

## Compare and Enlightenment to China Enterprise Annuity Plan Tax Revenue System

Hao qiujiang

Postgraduate Student, Majored in Finance and labor security, School of public management, Southwest Jiao Tong University, Chengdu, Post encoding: 610031, China.

\*Corresponding Author

Hao qiujiang

Email: [517713551@qq.com](mailto:517713551@qq.com)

**Abstract:** According to the World Bank forecast, in 2013, the Chinese mainland 60 years of age population for the first time more than 200million people, accounting for 14.9%, is expected in 2030 will reach 25%, by 2050, the elderly population will reach 440 million people around the peak, about 1/3 of China's total population. This can lead to a series of economic and social problems. The traditional national finance the pension insurance system has been difficult to continue. Based on this background, our country is now vigorously promoting the development of enterprise annuity. As a voluntary pension insurance mechanism, in addition to the basic pension insurance system enforced by the government, under the guidance of national policy, According to their own economic strength and economic situation to establish the enterprise annuity. This paper gives a brief description of the changes of the national tax policy in the development of enterprise annuity in China, Analysis of the inherent development logic and policy change of enterprise annuity in China in recent ten years. On the basis of the new and old enterprise annuity tax policy to make a contrast analysis. This paper tries to explain the development of enterprise annuity in different regions and different periods. Combined with the new situation and new background on the current development trend of China's enterprise annuity, and give some suggestions on how to improve the development of enterprise annuity in china.

**Keywords:** enterprise annuity, preferential tax, tax system, old age insurance, aging population, china.

### INTRODUCTION

Most countries in the world are adopting EET tax model for the tax preference policy of enterprise annuity. But in China, the TEE tax model is adopted in the early stage. Because China's social and economic development has its own characteristics. So we cannot copy the foreign advanced experience. At a certain stage of economic development, the government uses the TEE tax model, which is suitable for China's social and cultural environment, and use 5 file bundle type program[1]. In general, the TEE tax model is not conducive to the sustainable development of enterprise annuity in China. Enterprises and employees to participate in the enthusiasm of enterprise annuity will be affected in a certain extent. Our country government combines the development of our country's economy and the theory of science, through local pilot; gradually promote the international EET tax model. This greatly promotes the development of enterprise annuity in China[2]. Most scholars analyze the reasons for the slow development of enterprise annuity in China, respectively from the policy incentives, enterprise itself and the enterprise staff awareness, etc. It is considered that the main problem of the development of enterprise annuity in China is the poor survival and development

of small and medium-sized enterprises. Small and medium enterprises due to the weak economy, unable to pay enterprise annuity for workers. Enterprise annuity is a large enterprise and state-owned enterprise's proprietary benefits and it becomes a rich club [3].

In the enterprise annuity market as the forces of the parties to enter. tax incentives have become one of the factors that hinder the development of enterprise annuity. Only by adjusting the tax policy objectives of enterprise annuity and the choice of tax policy, which can be changed to improve the tax system of enterprise annuity [4, 5]. At the same time, the manager should pay attention to fair in the enterprise to carry out the enterprise annuity system. In the company, it should be fairer to cover the enterprise annuity benefits, to avoid injury to the enthusiasm of the bottom workers. Entrepreneurs Improves the role of enterprise annuity in employee benefits through the development of preferential equality system, to prohibit preferential paid employees, and the basic pension insurance payment to match the enterprise annuity payment, etc. [6]. At the same time, tax incentives may also exist the risk of tax loopholes. The government should strengthen the legislation of tax incentives for enterprise

annuity, develop and adopt a set of flexible tax preferential policies, to prevent tax evasion because enterprise annuity tax incentives arising[7]. At the same time, the scholars also combined with the advanced experience of the enterprise annuity system in America, Europe, Japan and Singapore .they have put forward more suitable for our country's national conditions of the enterprise annuity system [8,9,10].

In summary, the scholars mainly from the theoretical and empirical research on the China's enterprise annuity system. They study on the problem of the current tax system of enterprise annuity in China or analyze the status and relationship of the government, enterprises and workers in the development of enterprise annuity system. But at present, the research of policy change on the development of enterprise annuity in China is less. This paper analyzes the china's development of enterprise annuity in recent ten years and shows how the tax policy of enterprise annuity is changed in china. At last, the article puts forward some suggestions for the development of enterprise annuity, combining the current situation in China.

