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RESEARCH

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Promoting the innovation of urbanization system in Western China from the perspective of public finance and taxation

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Abstract

Background: New Urbanization is a major strategic decision for building socialism with Chinese characteristics, which has a profound significance for the comprehensive moves to finish building a moderately prosperous society, accelerating the process of socialist modernization, and other causes. The development of new urbanization requires the support of relevant mechanism and system, according to documents released by the State Council, promoting the innovation of urbanization system is a crucial component to the cause of new urbanization in 2015.

Methods: Based on the way urbanization system is stipulated in *The National New Urbanization Plan (2014-2020)*, we analyze how the fund security mechanism promotes the innovation of urbanization system in Western China from the perspective of public finance and taxation.

Results: Urbanization and fund security are related, public funding is important to urbanization and there exists multiple shortcomings in the process of urbanization in terms of public funding and taxation.

Conclusions: Urbanization system can be promoted by improving the institution of fiscal transfer payment and local tax system.

Keywords: Public finance and taxation, Urbanization, System, Innovation, Transfer payment, Local tax system

Background

Since the 18th CPC National Congress, China has entered the stage that determines the building of a moderately prosperous society. Urbanization, as a crucial symbol of national modernization, plays an important part in aspects like keeping a healthy and sustainable national economic development, pushing forward the transformation and upgrading of the industrial structure, coordinating regional economic development, and etcetera.

According to *The National New Urbanization Plan (2014–2020)* (hereinafter, *The Plan*), the goals of China's new urbanization include (1) enhancing the standard and quality of urbanization steadily, (2) optimizing the layout of urbanization, (3) making the model of urbanization more scientifically oriented, (4) making the urban life more harmonious and pleasant, and (5) constantly improving the system and mechanism of

urbanization. And the essential features of China's new urbanization may be summarized as human centered, overall planned, and ecological.

In May 2015, the State Council endorsed *Suggestions Concerning Economic Reform Priorities for 2015* (hereinafter *The Suggestion*). As is stated in *The Suggestion*, "Promoting the innovation of the urbanization system" is one of the priorities. The urbanization system, according to The Plan, includes the institution of population management, the institution of land management, the institution of urban housing, the institution of ecological and environmental protection, and the mechanism of monetary fund security. Economic fundamentals are the building blocks of other respects, and thus, the mechanism of monetary fund security is the cornerstone of the new urbanization system. This paper will be addressing how public finance and taxation promotes the innovation of new urbanization system from the aspects of fiscal transfer payment as well as local tax system.

Methods

Monetary fund security and new urbanization

The significance of public funding security to urbanization

According to the Academy of Macroeconomic Research under the National Reform and Development Commission, "by 2020, China will incur an expenditure of over 30 trillion RMB in its social security program and communal facilities program along the process of urbanization." Urban infrastructure construction, public service supply as well as education, health care, social security, and housing program are mostly examples of public goods, and their supply mainly relies on the government (The Academy of Macroeconomic Research 2013) (Xiaohe and Hanquan et. al. 2013). The long-term and large-scale need of public funding brought by urbanization inevitably demands the improvement of public fund security mechanism (Ou 2014). In addition, according to the press conference on the new urbanization plan, the plan aims to settle about 100 million people in cities and towns, and based on the computation by the Ministry of Finance, it costs between 60,000 and 130,000 RMB to convert one person's household registration. Such huge amount of expenditure will pose added challenges to public funding security.

Urbanization is closely linked with fiscal income, expenditure, as well as fiscal transfer payment, and the two mutually coordinate with each other (Zhu 2014). Empirical studies show that the rate of urbanization positively correlates with the amount of fiscal transfer payment and other transfer payment-related indices highly (Li and Meng 2012), and the scale and structure of the tax directly affect the source of fiscal income.

Problems of urbanization from the perspective of public finance and taxation

Since the reform of the tax system in 1994, the total amount of national fiscal income has increased rapidly over the past 20 years. In 2013, the total national fiscal income amounts to almost 13 Trillion yuan. Such rapid growth of fiscal income has indeed laid the foundation, in the aspect of public funding, for China's urbanization over the past two decades. However, from today's perspective, the fiscal and taxation system in the past has also brought many problems to China's urbanization, and more importantly, these problems are seemingly more severe to the urbanization of Western China.

There is an asymmetry between local governments' expenditure responsibility and fiscal right One of the greatest problems faced by China's local governments is that

they have too limited fiscal income, while having the obligation to spend too much. In simple words, they face shortage in fiscal income. The local governments' expenditure responsibility overly exceeds their fiscal right. And this problem is particularly serious to Western China's local governments. According to Table 1, as a national wide problem, the local government's expenditure is more than 1.7 times higher than its own fiscal income, which is already a burden, while this problem is more severe in Western regions of China, roughly 2.5 times higher. Such wide asymmetry between local governments' expenditure responsibility and fiscal right creates dramatic pressure to the local governments.

Viewing Western China's problem from another perspective, the Western region of China contributes roughly 20 % of the total local fiscal income, while its expenditure responsibility is roughly 30 % of the national total. This again indicates that Western China bears a heavier fiscal burden as compared to the national average.

The overall fiscal pressure of the local governments, especially Western China's local governments, is huge, and the local governments are very unlikely to be self-sufficient. The reason behind such asymmetry is that the central government spends too little directly while the local governments spend too much. To be more specific, the fiscal income of the central government and that of the local government do not differ much¹; however, from the point of view of expenditure, total expenditures of local governments are five times more than that of the central government. With heavy fiscal pressure, the local governments are heavily dependent on the "blood transfusion" from the central government.

