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Research on the Relationship Between the Tax System and Alleviating Income Inequality

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Abstract: This paper delves into the relationship between China's tax system and the alleviation of income inequality. After achieving a moderately prosperous society, China confronts the issue of income inequality, with a Gini coefficient in 2022 higher than the international warning line. The tax system, especially personal income tax, aims to regulate income distribution, yet its current effectiveness is limited. China's tax system encompasses multiple tax categories like value - added tax, corporate income tax, and personal income tax. However, the heavy reliance on indirect taxes and loopholes in tax collection and management weaken its role in narrowing the income gap. Income inequality in China is prominent in urban - rural and industrial dimensions, with significant income disparities. The tax system exerts regulatory effects. Personal income tax, through progressive tax rates and deductions, eases income inequality. Property tax regulates wealth distribution by targeting real estate and inheritance, while consumption tax impacts different income groups' consumption through differentiated tax rates.

Keywords: Tax revenue, income inequality, policy.

1. Introduction

After building a moderately prosperous society in all respects, China is facing the problem of income inequality. According to World Bank data, the Gini coefficient of China in 2022 is 0.467, which is higher than the international warning line of 0.4. Although personal income tax plays a certain role in regulating residents' income distribution and has a positive impact on alleviating income inequality, it cannot be denied that its actual effectiveness is quite limited and almost negligible. Taxation is the most important and stable form and source of income for the government, and an important means of regulating economic operations. Taxation can affect the economic interests of individuals and the market through means such as tax increases and reductions, guide the economic behavior of enterprises and individuals, and have an impact on resource allocation and socio-economic development, thereby achieving the goal of regulating economic operations. Because taxation generally has basic characteristics such as mandatory, gratuitous, and fixed, it is also a very effective method of regulating income inequality and the most effective way to narrow the wealth gap. The income gap among Chinese residents remains severe at present. According to the "China Wealth Report 2023", there are approximately 4.6 million wealthy people, accounting for 0.33% of the total population, and owning 67.44% of the total private wealth [1]. So it is extremely important to create a tax policy that meets the needs of citizens and businesses while also supporting economic development. The main types of taxes in China are income tax, property tax, resource tax, behavior

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tax, and turnover tax. Among them, personal income tax is an important tax tool to alleviate income inequality in taxation. According to the data from the "China Economic Security Outlook Report 2018-2019: Analysis of China's Economic Security Situation in the Changing World Pattern", the tax burden on low - and middle-income groups has been significantly reduced after the personal income tax reform in 2018. Taking a monthly income of 8000 yuan as an example, the pre-reform tax payable was 345 yuan, while after the reform, the tax payable was 90 yuan. It greatly increases the disposable income of low - and middle-income groups.

This article focuses on the relationship between the tax system and alleviating income inequality, and has significant theoretical value in optimizing tax policies and improving the tax theory system. It can provide many useful theoretical supports for related work. And understand how the current tax system works to alleviate income inequality in China and its actual impact. After completion, it can provide theoretical support for building a more fair and effective tax system and is also of great importance in promoting social equity and justice. This article reviews relevant examples and literature on how the tax system can alleviate income inequality. Combining with the fact of China's tax gadget and income inequality, it deeply analyzes the inner mechanism of the tax gadget's function in earnings inequality, and draws conclusions that may help alleviate earnings inequality, and places ahead targeted hints.

2. China's tax system and the current situation of income inequality

2.1. Current situation of China's tax system

Chinese language tax gadget is an critical pillar of the country wide economic system, gambling a crucial role in economic operation and social improvement. currently, China has formed a composite tax system that covers more than one classes consisting of turnover tax, earnings tax, belongings tax, aid tax, and behavior tax.

fee-added tax is the largest tax type in China, based at the value delivered at some point of the circulate of goods and services. Value-added tax not only has the characteristics of universal collection, strict taxation, and nondouble taxation but also adopts the purchase tax deduction method to effectively avoid duplicate taxation, greatly promoting specialized collaborative production and optimizing production and operation structure; However, it is worth noting that it has a regressive impact on low-income groups. Due to the relatively high proportion of consumption expenditure to income among low-income groups, their tax burden on value-added tax when purchasing goods or services is greater than that of high-income groups, which to some extent exacerbates income inequality. In 2023, the scale of home cost-brought tax revenue will reach 6234.6 billion yuan, accounting for 39.7% of the entire tax sales and turning into the number one source of economic sales [2].

