



# **Boao Forum for Asia Annual Conference 2018**

## **Session Summary (No. 48)**

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### *Session 26*

### **Tax Cuts: A Global Race to the Bottom**

**Time:** 10:45 a.m. 12:00 a.m., April 11, 2018

**Venue:** ICC, Level 1, Dong Yu Grand Ballroom B

**Moderator:**

Stephen ENGEL, Reporter, Bloomberg TV

**Panelist:**

Shaukat AZIZ, Former Prime Minister, Pakistan

Sanjaya BARU, Secretary General, FICCI

CHENG Lihua, Vice Minister of Finance PRC

CAO Dewang, Chairman, Fuyao Glass

Peter COSTELLO, former Treasurer, Australia

JIA Kang, Former Director, Research Institute for Fiscal Science (RIFS),



Ministry of Finance; Chief Economist, China Academy of New-Supply Side Economics

**Key points:**

- In terms of tax system, China will strengthen its overall design and supporting implementation, and establish a more competitive and modern tax system that conforms to China’s national conditions and meets the requirements of modernization of the national governance.
- The tax reform policy should be based on the principle of adapting measures to the actual conditions.
- Being an incentive for businesses, tax reduction can also result in fiscal deficits. In addition to reducing taxes, the government should also pay attention to redistribution.
- Tax policy is not a mechanical tool that can be independent of the overall economic environment.
- A well-designed tax system can greatly boost economic growth.

**Synopsis:**

In today’s international environment, more and more countries are aware that tax reform policies such as corporate tax reduction can effectively promote economic development and enhance national competitiveness. After taking office, the US President Trump launched the “first shot of tax reduction” in the world, which effectively helped the return of American capital and stimulated economic growth. At the same time, China is also continuously



pushing forward the reform of the tax system. In the new round of international competition, China has a strong sense of “a global race to the bottom”.

### **Both China and the United States actively Promote Tax Reform**

CHENG Lihua said: the successful implementation of China’s tax system reform for over the past 40 years embodies two remarkable characteristics: first, the tax system reform adapts to the internal environment of the reform of the socialist market economic system with Chinese characteristics, and focuses on the modernization of the tax system. Second, the tax system reform always adapts to the external environment of economic globalization. China has always been actively exploring ways to simplify its tax system, broaden its tax base, optimize its structure of tax system, and promote inclusive growth.

In terms of tax system, China will strengthen its overall design and supporting implementation to establish a more competitive and modern tax system that conforms to China’s national conditions and meets the requirements of modernization of the national governance. And the following four aspects should be mainly considered: first, to further optimize the structure of the tax system; second, to further implement the statutory principles of taxation; third, to actively and steadily promote the reform of the local tax system, taking into account the tax attributes; fourth, to promote the establishment of a new international taxation order and continue to expand and deepen cooperation in global tax governance.



## **Tax Reform Should be Based on the Principle of Adapting Measures to the Actual Conditions.**

CAO Dewang pointed out that China should proceed from its national conditions rather than completely adopt the US approach. China should give strong support to small and micro-sized enterprises, further reduce the burden and improve the efficiency of enterprises through continuous reform. And different policies of the tax reduction should be adopted for big businesses and small businesses separately.

CHENG Lihua thinks that tax reform policy should be based on the principle of adapting measures to the actual conditions. The tax reform of the United States mainly refers to the reform to the direct tax, and the President will have the final say in whether to sign the law for the reform. The situation of China is different from that of the United States, and the tax reform in China is mainly in the field of value-added tax, that is, economic tax.

### **There Should Be A Bottom line for Tax Reduction**

Sanjaya BARU pointed out that, being an incentive for businesses, tax reduction can also result in fiscal deficits. In addition to reducing taxes, the government should also pay attention to redistribution, and increase expenditure on education, health care, culture and other areas. So both the tax reduction and distribution should be well implemented, We can keep reducing taxes continuously without taking other measures..

Peter COSTELLO put forward that taxation itself does not promote economic growth, but rather impedes economic growth. The best taxation method is to keep tax rates as low as possible, keep the tax system efficient and simple, and keep compliance costs as low as possible.



Shaukat AZIZ, said a well-designed tax system can greatly promote economic growth and prosperity. The tax system should have continuity in viscosity, and the tax management and tax ideas can greatly promote reform and economic growth. First, each country must have the idea of intelligent taxation, making it easier for taxpayers and tax officials on tax; second, in order to reduce tax evasion, the system should be more transparent.

Tax policy is not a mechanical tool that can be independent of the overall economic environment. It is not feasible to just implement the tax reduction policy without fostering an overall environment for economic growth. Before carrying out the tax reduction policy, an engine of economic growth should be found. After that, appropriate tax reduction measures should be introduced to meet the development needs, and vice versa. Choosing a good time to implement tax reduction is very important. The best time to implement tax reduction is just the time of economic growth.