational tax administrative agencies will remain unchanged with more cooperation on the one hand and confirming, on the other hand, that the functions

of subnational agencies will expand further and that its role to collect various local charges will be legitimized. This marks a tentative conclusion of the "separation or integration" dispute that has been persisting for years.

1.2.3. Institutional consolidation in 2018-abolition of the subnational tax administrative agency

Nevertheless, the collaborative tax administration based on two separate agencies is only a phase reform measure. The possibility of institutional consolidation is not therefore excluded from the policy option. After two years of silence on the subject, the Central Committee of the Communist party of China (CPC), at its third Plenary Session of the 19th CPC, put forward a proposal on the reform of the party and state institutions. Then the National Congress turned it into law in March, 2018. Its main contents include:

1. The integration of the state and local tax authorities at the provincial level and below. This means that China will have only one set of tax administrative agency in the future.

2. The integration of tax, social security contribution and other non-tax revenue administration operations within the corresponding jurisdictions. This means that the subnational tax agencies will be abolished gradually and the separate system of vertical administrative agencies will officially end.

3. The subnational tax agencies accepts the dual leadership of State Administration of Taxation of China and the provincial government, but mainly by State Administration of Taxation of China.

This article discusses the logic behind this reform. The author points out that the removal of the subnational tax agencies is the result of balancing on the advantages and disadvantages of the separate tax collection agencies and making full use of the advanced experience of foreign countries in the context of changing external environment. It is part of the reform of government institutions aimed at promoting the modernization of the state's governance.

2. Analysis of the reasons for the merger of China's tax administrative agencies

In any country, the vertical arrangement of its tax authorities are not set up in an isolated way. It is an important part of a country's fiscal system, economic institution and state governance system. The aim of separating tax agencies in 1994 is to increase central governments fiscal and macro-regulating capability and to meet the needs of establishing a socialist market economy as well. In the past 20 years, the overall goal of the reform has changed from establishing and improving the socialist market economy to promoting the modernization of the governance system and government capability of the state. The settings of the tax organization should be kept step with this. At the same time, great changes have taken place in the internal and external environment of tax administration, and the shortcomings of the separate structure have been highlighted in the new context.

2.1. Both administrative costs and compliance costs have greatly increased under the separate structure

On the side of administrative cost it is easy to imagine that two separate structure expands office spaces, equipment's, personnel costs, operating costs and the like at least two folded compared with a single agency. Despite the lack of public data, a large number of personal surveys, interviews, and non-disclosure information within the tax authorities support the above view.

As for the compliance costs, tax payers should submit their financial statements and tax returns to two separate tax authorities, and have to deal with two agencies' collection, administration and audits, which will definitely increase the cost of tax compliance.

2.2. The separate structure undermined the uniformity and authority of the tax law

China's tax laws and regulations are too simplified, and even very vague in some aspects. So there is too much room for discretion in tax administration. Be-

cause of the different understanding of the tax law and out of the defense of own interests, two distinct interpretations of the same tax law often appear between the state and subnational tax agencies. This not only leaves taxpayers at a loss but also undermines the unity, the seriousness and the authority of the tax law.

2.3. A reversal of financial relations between the central and subnational governments

One important goal of the fiscal reform of 1994 is to increase the proportion of the central fiscal revenue to the total. Since then the ratio of the central revenues went up rapidly which completely reversed the previous situation of "weak-central government and strong local government". In most subsequent years, the central financial resources accounted for about 50% percent of the country's total fiscal revenue (See Figure 1). Although there has been a decline since 2010, the central government still has a relatively stronger financial position than the subnational authorities in view of the fact that the local government has assumed most responsibility of public service provision in recent years.

Following the reversal of financial strength between the central and subnational governments, the original reasons for establishing separate tax agencies for each governmental level are no longer essential and, in this context, the high costs of keeping two sets of tax administrative agencies even more highlighted.

2.4. The original scope of administration for subnational tax agencies continued to shrink

In the past 24 years, China's tax system has undergone two major changes leading to a reduction in the scope of tax administration by the subnational tax agencies. After the abolition of the agricultural tax in 2006, the administrative scope of the subnational bureaus was contracted for the first time, and this triggered a round of discussion about the issue of the merger of tax administrative agencies. The second round of discussion occurred as a result

of the pilot program to replace the business tax with VAT in selected industries and areas as well as its introduction to all industries and the whole country subsequently. The business tax is the principal tax which once accounted for 20–70% tax revenues of subnational government. Following the progressive incorporation of the business tax as a major local tax into VAT (the reform has been fully implemented since May 1, 2016), the administrative responsibilities of the sub-national tax agencies witnessed a substantial shrinkage. That's why whether the subnational agencies should be retained or abolished becomes more popular since then.

