Financial Crisis and the Revival of Indirect Taxes in the Developed Country

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Abstract. In a globalized era, in order to fight for capital and location of company construction, a number of countries have reduced direct taxes on companies one by one, including business income tax, capital tax, social security tax afforded by company, etc. Due to the inflexibility of financial expenditure, it causes financial crisis in developed countries. Aimed at compensating the shortage resulted from reduction of direct tax, countries have been forced to expand VAT and consumption tax, since these taxes have a lower cost and a better security effect on financial income. As a consequence, the proportion of indirect taxes rises again, which reverts the former taxation development trend. In the future, the proportion of indirect taxes in China will decrease, but we shouldn’t follow the American taxation structure as an example. In conclusion, indirect taxes, mainly represented by VAT and consumption tax, will still play an important role in China.

Introduction

Generally speaking, as a country moves towards a high-income country, the proportion of direct tax gradually increases, replacing indirect tax as the main tax. In recent years, scholars at home and abroad have criticized China's taxation system that relies too much on indirect taxes and called on China to increase the proportion of direct taxes. This is indeed the general direction of China's tax reform in the future. However, people have also noticed that under the current tide of globalization, new phenomena of indirect tax recovery have appeared in developed countries. In the era of globalization, due to the increasing free flow of capital, in order to compete for capital and companies, countries have reduced corporate income tax and property tax. On the other hand, countries are also facing the pressure that fiscal expenditures are difficult to keep down, or even swell. For fiscal balance, many countries have to expand their indirect taxes such as value-added tax and consumption tax while reducing income tax. For example, Japan recently raised the consumption tax rate providing tax for free pre-school education, France’s new policy of raising gasoline consumption tax has led to violent popular resistance, which actually shows the trend of indirect tax renaissance in developed countries in recent years. This article attempts to explore this new phenomenon that violates the general law of tax system development, analyzes the reasons behind it, and provides a reference for China's current tax system reform. The tax data of all countries in this article comes from the OECD website database.

Comparison of the Advantages and Disadvantages of Direct Tax and Indirect Tax

According to the OECD tax classification guidelines, the main taxes in developed countries are as follows: personal income tax, corporate income tax, social security contributions, property tax, goods and services tax and other taxes. Direct tax mainly includes personal income tax, corporate income tax, social security contributions and property tax. Personal income tax accounts for the
largest proportion of direct tax. Goods and services tax is an indirect tax. Zhang Wenchun[1] studied the tax proportion and tax structure of OECD countries, Asian countries and Latin American countries, and concluded that the importance of global indirect taxes is increasing, which has a rapid spread, the tax base is gradually expanding and adaptable. The increasing characteristics have affected the change of global tax structure from direct tax to indirect tax.

Indirect taxes are the main source of tax revenue in developing countries today. Indirect taxes levy taxes on commodities and services, with sufficient tax sources, a wide range of levies, and can grow at any time according to the development of economic activities, and can provide sufficient tax sources for the country. As an indirect tax, commodity and service tax can be passed on to buyers through the increase of commodity prices. The taxpayer's willingness to resist decreases and the cost of tax collection is reduced. And because the indirect tax is mainly levied on the production and sales of commodities, the concentration of levies further reduces tax costs. Goods and services tax can be taxed regardless of whether the enterprise is profitable or not, which is conducive to ensuring a stable source of tax revenue for the government. From the perspective of government collection convenience, lowering collection costs, and ensuring tax stability, indirect tax has great advantages, especially for developing countries with relatively weak tax collection and management capabilities.