#### THE CURRENT SITUATION OF THE DEVELOPMENT OF ENTERPRISE ANNUITY

According to the statistic of enterprise annuity issued by the Ministry of human resources and social security in the table 1, the development of enterprise annuity in the number of enterprises, the number of insured workers and the size of the accumulation fund

of enterprise annuity have made considerable progress in recent years. From the scale of enterprises which participate in enterprise annuity to see, it is developed of 24000 in 2006 to 54700 in 2012, an increase of 128%, the average annual growth rate of 25.6%; In the range of corporate pension coverage, there are 9640000 people in 2006, an increase of 18470000 people in 2012, an increase of 92%, the average annual growth rate of 18.4%. At the same time, it should be seen that the insurance company is 54700 as of 2012, the enterprise participation rate is only 1% less than. Zheng B.W found that the Middle East European countries in transition, which has almost the same time to establish a multi pillar social security system with china ,is far faster than china in the development of the enterprise annuity. For example, the establishment of occupational pension business participation rate in Czech is 45%, Hungary is 31%, and Finland is 8.7%. Compared with developed countries, China's gap is even greater. Enterprise participation rate in Germany as high as 64%, the United States is 46%, and the United Kingdom is 47.1% Italy is 10.6%. China's enterprise annuity accounted for the proportion of GDP was only 0.93% in 2012 compared to the global enterprise annuity total 29 trillion dollars, accounting for 38% of global GDP. The total amount of enterprise annuity is relatively small. And the proportion of the total population of the year of the insured person is only 2.4%. Although the enterprise annuity in recent years has improved in china, but enterprise annuity is far from reaching its role as a second pillar in pension coverage whether from the scale or the coverage [1].

**Table-1: Development scale of enterprise annuity**

Particular year	2006	2007	2008	2009	2010	2011	2012
Insurance companies (million)	2.4	3.2	3.31	3.35	3.71	4.49	5.47
Insured number (million)	964	989	1038	1179	1335	1577	1847
Enterprise annuity growth rate	/	30.00%	31.97%	32.55%	10.90%	27.09%	35.04%
Enterprise annuity accounts for the proportion of GDP	0.42%	0.49%	0.61%	0.74%	0.7%	0.75%	0.93%

Note: data from the china human resources and social insurance industry development statistics bulletin, human resources and Social Security Department of the Ministry of social security fund supervision department announcement

Table-2 shows that it is increasing of the total amount of enterprise annuity and basic pension. Enterprise annuity and the total amount of basic pension reached 0.4821trillion RMB and 2.39413trillion RMB respectively in 2012.

The proportion of enterprise annuity relative basic pension is increasing, from 16.58% in 2006 upgrade to 20.14% in 2012. This shows that the role of enterprise annuity in the pension system in china

continues to strengthen. But at the same time, it should also be seen that the enterprise annuity regardless of the total amount or coverage on the scale and the proportion of the basic pension is still very small.

At present, China's old-age security system is mainly composed of three parts, the basic old-age insurance, enterprise annuity and personal savings pension insurance, the ratio of each pillar should be based on pension insurance, enterprise annuity and

personal pension insurance as a supplement. According to the current level of enterprise annuity, the

development of enterprise annuity still has a considerable space in China.

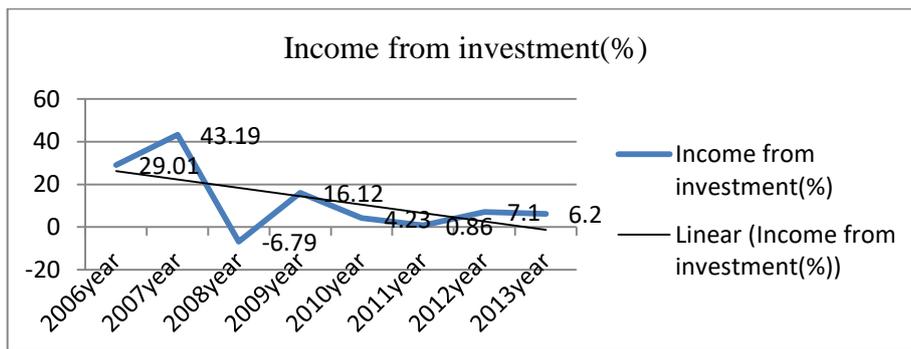
**Table-2: Comparison between enterprise annuity and basic pension insurance**

