Briefly Introduction on Taxation from China to UK

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Abstract. The research of corporate finance has already developed for a long period in China and UK. Corporate finance has been influenced by lots of factors during its development, such as government policies, company, staff and one of the most important factors is taxation. But there is still no one standard for the influence of taxation on corporate finance in theory area. According to the situation in both China and UK, the research of the influence of taxation on corporate finance need more time and more practices to complete. The study of this paper tries to examine the influence of different taxation on corporate finance in China and UK by mainly introduce their corporate finance problems under their taxation and to find some trends. Finally, some conclusions and recommendations will be given.

1. Introduction
During the fast development of the world, the communications between the countries become closer and the information about economy transmits quicker than before, such as the development of corporate finance in China and UK, which are the total different countries standard for different opinion.

2. The different taxation

2.1. Overview of Chinese taxation
Chinese economic reform first introduced in 1979 has made many significant changes in organizational structure of economic activities and resources allocation. One such change has been taking place in corporate finance. In the pre-reform period, the whole non-agricultural sector was predominated by the state-owned enterprises (SOEs) who were almost completely state-budget financed with few debts.

Since the reform, on the one hand, the share of the state sector has gradually shrunk and the share of non-state sector has gradually expanded, in terms of both employment and output; on the other hand, although SOEs are still tightly controlled by governments at various levels, debt finance from state banks has gradually taken over state-budget (equity) finance as the major financial instrument of SOEs. For instance, the state share of urban employment fell from 78.3% in 1978 to 56.7% in 1996; and in the same period, the state share of industrial output declined from 77.6% to 28.5% (China Statistical Yearbook 1997, p.96, p.413).

The average debt/asset ratio of all industrial SOEs has increased from 18.7% in 1980 to 65.1% in 1996. Although corporate finance has changed a lot, corporate governance has changed little. Change in corporate finance of SOEs has generated enormous impacts on the Chinese economy, and these impacts can be either negative or positive. (Zhang 1997)
2.2. Overview of UK taxation
And in UK, the corporate finance can be defined in raising loans, issuing shares, acquisition or merger with other businesses, management buyout, by public or private companies; the branch of economics concerned with how firms raise capital and the consequences of alternative methods of raising capital and the financial activities of a corporation. Traditionally the domain of traditional investment bankers, today's UK corporate finance sector also has active participants from commercial banking, entrepreneurs in venture capital and governmental agencies seeking to entice corporations to relocate or expand in their areas.

Driven by the internet sales of initial public offerings the older rules of conventional methods of securities distribution, investment banking, merger & acquisition have been rewritten. We can see from above, corporate finance in China and UK seems different. Why the corporate finance show so different in these two countries? There must be some reasons for this differentiation, which including different culture, nation and the major reason is the different taxation. So, my essay wants to examine whether the different taxation result in different corporate finance in the two countries by compare three different aspects in the two countries. And final give a conclusion and some advice to them.

3. Major problem that leads to the different corporate finance

3.1. Different objectives of taxation
Firstly, in China, the taxation is the country for realizing its public function but to rely on its political authority, forces, free to obtain the financial revenue legally the activity or the method. The taxation activity is the national participation society assignment and the redistribution’s important method. The revenue release lever is the country according to by carries on the macroeconomic regulation and control the important tools, the tax revenue income is the country financial revenue main origin.

Through adjusting the tax policy, may effectively stimulate the investment demand, after adopts the investment to offset and remit, the income tax reduces, the acceleration amortizes and so on, the measure encourages the investment, the investor either will invest the income which cost reduction or the investment net income will increase obtains to carry on invests again, forms the rotation of capital, and will enjoy the investment preferential benefit once more, at the same time will expand the investment demand, either reduces the product price, the expanded sale, seizes the market. Although latter has not expanded the investment demand, but can increase the market to this product demand, stimulates the expense demand growth.

Compare to the objectives of taxation in China, in UK, the objectives also include redistributing of income and wealth, promoting social and economic welfare. And it has some objectives, such as providing public goods and harmonization, which are different from Chinese. A good example of a pure public good in UK is defense. (Kath 2002) They rise the historically taxes so that it can fund the monarchy and pay for defense in times of strife. It also helps finance public sector expenditure. In terms of harmonization, it is necessary to provide for the free movement of goods, capital and people between member states as a single market in Europe so UK can attract more investors to come to their country and make more profit. So, the two countries have some different objectives of taxation that result in the different corporate finance environment.

3.2. Corporation tax (different tax system)
Secondly, they also have distance in corporation tax, which has big influence on corporate finance. In China corporation tax is a particular tax whose object of imposture is the net income for the enterprise in a certain period. Its tax base can calculate as the total incomes for the taxpayer every year subtract the permit account of deductive project. It includes domestic enterprise’s corporation tax and foreign enterprise’s corporation tax.

1 www.officefile.co.uk
There are debt finance (interest allowed as a deduction for tax purpose) and share capital\(^2\) for distribute earning in classical system. Under a classical system, corporate tax is borne, in the usual way, by the company. But, on payment of a dividend to shareholders, the gross amount of the dividend is subjected to further tax deduction, usually representing shareholder tax at the basic tax rate. Thus, the dividend received by the shareholder is net of both corporate tax and shareholder basic rate. The imputation system is designed to eliminate this double taxing effect. Under it, like classical system, pay the corporation tax. But when it pays a dividend, the dividend is looked upon as a net dividend and no further shareholder tax is paid until higher rate calculation are made.

Usually, companies making losses are allowed to set off such losses against immediately past profit or to carry them forward against future profit- but rules vary. (Adrian, 2000) Corporation tax plays an important role in corporate finance that enterprises use different method and rate to manage their tax.

### 3.3. Different tax bases

Finally, as the basic part of tax system, tax base, which is one of the most important roles also reflect the development of corporate finance very much. The tax base so-called the basis, which is also the name for the standard of calculate the tax. It can calculate the cardinal number, the abbreviation tax base, which is refers according to the tax law stipulated obtains with by calculates the due payment tax amount the basis, and namely with by calculates the due payment tax amount the cardinal number, which is levies taxes the object in the quantity aspect concrete application.

Although the present UK taxes on capital are themselves inefficient and ineffective, without some means of taxing capital, the tax system as a whole would be less equitable. It also can develop more multinational, but Chinese corporate finance would meet some troubles because of less tax base, such as lack of regulations in consumption so the investors are not so sure to make their money into Chinese market.

### Conclusion

Because of those differences between Chinese taxation and British taxation, the way of doing corporate finance may different in different companies in their countries. For instance, Chinese corporate finance may meet low investment situation because of the high corporation tax rate and unfair competition with other foreign companies. So, under different taxation, behaviors of corporate finance in the two countries tend to be different. Both of them have their good qualities in their system, and they both have some problems in their system, which need time and suitable strategy to complete.

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\(^2\) Dividends are out of taxed profit and not allowed for tax purpose