However, indirect taxes also have major disadvantages. It is generally believed that the fairness of indirect taxes is insufficient and cannot reflect the principle that quantity can pay taxes. Indirect taxes are included in the prices of goods and services. Low-income people pay taxes when they purchase goods and services. Although high-income earners are likely to bear more taxes because they have purchased more goods and services, they are likely to be regressive relative to their income. Therefore, the indirect tax has a weak ability to promote social fair distribution and is not conducive to narrowing the gap between the rich and the poor. In addition, as mentioned above, regardless of whether the enterprise is profitable or not, the indirect tax-related taxes must be paid even if the enterprise is at a loss. While guaranteeing government taxes, it is not conducive to the cultivation of emerging enterprises. Direct tax often implements progressive income tax, which reflects the principle of bearing the tax burden according to the ability to bear the tax burden, which is conducive to adjusting the income gap. Therefore, as a country transitions to a developed country, per capita income increases, income tax sources become sufficient, coupled with the country's enhanced ability to monitor residents' income, and the public's call for tax fairness and social wealth redistribution, direct taxation has gradually become a high-income country. The main source of tax revenue.

New Changes in the Advantages and Disadvantages of Direct Tax and Indirect Tax in the Era of Globalization

If it is in a relatively closed economic system, direct taxes in high-income countries have many advantages over indirect taxes, which is why the proportion of direct taxes in developed countries continued to rise before the 1970s. After the 1970s, with the collapse of the Bretton Woods system, a new round of globalization continued to develop, especially the free flow of capital had a great impact on the tax systems of various countries. As we all know, since the late 1970s, neo-liberal reforms represented by Thatcher and Reagan revolutions have held up the banner of tax cuts and tried to stimulate investment and labor supply through tax cuts. If you make a detailed analysis, people will find that the tax reduction is mainly reflected in the reduction of corporate income tax.
rate, the reduction of personal income tax marginal tax rate, and the reduction of property tax rate, while for general commodity and service taxes, such as value-added tax and sales tax, it is rarely reduced, or even Encircle. This is closely related to the tax game between countries in the era of globalization. Liu Qiongzhi [2] analyzed the problems of tax competition, capital outflow and investment environment improvement by studying the theoretical model under the framework of non-cooperative economy, and studied the parallel path of economic growth and fair income distribution.

Although goods and services tax and corporate income tax all directly affect corporate profits, in the era of free flow of transnational goods and free capital, corporate income tax is more direct to corporate profits. Suppose that an enterprise produces all export commodities. Generally speaking, all countries refund the value-added tax and consumption tax paid for each link of export commodities. 1. The level of consumption tax rate has basically no effect on the price of cross-border mobile commodities and corporate tax burden. However, there are no policies for so-called export tax rebates for corporate income tax, capital gains tax, property tax, etc. in the country where the enterprise is located, so the rate of these taxes directly affects the location and capital flow of the enterprise. In addition, income tax, capital gains tax, etc. can be circumvented by changing the place of business registration. In the era of globalization, the monitoring of tax sources of these direct taxes has become more difficult and the cost of collection is more expensive. Therefore, under the current global tax reduction trend, countries are mainly exempting corporate income tax, capital gains tax, and property tax.

But on the other hand, with the economic development, the government has undertaken more and more social responsibilities, and fiscal expenditures remain high. In order to guarantee fiscal revenue, developed countries have to revive goods and labor taxes. These indirect taxes are more difficult to evade, evade, and avoid taxes, have lower collection costs, and have a more indirect impact on the location of enterprises. As a result, in recent years, many developed countries have expanded the scope of collection of VAT and general sales taxes, and even increased tax rates. This has led to the revival of indirect taxes in developed countries in recent years. This is especially true in countries that have experienced financial crises. Li Meng [3] made empirical research based on OECD country data, explored the true and false of the world's "tax cuts", and made recommendations for domestic development: on the one hand, we must implement various tasks of cost reduction actions and promote substantial and substantial tax, on the other hand, we must resolutely clean up the problem of foreign tax burden.

