

Chapter 21 | Establishing Modern Fiscal, Taxation, and Financial Systems

We will fully leverage the foundational and important role of finance in governance, make it better serve the real economy, and improve the fiscal, taxation, and financial systems needed for high-quality development.

Section 1 Accelerating the Establishment of Modern Fiscal Systems

We will deepen reform of the budget management system and strengthen macro guidance as well as review and oversight over budget preparation. We will use financial resources in a coordinated way, standardize fiscal expenditure, and strengthen budget constraints and performance management. We will improve the mechanism for balancing budgets across fiscal years, strengthen medium-term financial planning and management, and ensure funding for major national strategic tasks. We will establish a financial relationship between the central and local governments with clear powers and responsibilities, coordinated fiscal supports, and balanced regional distribution, appropriately strengthen the central government's power in intellectual property protection, old-age insurance, and ecological environment protection across regions, and reduce and regulate the joint powers of the central and local governments. We will improve the financial systems at and below the provincial level and ensure access to basic public services. We will improve the financial system of transfer payments, optimize the transfer payment structure, and regulate transfer payment items. We will improve the system for comprehensive government financial reporting

based on accrual accounting. A regulated mechanism for government debt financing will be set up and refined.

Section 2 Improving the Modern Taxation System

We will optimize the tax structure and improve the system of direct taxes by appropriately increasing the proportion of direct taxes. We will improve the personal income tax system, expand the scope of comprehensive tax levying, and optimize the tax rate structure. We will further optimize the VAT system, with a focus on stabilizing the manufacturing sector and consolidating the industrial and supply chains. We will adjust and optimize the scope and tax rate of the consumption tax collection, work to move the consumption tax collection downstream in the production-to-consumption process, and steadily hand over the collection of this tax to local governments. Tax incentives will be standardized and improved. We will promote real estate tax legislation, improve the local tax system, and gradually expand the power of local governments to administer tax policies. We will deepen the reform of the system for the administration of tax collection, establish smart taxation, and modernize the administration of tax collection.

Section 3 Deepening the Supply-Side Structural Reform of the Financial Sector

We will improve the modern financial system so that it may become highly adaptable, competitive, and inclusive, and build institutions and mechanisms to provide effective financial support to the real economy. We will modernize the central banking system and improve the mechanism

for regulating money supply. R&D on digital currencies will be steadily promoted. We will refine the market-based mechanism for setting and transmitting interest rates, improve interest rate policies of the central bank, and enable the loan prime rate (LPR) to play a key role as benchmark. We will optimize the financial system structure, deepen the reform of state-owned commercial banks, accelerate the improvement of the governance structure of small and medium-sized banks and rural credit cooperatives, standardize the development of non-bank financial institutions, and enhance financial inclusiveness. We will reform and improve policy-backed finance to contribute more to the national strategy and planning. We will deepen the reform of insurance companies and encourage them to provide more extensive liability coverage of commercial insurance. We will improve the corporate governance of financial institutions and strengthen the supervision of shareholders, equities, and affiliated transactions. We will enhance the systems underpinning the capital market, optimize the multi-level capital market systems, vigorously develop institutional investors, and increase the share of direct financing, especially equity financing. We will fully implement the stock issuance registration system, establish a normalized delisting mechanism and elevate the quality of listed companies. The reform of the New Third Board will be deepened. We will improve the market-oriented mechanism for issuing bonds, steadily expand the scale of the bond market, enrich the variety of bonds, and issue long-term national debts and long-term infrastructure bonds. The investor protection system and deposit insurance system will be consolidated. We will modernize the financial regulatory system, remedy the shortcomings of the financial supervision system, promote financial innovations in an orderly manner and under prudent regulation, improve the regulatory framework with full coverage of risks, and make financial supervision more transparent and law-based. We will develop financial technologies steadily and accelerate the digital transformation of financial institutions. We will strengthen the application

of regulatory technology and risk assessment of financial innovation, and explore the establishment of a correction and suspension mechanism for innovative products.