Particular year	2006	2007	2008	2009	2010	2011	2012
Enterprise annuity fund scale (billion RMB)	910	1300	1911	2533	2809	3570	4821
Enterprise annuity growth rate	/	42.86%	31.97%	32.35%	10.90%	27.09%	35.04%
Cumulative balance of basic pension insurance (100 million RMB)	5488.9	7391.4	9931.0	12526.1	15365.3	19496.6	23941.3
Annuity / basic pension balance ratio	16.58%	17.59%	19.24%	20.22%	18.28%	23.23%	20.14%

Note: data from the statistical bulletin of the China social security of human resources and social security, the annual report of the China Social Security Fund Council

In general, there are three main factors to promote the development of enterprise annuity: first, the number of enterprises which establish an enterprise annuity system and the growth of the total number of employees covered by enterprise annuity system. Next, wages of works who participate in the enterprise annuity rose. Third, the enterprise annuity fund investment operation process, the increase of the income and the increase of the rate of return.

In terms of the development of domestic enterprise annuity, the development of enterprise annuity is to rely on the number of enterprises and the increase in the number of employees, instead of the enterprise annuity fund investment operations and achieved revenue growth. This may be a hidden danger for the sustainable development of enterprise annuity in china.



**Fig-1: Annual income of the enterprise annuity fund**

Note: data from the annual report of the China Social Security Fund Council

For the full year of investment income, by Fig-1, China's enterprise annuity investment return rate is 6.20% in 2013; the year of investment yield is low. And on 2006 the investment rate of return of 29.01%, the investment rate of return of 6.20% in 2013. In the middle of 2008, the fund yield rate was -6.79%, which means that the average yields of 08 years is negative, no contribution to the fund growth. On the whole, the enterprise annuity presents the characteristics of low investment income; the annual average return rate is low. This is not conducive to the accumulation and development of pension funds. With the Ministry of human resources and social security issued "enterprise annuity plan management contract guidelines" on 2012 and "notice on the relevant issues concerning enterprise annuity products" on 2013 to further standardize the operation of the pension fund, broaden the investment

channels of the fund, we believe that, in the next period of time, it will be a good guide and promote the operation of the enterprise annuity fund in china.

**CHINA'S ENTERPRISE ANNUITY TAX POLICY CHANGE COURSE**

China's enterprise annuity from twentieth Century to start in the ninety's development. In the "the State Council on enterprise workers pension insurance system reform decision", the paper proposed "national advocacy, encourage enterprises to achieve the supplementary pension insurance", and give support in policy. But this document does not give a description of the specific tax incentives. The State Council promulgated the "Circular on improving the pilot scheme of the social security system of urban and towns" in 2000. For the first time in a formal legal

document, a clear description of the relevant tax incentives for enterprise annuity.

File will be added to the enterprise supplementary pension insurance officially changed its name to enterprise annuity, clearly pointed out: "the conditions of the enterprise can set up the enterprise annuity, and realize the market operation and management. Enterprise annuity to implement the full accumulation of funds system, the use of personal accounts to manage, the cost of the enterprise and individual workers to pay." Put forward in the pilot program: The enterprise for the enterprise annuity amount paid by employees can be charged at the cost of less than 4% of the total wages in part. Subsequently, the pilot work of enterprise annuity in the country pushed open, the various provinces of the actual economic situation in the region, and the promotion of the development of enterprise annuity was used by self - tax preference.

