

International Seminar on Reform for Agriculture-related Tax System

Nanchang PRC

September 2006

China's Experience with Agriculture Taxes

- 1958-1978
 - tax in kind (physical quantities)
 - total agriculture tax fell, tax as percent of revenue fell, average rate of tax fell, tax burden fell
- 1979-1982
 - tax payments monetised, otherwise similar, but collections quadrupled,
- 2000-2003
 - cancellation of various fees and charges, collections doubled but burden on farmers halved,
- 2004
 - cancel tax in five years

Implications from China's Experience

- Revenue collections will increase if:
 - taxes are monetised,
 - there is a single tax, urban and rural,
 - administration is simple as possible and clearly understandable.
- Single Tax System
 - currently enterprise and income taxes will not apply to most rural families as incomes fall below tax threshold,
 - expenses incurred in earning income should be deductible from tax due,
 - may be a need to look at the tax treatment of capital assets, such as livestock (e.g. treat the breeding herd the same way as plant and machinery)
 - in this way it becomes a capital asset and not taxable.

China's Experience with Overall Taxes

- Budget Revenue as % GDP has nearly doubled

	1998	1999	2000	2001	2002	2003	2004	2005
Revenue	13.0	14.3	15.3	17.0	18.2	18.7	19.4	18.8

Success in Increasing Revenue

- Largely Due to the Success of VAT
 - introduced in 1994 as part of the tax reform,
 - the biggest single contributor to the national treasury,
 - collected by agriculture sector but paid for by final consumers,
- International Experience with VAT:

single rate + no exemptions
 - gives the fairest result and simplifies collection and understanding,
- VAT Data Base
 - creates a data base for other forms of taxation,
 - only applies to large commercial producers.

Other Taxing Issues

- Separation of Land and Crop
 - ownership rights over crops are particularly important for tree crops and forestry,
 - improve property rights for farmers and encourage investment,
- Consistency
 - consistent approach for town and country to improve fairness,
 - improves the tax neutrality between investments,
 - investment then market driven not tax driven, production can be sold.
- Efficiency, Equity and Administrative Ease
 - fairness between taxpayers, neutrality between investments,
 - cannot wait for the system to be optimal, must make it fair,
- Charges
 - where charges are levied on farmers, the services should be contestable.
 - industry levies for marketing, research funds etc.