2.5. Electronization and improvement of tax administration system

China has made great progress in tax administrative technology in the past years. In particular, the implementation of the Gold Tax can complete the administration of all taxes, non-tax income, social security contributions and other fees. It helps the state administrative agency to get taxation data on subnational taxes. Technically speaking, the role of subnational agency in collecting subnational taxes since its inception has no effect. At this time, the tax-sharing system still maintain but the current pattern of separate administrative structure is not as indispensable as before. Thus the merger of state and subnational tax authorities at the provincial level and below is a natural consequence.

3. What have we learned from international practices?

The vertical arrangement of tax administrative agency is not a unique problem in China, the experience of other countries, especially advanced market economies, is undoubtedly of great reference to the reform of China's tax administration. Facts shows that China's reform, to a large extent, absorbed international experience. To my opinion, the following three aspects are the most obvious.

3.1. The framework of fiscal decentralization

In the traditional fiscal decentralization theory, whether different governments should establish its own tax administrative agencies severs as a part of tax administration function assignment. In this sense, it is an important part of the fiscal system of a country. Quite a number of documents in support of establishing separate tax administrative agencies emphasize the importance of the separation of agencies to subnational tax revenues rights and corresponding fiscal autonomy. Observing from this perspective, we can find that the assessment on subnational governments' fiscal autonomy or fiscal decentralization consists of an embedded structure as follows [5].

As Figure 2 shows that the fiscal system (or the intergovernmental fiscal relationship) is an integral system which involves a wide range of issues, such as the arrangement of the fiscal expenditure

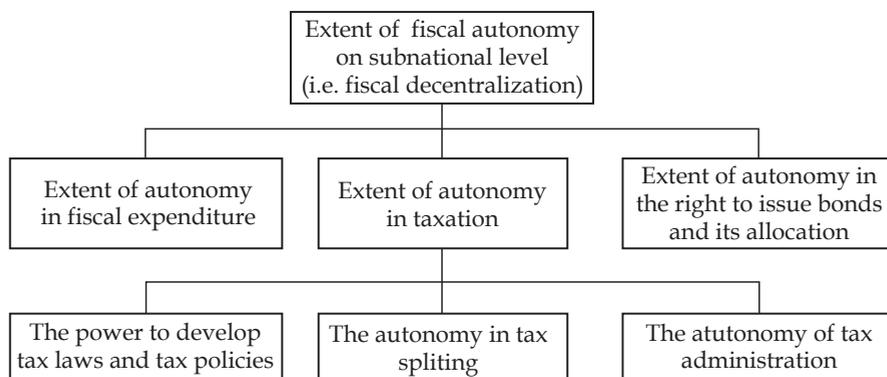


Figure 2. **Extent of fiscal autonomy on subnational level**

Source: Drafted by the author with reference to [5]

rights and responsibilities among governments at various levels, the division of government revenues (including those from taxation), the structure and model of transfer payment between the governments as well as the right to issue bonds and its allocation.

Generally, three parts of fiscal decentralization (Line 2 in the chart) must be coordinated with each other. That is why all the above factors should be taken into account in designing the system of fiscal decentralization [6]. On the basis of this point of view, it is a natural question whether the fiscal decentralization and the tax decentralization as one of the most important parts of the former, should be extended to tax administration? Or, does fiscal decentralization inevitably requires that the governments at different levels have tax administrative agencies of their own and exercise their tax administrative authority independently [7; 8]?

3.2. Inspiration from international experience

Though this question has not been included in the existing fiscal decentralization theory, relevant country-specific studies can provide valuable references for us. From international practices the following consensus has been reached about the vertical structure of tax administrative agencies at various level:

1. *The question whether subnational taxes should be administrated in a decentralized way should be considered within the fiscal system of specific country.* Fiscal decentralization does not necessarily require the decentralization of tax administration, let alone separate tax administrative agencies. Related researches, for instance, [1; 7; 8] indicate that no direct relationship exists between the extent of subnational tax autonomy and the extent of the decentralization of tax administration. That is, the separation of tax administrative agencies is not required necessarily even under decentralized fiscal systems.

2. *The separation of taxation agencies is neither a necessary nor sufficiency condition*

for fiscal decentralization. In practice, nations use many different alternatives for administering subnational taxes [8]. Effective fiscal decentralization should not start from the side of income, not to mention the tax administration authorities, but from the expenditure side instead. Many developing countries did not get the expected returns in the process of fiscal decentralization due to the erroneous sequence of decentralization they chose which gave priority on revenue-sharing rather than governmental responsibility assignment. This also put their financial and political structure into an unsteady, risky situation.