By June 2009, the Ministry of Finance and the State Administration of Taxation jointly issued the document, "notice on the issue of supplementary pension insurance and supplementary medical insurance for enterprise income tax policy ". It is said that the enterprises, according to the relevant provisions of the state, is paid by the whole staff to pay the supplementary pension insurance premium and the supplementary medical insurance premium. This cost, in the 5% part of the total wages of workers respectively, can be deducted in calculating the taxable income of the enterprise Since January 1, 2008. It couldn't deduct over the part. The individual payment of the enterprise annuity shall not be deducted in the individual wages, salary calculation of personal income tax deduction. The state in the enterprise annuity accumulation phase of the tax system in regulations guidance has not been clearly defined. However, based on the existing investment tax law system, the investment of enterprise annuity should be taxed

In order to further promote the development of enterprise annuity, December 6, 2013, the Ministry of finance, the Ministry of human resources and social security, and the State Administration of Taxation jointly issued the document "on the enterprise annuity, occupational pension personal income tax related issues notice". This document gives a clear explanation of the benefits of the enterprise annuity, occupational pension in the tax system: " Enterprises and institutions (hereinafter referred to as units) shall, in accordance with the provisions of the relevant policies of the state, pay enterprise annuity or occupational pension (hereinafter referred to as the annuity) in the whole enterprise, which is a part of the enterprise annuity or occupational pension. This part is included in the

individual tax account; the individual will not pay personal income tax temporarily. Individual payment of an annuity, in accordance with the relevant national policy, is not more than 4% of the sum of the individual's contributions which can be deducted from taxable income in the current period."

China has not adopted the international mainstream "EET" tax mode for enterprise annuity before 2014. But took the "TEE" model, namely in the enterprise annuity payment link to collect personal income tax, and in the enterprise annuity investment benefit and enterprise annuity to give out link not to collect personal income tax. In order to promote the development of China's multi - level endowment insurance system, the Ministry of finance, the ministry of human resources and social security and the State Administration of Taxation jointly issued a document: "notice of the relevant issues concerning the personal income tax of enterprise annuity and occupational pension ". Since January 1, 2014 mentioned in this document, the implementation of enterprise annuity, occupation pension personal income tax deferred tax preferential policies. Marks the beginning of China's enterprise annuity trial of the international general by using of the "EET" enterprise annuity development model, and the development of China's enterprise annuity into a new stage.

#### **ENTERPRISE ANNUITY TAX INCENTIVES**

Preferential policies for individual income tax before 2006, In a long time on individual contributions, exempt from personal income tax amount and payment in what percentage rate can enjoy the policy of personal income tax receipts are not clearly defined when individuals participating in the enterprise annuity plan. In 2005, the document, Reply of the State Administration of Taxation on the issue of the payment on the insurance and payment of the individual income, provides that: "enterprises to pay the insurance premiums for the employees should be in the business to the insurance company to pay (insurance into the insurance account) as the staff of the work income. This part of the insurance according to the "wages, salaries" taxable personal income tax, tax by the enterprise responsible for withholding." In the first rule of another document, Approval of the Ministry of Finance and the State Administration of Taxation on the issue concerning the personal income tax, it provides that enterprise to handle the question of personal income tax and corporate income tax after a supply of the enterprise annuity insurance for individuals. Enterprises for the individual purchase of commercial supplementary pension insurance, in the process of handling procedures should be used as a personal income tax "wages, salaries income" subjects, according to the provisions of the tax law to pay

personal income tax. Because of various reasons surrender, individuals have not obtained the actual income, which having to pay personal income tax shall be refunded.

According to the provisions of the document in 2006, Circular of the Ministry of Finance and the State Administration of Taxation on basic old-age insurance, basic medical insurance, unemployment insurance, housing provident fund. Individuals pay the actual taxes in accordance with the national or provincial (autonomous regions and municipalities) people's government payment documents. this actual payment of the basic old-age insurance, basic medical insurance and unemployment insurance premiums, is allowed individuals to deduct the amount of taxable income. Enterprises, institutions and individuals more than standard or proportion to pay the basic old-age insurance, basic medical insurance and unemployment insurance should be more than partially incorporated into personal current wages and salary income, personal income tax assessed. It can be seen from the above provisions that although not explicitly referred to the concept of enterprise annuity before 2006, but whether it is a corporate or personal payment of enterprise annuity, which are not subject to tax deductible. All the expenses paid for the enterprise annuity are counted as the personal income of the current period and the personal income tax is collected. The document, Notice on the relevant issues concerning the administration of the collection and administration of the personal income tax of the enterprise annuity, is rules made by State Administration of Taxation in 2009. It provides that part of the enterprise annuity paid by the enterprise shall not be deducted from the wages and salaries of the individuals in the current period. Personal payment of the enterprise annuity is personal income, as a result of the employment, as a personal income tax taxable income. All of this, in the individual accounts, should be considered as a month's wages and do not deduct any expenses. The current personal income tax payable calculated in accordance with the "income" project, and by withholding Enterprises. Enterprises quarterly,

