

China to raise individual income tax threshold

China's highest legislative body has already "reached a consensus" to boost the individual income tax threshold soon to encourage domestic consumption, China's leading economist Zhou Qiren revealed Friday.

Zhou announced the latest development while calling on "aggressive tax-reduction measures" at corporate and personal levels to stimulate downward domestic demand brought by worsening external economic surroundings.

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"As far as I know, the National People's Congress has already reached the consensus to do that (increase the benchmark of individual income taxation)," Professor Zhou from Peking University told up to 500 businessmen Friday at a management forum in Beijing.

Zhou himself also said the individual income tax threshold should be increased to a much higher level from the current 2000 yuan per month in order to boost personal disposable income and spending.

Zhou didn't reveal what exactly that figure should be but said the proposed threshold of 8,000 yuan per month by some experts is "too high."

At a corporate level, Zhou said China should not only step up with value-added tax (VAT) reform but also reduce the VAT taxation rate from current 17 percentage points to seven percentage points.

Two weeks ago, the Chinese government has announced a four-trillion-yuan stimulus package and measures of VAT reform, under which companies will no longer pay for equipment purchases. "That is not enough and the country should reduce VAT rate dramatically to decrease the enterprises burden."

Meanwhile, China should reduce import taxes while increasing the export tax rebate.

"All these measures will put the government in a difficult position financially but we have to," said Zhou, urging governments at various levels to cut their own administrative spending to partly meet the budget deficit.

Zhou said the radical taxation cut package was among the suggestions which he has submitted to the central government. He also said apart from the fiscal stimulus and monetary policies, China needs comprehensive reforms and broader policy packages to cushion the negative impacts of the unfolding global financial crisis.

He urged the government to take further measures to lift barriers private enterprises have faced when they invest in monopoly sectors, education and health care.

He even suggested that the government should give up pricing regulation and let the market have a final say. "It's high time we should do that and today's worsening economic situation has partly resulted from incorrect signals due to too much pricing regulation," said Zhou, who has predicated this time last year that "all Chinese enterprises should be ready to spend a winter in business."

As to how long China's economic slowdown will last, he replied: "I will give you a standard answer: I don't know." But he forecasted the coming two or three months will become "even harder."

"I can tell you that around the Spring Festival (which falls in January), there will be a lot of bad news," Zhou warned.