Business enterprise income tax covers the production and operation income as well as other varieties of earnings of establishments, and is commonly subject to a tax charge of 25%. However, China has introduced corresponding tax incentives for small and micro profit enterprises to support their development. Corporate income tax, based on taxable income, plays a crucial role in creating a fair competition environment among enterprises and regulating economic structure. In 2023, the amount of corporate profits tax sales reached three.3136 trillion yuan, accounting for 21.1% of the overall tax revenue, which strongly supports the stability of China's economic and financial order [3].

Personal income tax is levied on various types of taxable income of individuals, implementing a comprehensive and classified tax system that covers multiple types of income such as wages, salaries, and labor remuneration. The tax calculation method adopts a combination of progressive tax rates and proportional tax rates. In 2023, personal income tax, which is of great significance in regulating

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income distribution and promoting social equity, saw its revenue hit 1.4958 trillion yuan. This figure made up 9.5% of the total tax revenue for that year [4].

In addition, consumption tax is mainly levied on specific consumer goods and behaviors such as cigarettes, alcohol, and high-end cosmetics, aiming to regulate consumption structure, guide consumption direction, and increase fiscal revenue. The resource tax is levied on the development and utilization of natural resources to promote their rational development. These tax categories work together to support national fiscal revenue and play a role in economic regulation.

2.2. Current situation of income inequality in China

The difficulty of profits inequality in China is specifically pondered in dimensions: urban and rural areas and industries, which have a profound effect on the socio-financial landscape. The profits gap among city and rural regions is quite significant. according to records from the country wide Bureau of records, the per capita disposable income of city citizens in 2023 is 49283 yuan, at the same time as that of rural citizens is best 20133 yuan, with a distinction of nearly 30000 yuan and an earnings ratio of 2.45. China's lengthy - status household registration machine and concrete - rural dual structure have had a profound and lasting effect at the pattern of urban and rural development. For years, the urban - rural dual monetary shape has been the primary purpose of this hole. restricted by the family registration device, there exists a huge divide between the agricultural populace and urban citizens in factors which include employment, training, and hospital therapy. this example impedes the green switch of rural hard work to high - great urban industries. The dual structure of urban and rural areas has led to a long-term shift in resource allocation towards cities, resulting in the improvement of urban industrial systems, abundant and diverse employment opportunities, and the attraction of many talents and capital inflows, effectively promoting the sustained growth of residents' income. On the other hand, in rural areas, due to this structure, the industrial structure is single and mainly relies on agriculture with lower added value. At the same time, due to uneven resource allocation, rural infrastructure, and public services are relatively lagging, which not only restricts the upgrading and transformation of rural industries but also limits the possibility of farmers increasing their income through multiple channels.

The income gap between industries is also significant. Taking 2023 information for example, the average profits of practitioners inside the records transmission, software, and information generation provider industries is as excessive as 220414 yuan. Like Tencent, an Internet giant, with its strong technical strength and massive user base in social networking, gaming, financial technology and other fields, it has created extremely high economic benefits, and its employees are well paid. On the other hand, the average salary in the accommodation and catering industry is only 50346 yuan. In traditional manufacturing industries, such as some small and medium-sized clothing processing factories, they mainly engage in OEM production, rely on cheap labor, have low technological content, have meager profits, and have difficulty in increasing workers' income. Industries such as finance and technology rely on technological and capital advantages to dominate the market and create high-value-added products and services, resulting in higher salary levels. However, traditional manufacturing and service industries are highly competitive, have low technological content, and limited profitability, resulting in lower income for employees. Long-term income inequality may trigger social conflicts, which urgently need to be alleviated through policy adjustments and industrial structure optimization to promote social equity and sustainable economic development.

