

Reducing the Actual Tax Burden on the Heavy Equipment Manufacturing Industry is the Top Priority of the New Round of Tax Reform

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Abstract: In 2024, China's domestic value-added tax was 6.6672 trillion yuan, and enterprise tax was 4.0887 trillion yuan, accounting for 38.1% and 23.37% of the total tax of 17.4972 trillion yuan, respectively, and accounting for 61.47% in total. At present, there are deficiencies in the design mechanism of the main tax categories to some extent, such as the conflict between value-added tax and enterprise income tax, among which the venture capital is the most prominent. In order to meet the new challenges of the new round of tariff increases by the new Trump administration, enhance the core competitiveness of the heavy equipment and enterprises that "go out", and reduce their actual tax burden on revenue, it is an inevitable choice for the new round of tax system reform.

Keywords: Heavy Equipment Industry; Going Global Enterprises; Double Taxation; Main Tax Categories; Effective Tax Burden

1. Introduction

Since France first implemented the value-added tax in 1954, the advantages of the value-added tax, such as the minimum "excess burden of taxation", a broad tax base, the elimination of double taxation, thorough export tax refunds, easy burden shifting, and internal control mechanisms, have been recognized by tax authorities around the world. It has become the best turnover tax in the late 20th century enjoys the international reputation of "coin machine" in Europe. Alan A. Tait, an international VAT expert, called the rise of VAT "a unique event in history of taxation, and no other tax can sweep the world from theory to practice in such a short period of about 30 years", and likened it "the

Matthaeus of the taxation world", so that "no one can resist her temptation". However, the United States, as the largest economy the world, does not have a value-added tax. It can be seen that there are also some problems in China's value-added tax system that need be coordinated with the enterprise income tax system, which urgently need to be studied and solved.

2. An Analysis of the "Double Taxation" of the Combination of Two Taxes

At present, the combination of VAT and income tax almost become an international practice, but it has its own theoretical defects, and to some extent, it is still a theoretical problem to be solved, which is mainly reflected the aspects of function, taxpayer, taxation object and tax rate:

2.1 There is a Certain Overlap between the Functions of Vat and Income Tax

Theoretically speaking, it is inevitable that the taxation of goods and services will be regressive because of the proportional tax rate of the value-added tax. Thus, some countries that collect value-added tax usually adopt a multi-level tax rate form to alleviate it. However, more countries, like country, implement a one-level or two-level tax rate, which weakens the function of value-added tax to regulate the economy and redistribute. Joseph E Stiglitz called it "a clumsy tool of redistribution". With regard to the income tax, both the enterprise income tax in our country and corporate income tax in the West basically adopt the proportional tax rate. In order to reflect the principle of tax fairness, the method of setting tax adjustment items is usually adopted supplement it, but the problem of the regressivity of the proportional tax rate has not been paid attention to. To some extent, the

income tax, like the value-added tax, only reflects the principle of tax efficiency, so it is somewhat a repetition of the functions of the tax types.

2.2 The Overlapping of Taxpayers to a Certain Extent

Western scholars believe that commodity taxation is a tax is passed on, and the extent to which it is passed on depends on the elasticity of supply and demand, market structure, market expectations, the nature of the commodity, the method of taxation, the scope of taxation, the type of tax, the tax rate, the tax burden, the cost of production, preferences and other, as well as the extent of mutual influence between these factors. With regard to commodity taxation, whether it is a shift in the supply curve or a shift in the curve, the tax is fully borne by the consumer only when demand is inelastic, and in all other cases the tax is borne jointly by the supply and demand sides, the proportion of the burden depends on the above many factors. With regard to income tax, it is generally believed that income tax is not passed on or is difficult to on, and if it is passed on, it is only partially passed on. However, the famous American economist Harberger (A.C. Harberger) concluded that income tax is shifted according to the general equilibrium analysis method and it is borne by the capitalists, creditors, employees and consumers jointly. In addition, the empirical research reports from Korea also confirmed this point. If this conclusion established, then consumers will also bear part of the income tax, in this sense, the income tax corresponds to the same taxpayer as the value-added tax. Therefore from the perspective of optimizing the tax system, it should overcome or avoid "double taxation".

2.3 There is a Certain Overlap in the Objects of Taxation

The object of taxation of VAT is the value added, which is the created value in production and operation. Marx called it V M, that is, the value of living labor and surplus value. In industrial enterprises, the value added equal to the sales income of taxable products minus the amount of purchased items used to produce VAT products. Specifically, it includes the expenditure of purchased raw materials, fuel power, packaging, low-value consumables, and

labor services. In commercial enterprises, the value added is the selling price of goods minus the purchase price of goods

For income tax, the tax base is taxable income, and the value-added amount contains taxable income. It can be expressed by the formula:

$$\text{Increase in value} = \text{taxable income wages and salaries manufacturing expenses selling expenses sales taxes and surcharges} \pm \text{tax adjustments}$$

$$\text{Taxable income} = \text{accounting profit} \pm \text{tax adjustment items}$$

In the above formula, accounting profit is calculated in accordance with the accounting standards, which embodies the purpose of the accounting standards, that is to provide various valuable information to investors and creditors in a timely manner. However, in Anglo-American countries, since the accounting standards come from the private sector, mainly reflect the interests of shareholders and creditors, while tax law embodies the will of the government. The starting points of the two are different, so naturally there are differences. In our country, the accounting system and tax law both come from the government, so there are fewer differences, but in order to reflect the principle of fairness taxation, some adjustment items are still stipulated. In addition, if the method of enumeration is adopted, the value-added amount is the sum of depreciation wages and salaries, interest, rent, direct taxes, dividends and retained earnings. The object of taxation of value-added tax includes direct taxes, which also violates the of "no double taxation".

