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A Study of the Effectiveness of the New Chinese Interest in Tax

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Poster Presentation 31

A STUDY OF THE EFFECTIVENESS OF THE NEW CHINESE INTEREST TAX

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In November 1999, the Chinese government initiated a new tax, interest income tax. This tax was introduced after several years of deflation and increase in total savings. Under this new interest income tax, a flat-rate tax of 20% is levied on interests earned in the Chinese currency Reminbi (RMB) and all foreign currency deposit accounts at Chinese domestic banking institutions. The interest tax was introduced to achieve the following objectives: 1)to stimulate consumer spending; 2)to redistribute income; and 3)to encourage individual investment in the capital market. The purpose of the research is to gather data and to empirically determine the effectiveness of the new tax in achieving its economic goals.

We collected data on savings and consumer spending before and after the tax was levied in order to study the effects of the new tax on overall savings and consumer spending. We also interviewed people with different levels of income to see whether and how the tax had affected their behavior. We also gathered data of the securities markets to see whether the new tax has an impact on investments in the capital markets.

Our results indicate that the tax has indeed achieved its intended objectives. The increase in savings has slowed down and consistent price declines, which started more than two years ago, have stopped. More funds have since flown into the stock markets, which recently reached record high.