Mainstream economists believe that although value-added tax will raise the price level, as a generally levied tax, it has a tax-neutral advantage, does not easily cause substitution effects, does not affect the efficiency of resource allocation, and is a good tax. Economists believe that personal income tax can easily lead people to replace labor with leisure, leading to loss of economic efficiency. This is very different from the current views of people in China.
Since the 1970s, the Proportion of Developed Countries ‘fiscal Deficits and General Goods and Services Tax has Increased

Since the late 1970s, neo-liberal reforms represented by Thatcher and Reagan revolutions have swept the world, and countries have introduced tax cuts. Although neo-liberal demanded that social welfare expenditures be reduced to lower overall government expenditures for fiscal balance, in reality, welfare expenditures are often rigid and difficult to reduce. As a result, neo-liberal reforms have brought about fiscal deficits and rising government debts. The international financial crisis that began in 2007 has further exacerbated the financial difficulties of developed countries. However,
since the OECD database only contains the debt / GDP ratio of countries since 1995, our fiscal data can only be traced back to 1995.

Generally speaking, the higher the national income level, the more adequate the tax source and the higher the debt credit level, the higher the debt/GDP ratio. Since OECD countries contain economies that are not actually high-income countries, the average debt/GDP of OECD countries is not particularly high. If we examine the G7 countries, the most representative high-income countries, we can more clearly show the change in the debt burden of developed countries, which is much higher than the average of OECD countries. After the global financial crisis in 2008, the debt burden of various countries rose sharply, and the average G7 countries exceeded 100%. In the past two years, with the economic recovery of developed countries, the debt burden has eased.

Although people often talk about tax reduction policies in developed countries, in fact the overall tax burden of most countries has not declined. Tax reductions are often cyclical, and they are reduced during periods of economic recession and increased during prosperity. Even in the United States, where tax cuts are greatest, the tax cuts are also cyclical. The effect of long-term tax cuts is not obvious, and the share of taxation in GDP has not declined for a long time. Fiscal scientists pointed out that with the development of society, the government has assumed more and more social responsibilities, and the proportion of government expenditure in GDP has a rising trend in the long run, and the proportion of tax in GDP has accordingly increased. Tax cuts in developed countries are largely structural. While reducing the direct taxation of enterprises, in the face of serious debt problems, developed countries must find tax sources with low collection costs, adequate tax sources, and insensitivity to capital flows. The result is a reversal of the developed country’s tax structure, with the proportion of direct taxes falling and the proportion of indirect taxes rising against the trend.
As shown in Figure 6, the average ratio of goods and services taxes to total taxes in OECD countries was basically in a downward trend before the end of the 1970s, reaching a minimum value from 1977 to 1979, and then rebounded. Due to the development of global free trade, tariffs have been declining. If we remove the tariffs from the goods and services tax, the proportion of indirect taxes will rise even more significantly after 1979. Generally speaking, property tax rates rarely change. After 1979, property tax accounted for a relatively stable proportion of total revenue. Therefore, we first examine the changes in the proportion of income tax in direct tax. Due to the reduction of corporate income tax rate and the reduction of the marginal tax rate of personal income tax, the average value of income tax in OECD countries’ direct tax reached its highest point in 1979, and then it was in a downward trend. Of course, because the proportion of social security taxes in developed countries has an upward trend, examining the changes in the proportion of income tax alone may exaggerate the decline in the proportion of direct taxes. But even if we add income tax and social security tax, the highest point will appear around 1979, and then in a wave-like trajectory.
New Developments in the Form of Tax Cuts for Enterprises in Developed Countries

In the current era of globalization, capital is easy to flow, but labor is not easy to move. It is mainly a small number of highly skilled workers or senior managers who are easy to flow. In order to compete for capital and talent, almost all countries have lowered the corporate income tax rate and lowered the marginal tax rate of personal income tax, while the personal income tax rate for middle and lower income earners has rarely changed. Income tax has become more and more borne by laborers, while the proportion of income tax borne by capital has declined. As a result, in the case where the proportion of income tax in total tax has decreased, the proportion of personal income tax is relatively stable, while the proportion of corporate income tax has dropped. Take the G7 countries as an example. Since 1965, the proportion of personal income tax has risen in a wave, while the proportion of corporate income tax has fallen in a wave.