2.4 There is a Certain Degree of Overlap in the Rates

In general, the value-added amount is greater than the amount of. According to the measurement, the value-added rate of manufacturing industry in China is currently on average more than 20%, while the profit rate shown in national statistical data is about 10%. If we convert the tax rate, considering the adjustment factors of tax items, the profit rate, or what can be the taxable income rate here, will be further improved. This situation shows that about 10% or more of the 30% value-added rate taxed repeatedly, that is, one third of the value-added amount is taxed repeatedly.

3. The Combination of the Two Taxes Needs Theoretical Innovation.

The above analysis shows that it is because of the recognition of the of tax efficiency of VAT in theory, and the tax burden is easy to shift, and it does not constitute the real tax burden of enterprises, and the principle of fairness is reflected through income tax, that the combination of the two taxes has become a common practice adopted by tax authorities in various countries. In practice, if there is increase in value, VAT will be levied; in the same way, if there is an increase in income, income tax will also be levied, taxpayers are largely the same subject. Countries that levy VAT in the world also levy income tax, which poses a severe challenge to the theory of the combination VAT and income tax, and is also a problem that tax authorities in various countries should face up to. It can also be seen from Musgrave's chart of monetary flow and tax distribution that since VAT has an efficiency goal, it is not effective for the realization of the goal of resource allocation and redistribution, and it must matched with an income tax that meets the goal of fairness. However, since countries around the world have adopted a linear proportional income tax system, the role and effect of distribution have been weakened, and it can also be shifted to a certain extent, so the combination of VAT and income tax needs new theoretical support.

From the point of view of the theory of the optimum commodity taxation, Frank Ramsey's rule of the inverse relation between the rates of taxation the elasticity of demand established that the optimum structure of commodity taxation should be a system of differential rates and that, other things being equal, the rate of taxation on commodity should be inversely proportional to the elasticity of its demand, to be expressed by the formula $t_e/t_i = \eta_i/\eta_e$, where t_e denotes rate of taxation on the e -th commodity and t_i the rate of taxation on the i -th commodity and where η_i and η_e represent the elastic of demand for the two commodities respectively, or in the alternative form $t = k/\eta_d$, where t is the ad valorem rate of taxation on some particular, η_d is the price elasticity of demand for that commodity (absolute value), and k is a constant proportion (the same for any commodity) the of which is determined by the amount of revenue the government wishes to raise. If supply factors are considered, the

above formula becomes $t = k(1/\eta_d - 1/\eta_s)$, where η is the price elasticity of supply of the commodity. Subsequently, Stiglitz et al. further considered the case of income tax and, for the first, combined commodity taxation with income taxation, and the formula was rewritten as $t = k[1/\eta_d - (1-r)/\eta_s]$, where r represents income tax rate, and the marginal tax rate r is between 0 and 1. This theory shows that the optimal value-added tax should take the form of multi-level tax rate. At the same time, the marginal tax rate r should be low, and according to the research results of optimal income tax by James Mirlees, the winner of the 1996 Nobel Prize, the optimal income tax rate r should be between 20% and 30% and should never exceed 40%.

4. Conclusion

Western scholars analyzed the combination of income and commodity taxes from the perspective of the "optimum tax". For example, Hicks (1939) and Joseph (1939), etc., used partial equilibrium analysis to demonstrate that income tax is superior to commodity tax under the premise a fixed tax revenue, because income tax does not cause a re-combinations of commodity consumption choices, which Pigou (1951) called "substitution Effects", that is, taxation produces "the substitution effect of taxation", and thus "the extra tax burden". Unsurprisingly, Friedman (1952), etc., also came to the conclusion that income tax is superior to commodity tax by using general equilibrium analysis. Therefore, given that China's current income tax rate is only at the medium level in the world, a rate reduction will only the "tax revenue effect", and it has now taken shape after years of regulation, supplementation and improvement. Since the income tax implements dual taxation jurisdiction and needs reflect the principle of national treatment, the calculation is very complicated, and it is also necessary to make tax adjustments, and the reform of income tax will inevitably touch on preferences of the income tax law for foreign-invested enterprises. From the perspective of the adjustment intensity of interests, the resistance to the implementation of new laws, and political sensitivity of reform, the reform and improvement of value-added tax and enterprise income tax is the first choice. Especially in the current context that Western developed

countries have off a new round of tax reduction waves, it is an effective measure to reduce the actual tax burden of the two main tax categories in time, improve the price competitiveness export commodities of heavy equipment industry, and improve the pure income of enterprises. Since the current value-added tax rate in China is not high, the same as the tax, the rate reduction will only play the "revenue effect", but can not solve the deep-seated problems of value-added tax and enterprise income.

In short, from the perspective of enhancing the international core competitiveness of the heavy equipment manufacturing industry, which is known as the "mother machine of production", encouraging exports, expanding investment and maintaining the leading position in the world, reducing the burden of value-added tax and enterprise income tax can relieve the contradiction of "double taxation" to some extent, and is a natural choice for the new round of tax system reform.

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