2.3. The current tax system addresses the issue of income inequality

Although China's tax system has achieved certain results in regulating income inequality, there are still some urgent issues that need to be addressed. From an international comparative perspective, the

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shape of China's tax system affords awesome area of expertise. Taking developed nations inclusive of the us as an example, the ratio of direct and indirect taxes is kind of 6: four, and direct taxes dominate the tax device. Direct taxes such as private profits tax and assets tax efficiently alter the monetary conduct of high-earnings and excessive net well worth agencies. Alternatively, in China, the present day tax machine nevertheless is based in particular on indirect taxes such as cost-added tax and consumption tax. In 2023, the percentage of oblique taxes in general tax sales will exceed 50%, whilst the share of direct taxes could be relatively low, with the share of direct taxes which includes private income tax and belongings tax being in particular small.

Due to the fact that indirect taxes can be passed on to consumers through the prices of goods and services, and the consumption expenditure of low-income groups accounts for a relatively large proportion of their income, they bear a relatively heavy tax burden, which has a negative impact on income distribution regulation. Unlike direct taxes, which can directly affect taxpayers' income or property, direct taxes have stronger capabilities in income regulation. However, in China, the proportion of direct taxes is too low, which undoubtedly weakens the effectiveness of taxation in narrowing income inequality.

Secondly, there are numerous loopholes in the tax series and management system. In the method of tax collection and control in fact, the profits composition of excessive-income companies is extraordinarily complicated, protecting a couple of forms inclusive of capital gains and dividends. a part of the income has strong concealment, which significantly hinders the precise supervision work of the tax branch and ends in frequent tax evasion. Taking the well-known film and television star Fan Bingbing as an example, by signing a "yin-yang contract" and concealing his true income, he evaded paying personal income tax, resulting in a huge amount of money involved in the case, which has attracted widespread attention from society. Similarly, internet celebrity anchor Viya has also been investigated and punished according to law for concealing personal income, fabricating business conversion income nature, and making false declarations of tax evasion. This series of events has exposed the shortcomings in the management of high-income groups.

In addition, there are serious deficiencies in the tax information-sharing mechanism between different regions and departments. The untimely and incomplete transmission of information has significantly reduced the efficiency of tax series and control. For example, some cross-regional businesses may use the lack of effective sharing of information among tax departments in different regions to blur taxable income and evade full tax obligations. Moreover, the professional quality of some tax personnel varies greatly. When facing complex tax-related businesses such as tax accounting for cross-border e-commerce and tax treatment of emerging financial products, their processing capabilities are limited, making it difficult to accurately identify and control potential tax risks. This further exacerbates the problem of tax loss and critically weakens the key position of the tax machine in regulating earnings distribution.

To enhance the effectiveness of taxation in regulating earnings inequality, it's miles vital to similarly optimize the tax device structure, boom the share of direct taxes, give a boost to tax collection and control, enhance facts-sharing mechanisms, and beautify the commercial enterprise abilities of tax employees to ensure tax equity and the effective functioning of earnings law.

3. The regulatory effect of the tax system on income inequality

3.1. The regulatory role of personal income tax

Personal income tax performs a primary position in regulating earnings inequality as a tax device. A revolutionary tax charge is an critical feature of private earnings tax, and its primary principle is to divide tax price ranges in keeping with earnings degree. The better the income, the higher the relevant tax fee. The excessive-income institution bears a higher tax burden, which suppresses the growth

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charge of their disposable profits. The low-earnings organization, due to lower applicable tax rates and lighter tax burdens, has a relatively higher income share under tax regulation, thereby alleviating the problem of income inequality. This tax design has to some extent narrowed the wealth gap and enhanced the redistributive function of social wealth [5].

In addition, the deduction policy of personal income tax has significant differences in its impact on different income groups. Standard deductions and special additional deductions (such as children's education, major illness medical care, etc.) effectively reduce the taxable income of low - and middle-income groups, thereby reducing tax burdens and increasing their actual disposable income. For high-income groups, due to their large income base, the proportion of deduction items in their total income is relatively small, so the effect on their tax burden is constrained. Average, this deduction mechanism has played a effective position in helping middle and occasional-profits groups and retaining social equity, helping to optimize the profits distribution shape and sell balanced financial and social improvement [6].

3.2. The regulatory role of property tax

Property tax mainly targets the real estate or inheritance wealth held by individuals and enterprises, with the core goal of regulating wealth distribution and preventing excessive concentration of wealth. Belongings tax and inheritance tax are crucial additives of belongings tax, gambling a essential role in regulating social wealth.