![Figure 7. Changes in the average personal income tax and corporate income tax as a percentage of the total tax in G7 countries from 1965 to 2018.](image)

Under normal circumstances, the main consideration of the reduction of corporate tax burden in developed countries is the change in corporate income tax. In fact, changes in the collection method of social security tax will also have an important impact on the direct tax burden of enterprises. Social security taxes are generally shared by employers and employees in proportion. In the current era of economic globalization, capital flows freely, while laborers are relatively difficult to flow. In order to compete for capital in various countries, the burden of social security taxes is increasingly borne by employees. Taking G7 countries as an example, the proportion of social security taxes paid by employees has risen in waves since 1965, and the proportion of social security taxes borne by employers in total taxes has been in a downward trend after the mid-1970s. Comprehensively consider that employees bear social security tax plus personal income tax, and employers bear social security tax plus corporate income tax, and the trend is the same.
Re-examination of Trump's Tax Cuts

Before the Sino-US trade war in 2018, the main concern of all sectors of Chinese society to Trump's election was the impact of his huge tax cut plan. Some media even called it a tax war. It is believed that the United States hopes that foreign capital and enterprises will flow to the United States through tax cuts to compete for global capital. Faced with tax competition in the United States, other countries can only reduce taxes, but other countries may not have the potential for tax reduction like the United States. Since fiscal expenditures are difficult to reduce, tax cuts mean that fiscal deficits and government debt will rise. In other countries, rising debt will cause currency depreciation and interest rates to rise, thereby restricting the extent of tax cuts. But the U.S. dollar is the world’s currency. A large part of the expansion of U.S. Treasury bonds is purchased by the central bank of other countries. This will greatly ease the pressure of currency depreciation and interest rate rise caused by debt. The U.S.’s ability to bear debt is higher than that of other countries, resulting in greater tax reduction potential.
On December 22, 2017, Trump signed the "Tax Reduction and Employment Act", which is mainly to reduce corporate income tax and lower the maximum corporate income tax rate at the federal level from 39% to 21%, which is quite vigorous. At the same time, the threshold for personal income tax was raised. As a result, the overall tax burden in the United States fell from 26.8% of GDP to 24.3%, a decrease of 2.5%, of which corporate income tax fell by 0.7% and personal income tax income fell by 0.5%. During the same period, the average tax burden of OECD countries did not decline, even rising from 34.2% to 34.3%. Since the proportion of personal income tax in the United States is much higher than corporate income tax, the tendency of tax reduction to companies is very obvious.

Compared with other G7 countries, there is no trend in the United States where employers’ share of social security tax declines and employees’ share of social security tax increases. The relative decline in the tax burden of American companies is mainly caused by the decrease in the proportion of corporate income tax and the increase in the proportion of personal income tax. Combining the two aspects, the United States has also seen a rise in the proportion of personal income tax plus employees’ social insurance tax, and a decline in the proportion of corporate income tax plus employer’s social insurance tax. The tax cuts for companies are obvious.

![Figure 10. Changes in the percentage of total tax paid by US employees paying social security plus personal income tax and employers paying social security plus corporate income tax from 1965 to 2018.](image)

In history, the United States has also experienced many large-scale tax cuts, such as the Reagan Revolution in the 1980s and the Bush Administration’s tax cuts in the early 2000s, which have all attracted great attention worldwide. However, these tax cuts are largely cyclical in nature. During the economic recession, tax cuts and the tax/GDP percentage rose again during the economic boom, and did not show a long-term tax/GDP percentage decline. The particularity of Trump’s tax cut is that it was introduced when the US economy is booming. Whether it is possible to reduce the long-term tax burden of the United States remains to be seen. After all, the U.S. debt/GDP percentage is at an all-time high in peacetime, and it cannot be ruled out that in order to reduce the U.S. debt/GDP percentage, taxes will increase in the future.