3. *The decentralized agencies leads to the problems of reverse incentives and higher taxation costs even if it is helpful in increasing the autonomy of the local governments, which may result in more complicated tax administration as well.* So all the possible gains and losses of different administrative models should be weighed before the choice is made.

4. *The structure of tax administrative agencies is closely related to the specific political, economic, cultural and historical conditions of particular countries and there is no "one size fits all" model [1; 6].* The specific situation of each country as well as the particular temporal and local conditions must be considered. It's important that the pursuit and imitation of so-called "optimal" or "advanced" models must be avoided.

It is because of such complex factors which affect the vertical structure of the tax administrative agencies in a country that people hold different opinions and cannot reach an agreement in related policy debates and academic discussions. Therefore, each country's specific choice is differentiated according to its national conditions [9].

3.3. Delivery and organizational arrangements of tax administration as a kind of public service

3.3.1. The Nature of Tax Administration

Our understanding of the nature of "tax administration" is of extreme

relevance to the model we choose to deliver “tax administration” as a public service. People instinctively regard tax administration as a unidirectional wealth transfer enforced by the state for its own interest, instead of treating it as general public services. In fact, there is no essential difference between tax administration and other public services such as national security, compulsory education and public health, among others. Tax administration is one of the public services that is mainly provided by the governments at all levels instead of other agents.

The supply of any public service implies the questions of the financing and delivery of such service. The former means the acquisition of needed funds and the latter refers to the course of converting finance into essential inputs to access the process of production and obtain outputs, which inevitably involves the selection and arrangement of the delivering organizations. In respect of the organizing selection for public services delivery, not only a wide range of theoretical frameworks that can be borrowed but also comparative institutional analyses for various kinds of public services are available, both of which lay foundations for the selection of the governance structure for the public goods delivery in practice [10–12]. However, the selection of the delivering organization for tax administration as one kind of public service, has not become a major research area of the theory on public service delivery though this theory has witnessed rapid development in the latest decades and has been applied to the choice of delivery organization of a large number of public services successfully. Therefore, it will make contributions in a couple of ways by applying the theory on the organization of public services delivery to the research of the arrangement of tax administrative agencies. It not only extends the existing perspectives for the research of the vertical structure of tax administrative agencies but also expands the existing applied research fields of the organization theory for public service delivery.

3.3.2. Pluralistic Modes of Public Service Delivery

As same as the financing structure of public services, the organizational structure of their delivery should be pluralistic, too. That means the delivery process of the public services is not enforced by public departments only. This is a consensus that has been reached for long in modern public goods theory. Governments at various levels may adopt the third-party organizations during the course of public services delivery, which is also applicable to delivery of tax administrative as a service. These options include:

1. *Government purchasing.* Also called public service outsourcing, including purchasing from other government organs, the market and social organizations. The government purchasing are applicable to those administrative functions that seem to be obviously “services” to the taxpayers. Among the typical purchasing targets are tax services (e.g., call centers), IT infrastructure support, tax assessment. Those administrative functions, such as tax fraud investigations and enforced tax debt collection, among others, that are not easily regarded as “services” by the taxpayers, are retained for implementation by tax administrative agencies themselves in most nations [13].

2. *Commissioned delivery.* E.g., the state governments commissioned to engage in tax administration on behalf of the federal government, which prevails in Germany; and the central government commissioned by most provinces in Canada to administer the income tax and the goods and services tax [7]. Commissioned delivery may be paid or non-paid, as the case may be. Non-paid commission is more often in cases of mutual commission.

3. *Cooperative delivery.* It often takes place for the consideration to improve the management efficiency and to increase taxpayers’ satisfaction under decentralized tax administrative agencies at various level of government. It is typical in Canada and other federal nations in which the federal, state and local tax

administrative agencies cooperate with each other very effectively in information exchange and tax administration delivery on behalf of each other. This does not exclude the exceptions of some other federal countries, e.g., Australia, among others, with independent separate tax agencies are separate where the administration efficiency is greatly impacted due to the lack of statutory inter-agency cooperation obligations, which can hardly be improved in terms of the systems as a result of the excessively independent tax administrative authority of the governments at various levels under the Constitution [7].

