

Status Quo of China's Fiscal and Taxation System and Proposals to Reform - PRC Budget Law Reform

Kluwer International Tax Blog
February 24, 2015

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Please refer to this post as: Tianlong Hu, 'Status Quo of China's Fiscal and Taxation System and Proposals to Reform - PRC Budget Law Reform', Kluwer International Tax Blog, February 24 2015, <http://kluwertaxblog.com/2015/02/24/status-quo-of-chinas-fiscal-and-taxation-system-and-proposals-to-reform-prc-budget-law-reform/>

I would like to use eight to ten posts to discuss the *status quo* of China's fiscal and taxation law system and proposals for reform thereto. This first post will discuss the most recent development on PRC Budget Law.

State budget is a systematic tool to carry out a country's laws and policy decisions, balance allocable revenues and maintain social stability. The budget management may also set limits on types of revenues and state positions, and may authorize debt financing for certain projects and activities.

China's state budget management requires more transparency and openness, which will help regulate the existing ill-configured legislative and budgetary power imbalance and blurriness. Although the recent amendments to PRC Budget Law receive good policy feedback, such amendments as viewed by several scholars still fell short of targeted expectations. With planned economy roots and centralized structure, China's state budget is a systematic tool to carry out the country's laws and policy decisions, balance allocable revenues and maintain social stability. The budget management may also set limits on types of revenues and state positions, and may authorize debt financing for certain projects and activities.

The PRC Budget Law assigns the legislative power on budget preparation and approval to the People's Congress, both at the central and local levels; however, in practice, Ministry of Finance or local bureau of public finance as administrative force, dominates and controls budget preparation, execution and treasury fund disbursement. This executive-led model further jeopardizes the narrow budget supervision and entitled auditing power that People's Congress can execute.

The Chinese budget system should support a transparent, legislature-led separation of powers in the budgetary approval process upholding integrity, control and accountability. In particular, People's Congress at all levels needs to have opportunity and resources to effectively examine and approve relevant fiscal and budgetary report that it deems necessary. Not only fiscal reports should be made publicly available, the Ministry of Finance also should actively promote an understanding of the budget process by individual citizens and non-governmental organizations for public scrutiny.

The key function of a transparent budget management system is to streamline the budget preparation process and restrain over-budget spending and revenues. China should introduce a balanced medium-term budgetary framework (for example, a two-year plan) buttressed on economic assumption but beyond the yearly budgetary cycle. Therefore, a cyclical budget balance mechanism could tailor fiscal budgets in accordance with economic cycles and prospects in the long term to improve the budgetary approval and treasury fund disbursement process.

For treasury fund disbursement management, China should consider adopting a practice similar to Treasury Single Account (TSA) system of public funds management to enhance efficiency and effectiveness of public financial control. The TSA system has been proved working well in the US to ensure effective aggregate control over government cash balances. Briefly, the TSA is a unified structure of government bank accounts that gives a consolidated view of government cash resources. TSA is a bank account or a set of linked bank accounts through which the government transacts all its receipts and payments and gets a consolidated view of cash position at the end of each day.

A fully fledged TSA system might be too overwhelming for China at this point, but a TSA-type scheme in China can at least drive the People's Congress to consolidate and supervise government cash resources comprehensively and encompass all government cash resources, budgetary and extra-budgetary. To this end, the TSA system in China may help improve appropriation control, operational control during budget execution, bank reconciliation, and quality and accuracy of fiscal data.

To be continued...