In many OECD countries that have experienced severe financial crises, most of them have experienced the expansion of value-added tax and consumption tax, and the proportion of indirect taxes has increased. The United States does not seem to have this situation. However, according to
the latest US tax structure data, the proportion of US indirect taxes (goods and services tax) seems to have increased. There is no value-added tax in the United States, the proportion of indirect taxes is low, and personal income tax is the mainstay. It is often regarded as the advantage of the US tax system. But in fact, many mainstream American economists disagree. The famous economist Summers, who was the chief economist of the World Bank, the director of the US Economic Advisory Committee, and the Secretary of the Treasury of the Clinton Administration, repeatedly called on the United States to reform the tax system, introduce value-added tax, expand the U.S. tax source, make up for the lack of fiscal revenue, and enhance the American society The level of welfare makes up for the shortage of public goods in the United States.

![Figure 11. 1965-2018 U.S. total tax / GDP percentage change.](image1)

![Figure 12. 1995-2018 US government total debt / GDP percentage change.](image2)
The Enlightenment of the Latest Changes in Taxation System in Developed Countries to China

Through the above analysis, under the current wave of globalization, in order to compete for capital and enterprises, countries have successively reduced corporate income tax and capital tax. However, under the upward pressure of rigid fiscal expenditures, excluding the special period of economic recession, tax cuts in developed countries are not overall tax cuts, but structural tax cuts. In order to make up for the gap in fiscal revenue reduction caused by corporate income tax reduction, most countries have expanded the indirect taxes with low cost of VAT and consumption tax, which have little impact on the location of enterprises, leading to the overall indirect tax recovery in developed countries situation. This situation has already begun to take shape in tax statistics, and is more obvious in the latest tax reform practices or discussions in various countries.

Unlike the developed countries, theshortcoming of the current Chinese tax system is that the proportion of indirect taxes with VAT as the main body is relatively low, and the proportion of direct taxes is relatively low. In the future, the direction of China's tax reform will be to reduce the proportion of indirect taxes, increase the proportion of direct taxes, increase social equity, and reduce corporate tax burdens. In the current era of economic globalization, in order to compete for capital, countries have successively lowered corporate income tax rates and the proportion of social security contributions undertaken by enterprises. In the future, the increase in the proportion of direct tax in China will mainly depend on personal income tax, social security contributions undertaken by individuals, and property tax represented by real estate tax. On the other hand, in terms of the tax pain index, the indirect tax can be passed on, and its pain index is lower than the direct tax. In the direct tax, the pain index of the property tax levied on the stock (which does not necessarily have currency income in the current period) is higher than the tax index. Income tax levied on income flows. Therefore, this kind of transformation will face great resistance and is quite painful. It can only be due to the rise of income tax income during the process of economic development and income growth, gradually expanding the proportion of direct tax, rather than the current increase in direct tax collection.
In addition, academics often use the US tax structure standards to measure the advanced nature of a country's tax structure, which is unreasonable. There is no VAT in the United States, which does not mean that other countries will also develop in the direction of eliminating VAT. The inability of the United States to implement VAT is not due to the superior structure of the U.S. tax system, but the result of the difficulty of reform by various interest groups, resulting in insufficient U.S. tax sources and inadequate supply of public goods. In the current era of globalization, VAT, as a neutral tax, has a low collection cost and a high degree of tax protection, and it continues to expand around the world. The sales tax and consumption tax generally levied by the United States are actually not much different from value-added tax. It can be said that it is a variant of value-added tax. Under the current huge financial pressures faced by various countries, it has become the main type of tax assistance required to ease financial pressures. In the future, the proportion of indirect taxes in China will decrease, but it cannot be as low as that in the United States; the proportion of VAT will decrease, but the VAT should not be cancelled following the example of the United States. Indirect taxes with value-added tax and consumption tax as the main body, or goods and services tax, will still account for a considerable proportion in the future, providing China with a relatively stable and reliable source of tax revenue.

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