4. *Tax farming* (i.e., administration by private agencies completely). Tax farming is one of the earliest tax administration pattern. When a country lacks sufficient tax administration capacity, it commissions the tax collection task to a person or its agency in the form of contract awarding to ensure its fixed tax revenues; all the tax income other than the contracted amount belongs to the contractor (i.e., the tax collector) and the tax collector bears all the risks in tax revenues and administration. The tax farming system has not become extinct in the modern society and it exists in various forms in some least developed countries or regions where public administration lags behind [14; 15].

3.4. Professionalism and independence of revenue bodies

as an essential public service, tax administration is generally not different from other public services in nature; yet it is distinctive in the following two respects:

Firstly, tax administration is highly professional and technical, which makes the incentive mechanism for the tax administrative personnel more complex. The homogenous incentive focused on administrative promotion in modern bureaucratic system is applicable to universal public service providers. The highly professional public service delivery institutions, such as the taxation bureaus and the customs, among others,

nevertheless, are often gathering places of more professional and technical as well as managerial personnel in more diversified types and such motivation is evidently insufficient if they have to go through the narrow passage to administrative promotion like the public servants in general. The second is about the “negative” nature of tax administrative services relative to other public services. In the modern context of statutory taxation, the tax administrative agencies, as typical law enforcement units, often play their part in a “negative” manner due to the rigid restriction upon their discretionary power.

The professionalism of the tax administrative agencies and the “negative” nature of their administration services lead to the requirement for their relative independence. Whether affiliated to the ministries of finance or not, most of the tax agencies in major OECD countries and non-OECD countries in the investigation mentioned above enjoy a varied extent of independence. There is even a radical point of view that the tax administrative agencies may develop as independent agents outside the governments at all levels which fulfill lawful and highly efficient collection of revenues in a negative manner. Influenced by this idea revenue authorities (RAs) with various level of autonomy and different scope of function have been adopted as an alternative delivery model for improved administration efficiency and their performance on revenues collection has been explored [16].

In the mean time, the separation of the operating divisions from the administrative divisions in tax administrative agencies as well as establishing corresponding independent technical promotion system for the operating departments have become a common option for all countries in the reconstruction of the internal structure of modern tax administrative agencies. Increasing importance has been attached to this trend in the ongoing reform of the inside governance of the tax administrative agencies in China, too. It is explicitly stated in

the Program for Further Improving the Reform of the State and Subnational Tax Administrative System promulgated to the general public in late 2015 that it is imperative to “implement the system of professional ranks of the public servants” and “apply the appointment system to highly professional positions” to “provide solutions to the lack of professional personnel”.

4. Functional integration of revenue bodies

Currently there is an international trend for the unification and integration of tax revenue bodies functions in order to improve the operational efficiency of the tax administrative agencies [17–19]. According to the comparative study issued by [13] on the tax administration in major countries, the taxation agencies are integrated with the customs (or play the role of the customer) in 13 out of 34 investigated OECD members and the same integration of agencies or functions takes place in 6 out of 22 non-OECD members. Moreover, the social security tax is collected by the taxation agencies on behalf in 13 of the 32 OECD members under investigation where the social security tax/fee is collected, and the same happens in 7 out of 18 non-OECD countries in which the social security tax is posed. The majority of the taxation agencies in all investigated countries fulfill the function of the collection administration of non-tax revenues with the tax administrative agencies in some countries also execute the function of welfare project administration.

Currently there is an international trend for the unification and integration of tax revenue bodies functions in order to improve the operational efficiency of the tax administrative agencies [17; 18; 20]. According to the comparative study issued by [13] on the tax administration in major countries, the taxation agencies are integrated with the customs (or play the role of the customer) in 13 out of 34 investigated OECD members and the same integration of agencies or functions takes place in 6 out

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Conclusion

Reasonable vertical structure of tax agency serves as the foundation of modern tax administration system. This article analyses the reform of vertical arrangement of China’s tax authorities starting in 2018. It points out that this reform, as a part of China State Council institutional reform, is not just a reform of fiscal system, but aiming at improving the governance system and governance capability of China by integrating tax agencies at central and subnational levels. It shows the following characteristics:

1. The main purpose of the merger is to meet the development requirements of the new era, promote the modernization of the state governance system and governance capacity and provide support for achieving high quality development by improving the efficiency of the government’s operation and the cost of taxpayers’ tax compliance.

2. The reform is a decision made in the light of China’s actual conditions and has fully absorbed international experience.

3. The reform is based on the construction of a general public service supply system, with tax administration agency as a public service production organizations as part of it.

4. The reform, which goes beyond the narrow tax administration, includes the broad tax administration in general. In addition, it is a step in the direction of specialization and independence of tax administrations.

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