semiannual or annual payment of enterprise income tax, the tax cannot be reduced to the month in which, as a month's salary deduct any fees. It should be in accordance with the applicable tax rate, the calculation of personal income tax withholding.

For business income tax concessions, Circular of the State Council promulgated the pilot program on improving the urban social security system in 2000. Clearly pointed out: "Enterprises should build enterprise annuity if having the ability and realize the market operation and management. Enterprise annuity fund is fully accumulated system, the use of personal accounts to manage, the cost of the enterprise and individual workers to pay. "Presented in the pilot program: enterprise pay Enterprise Annuity Fees in less than 4% of the total wages can be charged from the cost. Subsequently, the pilot work of the enterprise annuity began to open in the country; the provinces began to self tax rate to promote the development of enterprise annuity. At this stage, due to the plan of enterprise annuity have no unified standard in tax incentives between the central and local standards. On the one hand, it promotes the diversified development of enterprise annuity. On the other hand, it also caused the lack of the central authority in enterprise annuity and management confusion subsequently. In the pilot phase of the enterprise annuity in 2000 year, the year of the enterprise annuity fund reached 25.9billion RMB. National finance and taxation departments in the country to implement the unified implementation of 4% of the enterprise annuity preferential policies in 2008, the national enterprise annuity fund reached 191.1billion RMB. In this short span of a few years, the enterprise annuity from scratch, from small to large, the accumulation of funds increased by more than seven times. Table 3 indicates that the tax incentives for enterprise annuity in different regions of China. Different local tax incentives promote the development of enterprise annuity, but also makes the development in different places is not balanced. The development of enterprise annuity in this stage presents a trend of "fragmentation" growth.

**Table-3: Comparison of tax incentives for local enterprise annuity**

Provinces (autonomous regions and municipalities)	Percentage of tax incentives (percentage of total wages %)
Liaoning, Jilin, Heilongjiang, Hebei, Shandong, Hunan, Guangdong, Sichuan, Qinghai, Shaanxi, Xinjiang, Beijing, Gansu, Ningxia	4
Hubei, Jiangsu	12.5
Shanxi	8.3
Tianjin	8
Chongqing	6
Shanghai, Yunnan, Fujian, Guizhou	5

Note: data sources from Niu, H. The problem of the development of enterprise annuity in China. Journal of the exploration of economic issues, 2, 106-110[3].

The Ministry of Finance and the State Administration of Taxation issued a joint document ,Notice on the issue of supplementary pension insurance and supplementary medical insurance for enterprise income tax policy , In June 2009. This document provided that the enterprise has paid the supplementary pension insurance premium and the supplementary medical insurance premium for all staffs, according to the relevant provisions of the state Since January 1, 2008. The costs are not more than 5% of the total wages of workers, in the calculation of taxable income is allowed to deduct; Over the part, not deductible.

Tax incentives for the operation of the enterprise annuity fund. There is a not tax incentive about the introduction of the enterprise annuity fund operating investment income before 2014 year. In the actual operation of the enterprise annuity, individual

account (according to the personal savings account) interest equivalent to the same period of urban and rural resident’s savings interest. According to "the people's Republic of China individual income tax law" provisions, interest income to pay personal income tax. At present, the capital gains tax is not levied in China. Tax policy on enterprise annuity payment is ruled by personal income tax law. It is said that In accordance with the provisions of national unity sent cadres and workers of the settling in allowance, severance pay, retirement wages, severance pay, retirement living allowances belongs to exempt from personal income tax, for other sources of retirement income is not included in the list of tax exemption, such as personal commercial endowment insurance products, insurance business, various local elderly subsidies. A brief comparison in table 4 of the relevant tax policies about the enterprise annuity in the above.