Firstly, property tax imposes taxes on the holders of multiple properties, increasing the holding costs for high-income groups and encouraging them to reduce unnecessary property hoarding. This mechanism helps to facilitate the rational circulation of real estate resources and avoid excessive concentration of properties in the hands of a few affluent groups. A reasonable property tax policy can not only curb the rapid rise in housing prices, and alleviate the pressure on ordinary residents to buy houses, but also protect the housing rights of low - and middle-income groups. In addition, property tax revenue can be used to improve community infrastructure and enhance the quality of public services, indirectly increasing residents' wealth levels and promoting overall social welfare [7,8].

Secondly, the establishment of an inheritance tax aims to prevent an intergenerational high concentration of wealth. Inheritance tax imposes taxes on huge estates, requiring high net-worth families to pay high taxes in the process of wealth inheritance, thereby reducing the monopoly of family wealth and promoting the recirculation of wealth in society. For example, under the regulatory effect of inheritance tax, large wealth will not be limited to within the family but will enter public finance through taxation and be used for public services such as education, healthcare, and infrastructure construction, benefiting a wider range of social groups. This can not only reduce the wealth gap in society but also create more opportunities for wealth growth and achieve a more reasonable distribution of social wealth [9].

3.3. The regulatory role of consumption tax

The implementation of differentiated tax rates for consumption tax based on product categories has had an undeniable impact on the consumption expenditures of different income groups. The low tax rate policy for luxury goods consumption tax and daily necessities is the main means of regulating income distribution through consumption tax.

Levying a better consumption tax on luxurious items is an critical manner for the authorities to adjust the consumption behavior of high-income corporations. For example, high-priced goods such as high-end cosmetics, luxury cars, and luxury jewelry are inherently expensive, and the higher consumption tax further increases their purchasing costs. Although high-income groups have strong

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purchasing power, price increases can still have an impact on their consumption decisions, and some nonessential luxury goods consumption may decrease as a result. At the same time, some consumers may evade high consumption taxes through overseas shopping or second-hand market transactions, thereby changing their consumption structure. In addition, the revenue from high luxury goods consumption tax can be used for public services and social welfare, improving the quality of life of low-income groups.

In contrast, implementing low tax rates or tax exemptions on essential goods can help reduce the cost of living for low - and middle-income groups. For example, the low tax burden policy for basic daily necessities such as grain, edible oil, and medicine helps to maintain price stability and ensure the basic living needs of residents. For low - and middle-income groups, this policy not only reduces the burden of spending on essential goods but also allows their limited income to be used for other necessary expenses such as education and healthcare, thereby stabilizing their consumption structure and improving their quality of life. In this way, consumption tax has played a positive role in regulating the consumption behavior of different income groups and improving overall social welfare [10].

4. Conclusion

This study explores the role of the tax system in regulating income inequality and analyzes the current situation and existing problems of China's tax system. Overall, taxation, as an important tool for government regulation of the economy and social equity, has a certain effectiveness in alleviating income inequality. However, due to the fact that China's tax gadget nevertheless in particular is predicated on indirect taxes, with a surprisingly low proportion of direct taxes, and there are loopholes in tax control, excessive-earnings agencies can take gain of the shortcomings of tax policies to lessen their tax burden, thereby weakening the function of tax law in profits distribution. In addition, the widespread earnings hole between city and rural areas and industries similarly exacerbates social inequality. Consequently, optimizing the tax gadget shape, increasing the percentage of direct taxes, strengthening tax series and management, and improving regulatory mechanisms such as property tax and inheritance tax are key directions for future tax reform.

In future research, scholars can explore in depth the following aspects. Firstly, researchers can optimize the personal income tax device and study how to more accurately adjust the tax burden of various profits groups to improve tax equity. Secondly, the academic community can explore the implementation paths of property tax and inheritance tax, and analyze their long-term impact on social wealth distribution. Thirdly, the studies group can examine the effect of intake tax on one of a kind income businesses and take a look at how tax guidelines can sell social fairness with out increasing the burden on low-profits organizations. Fourthly, policymakers can draw on international experience to study how to build a more efficient and transparent tax series and management device, reduce tax losses, and improve the execution and credibility of the tax system. By continuously optimizing tax policies, China can more effectively utilize taxation as a regulatory tool, achieve more equitable income distribution, and promote sustainable social and economic development.

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