**Table-4: The difference between the old and new enterprise annuity tax system**

Difference contrast		Tax policy of the original enterprise annuity	New enterprise annuity tax policy
Related policy		Circular of the Ministry of finance, the State Administration of Taxation on supplementary pension insurance premiums, supplementary medical insurance premiums on enterprise income tax policy issues, the notice on the relevant issues concerning the administration of enterprise annuity personal income tax, the State Administration of Taxation on enterprise annuity personal income tax related issues supplementary provisions of the announcement.	Circular of the Ministry of Finance and the State Administration of Taxation on supplementary pension insurance premium, supplementary medical insurance premium for the policy of enterprise income tax, the notice on the relevant issues concerning the personal income tax of enterprise annuity and occupational pension
Tax requirements	Payment link	Personal contribution	Pay taxes (that is to pay a tax payment)
		Enterprise for individual payment	Personal income tax: not more than the amount of the exemption after the wages, not to pay taxes; after the merger is more than the amount of wages, on the part of the excess (excluding any fees) in accordance with the corresponding rate of tax Enterprise income tax: 5% of the total payroll tax
	Investment operation link	Not to pay a tax	Not to pay a tax
	Receiving link	Not to pay a tax	To receive the amount allocated to each month, in full accordance with the "wages, salaries income" project using the tax rate to pay a tax

Note: the form content comes from the author's own arrangement.

## DISCUSSION AND CONCLUSIONS

After more than 20 years of development, China's enterprise annuity has established a relatively perfect framework of tax system. To deal with the new situation of tax incentives, For enterprises that have already set up the pension plan, they should make full use of the national tax incentives and Expand individual contribution ratio. For the insurance has not yet reached the proportion of 4% payment, the proposed increase to 4%. The amount of enterprise annuity payment and the national regulations of the normal payment base to maintain the same. Changing the way to receive, to avoid a one-time tax increase. Enterprises have not yet established enterprise annuity plan, the emphasis on tax deferred policy will greatly improve the retirement replacement rate of employees, should be used to meet the national preferential policies. At the same time the promotion of preferential tax policies for enterprises and the increase in the interests of individual workers, Stressed that under the new enterprise annuity policy, the enterprise has no new increase in any burden. Promoting the new phase of enterprise annuity in China.

## REFERENCES

1. Zheng BW; China's enterprise annuity development lagged policy factor analysis. *Journal of China's population science*, 2010; 2: 2-25.
2. Hou FX, Lu JF; Study on the cost of enterprise annuity tax incentives. *Journal of Accounting Research*, 2011; 16: 58-64.
3. Niu H; the problem of the development of enterprise annuity in China. *Journal of the exploration of economic issues*, 2011; 2: 106-110.
4. Deng DS, Wu XW; on the realistic choice of the target of tax policy and the means of enterprise annuity tax policy. *Journal of contemporary finance and economics*, 2006; 7: 50-54.
5. Chen J, Zhu ML; Comparison and choice of tax preference policies for Chinese enterprise annuity. *Journal of contemporary finance and economics*, 2007; 4: 29-34.
6. Jia HB, Guo XJ, Li XH; from the perspective of equity, tax incentives for Chinese and foreign enterprises annuity. *Journal of Comparative Taxation*, 2004; 2:41-46.
7. Sun R; The United States and Britain enterprise annuity preferential tax policy comparison and Enlightenment. *Journal of Jinzhong University Apr*, 2009; 2: 74-78.
8. Guo XS; Research on tax incentives of enterprise annuity system in China. *Journal of Shanghai Economic Research*, 2005; 9: 36-45.
9. Tang X; Tax policy of enterprise annuity in Japan and Its Enlightenment. *Journal of economic research guide*, 2009; 17: 54-57.
10. Wang YM, Liu CY, Gao YJ; A literature review on the cost of enterprise annuity tax incentives. *Journal of Labor security world*, 2012; 7: 22-26.