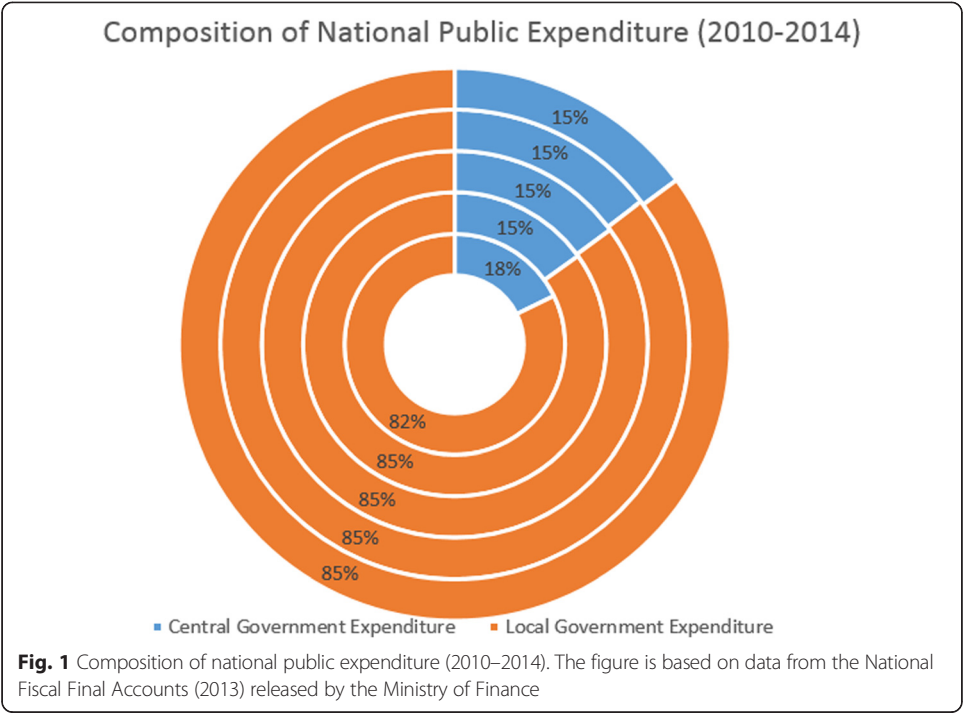
The income structure of China's, especially Western China's local government, is not reasonable Besides facing shortage in the amount of fiscal income, the local governments in China face another serious problem in terms of its fiscal, that is, the income structure.

As the very major source of fiscal income, tax, by right, should be the main source of fiscal income. However, in recent years, the percentage of non-tax revenue makes a large proportion of local fiscal income, accounting for more than 20 % (shown by Fig. 1). It is known that non-tax receipt is relatively less stable than tax revenue, and in the long run, non-tax revenue is unlikely to provide public funding to the local governments effectively and stability. The strong reliance of the local governments on non-tax receipt indicates that the structure of local government fiscal income is not reasonable enough.

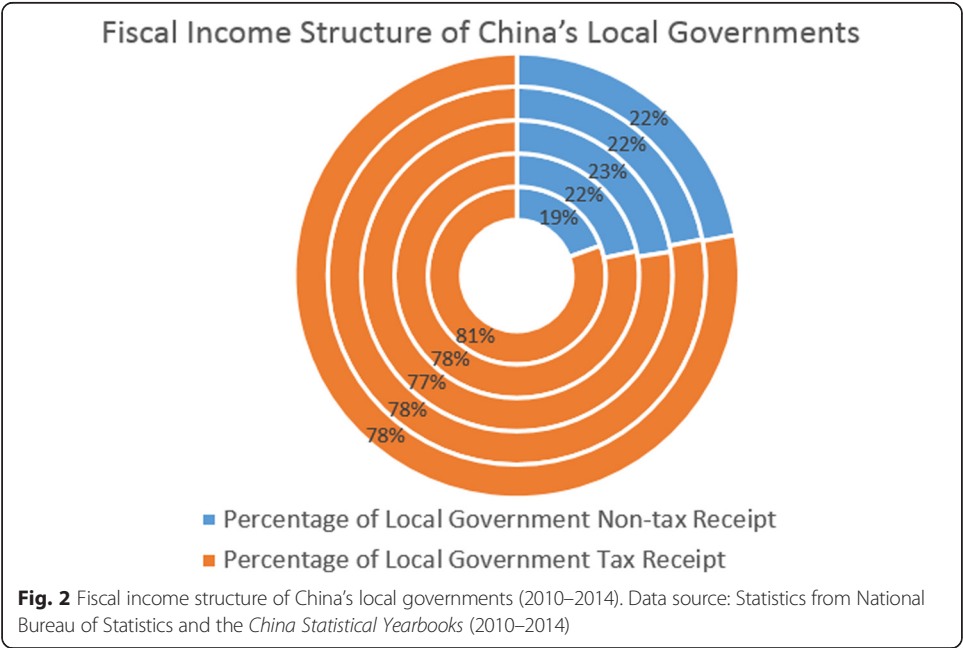
More importantly, this problem is particularly more serious in Western China; as is shown by Fig. 2, the percentage of local government non-tax receipt mounts up to around 30 %, which indicates that the fiscal income structure of the local governments in Western China is weaker, less stable, and more fragile than the national average, and thus, requires a structural change more urgently (Fig. 3).

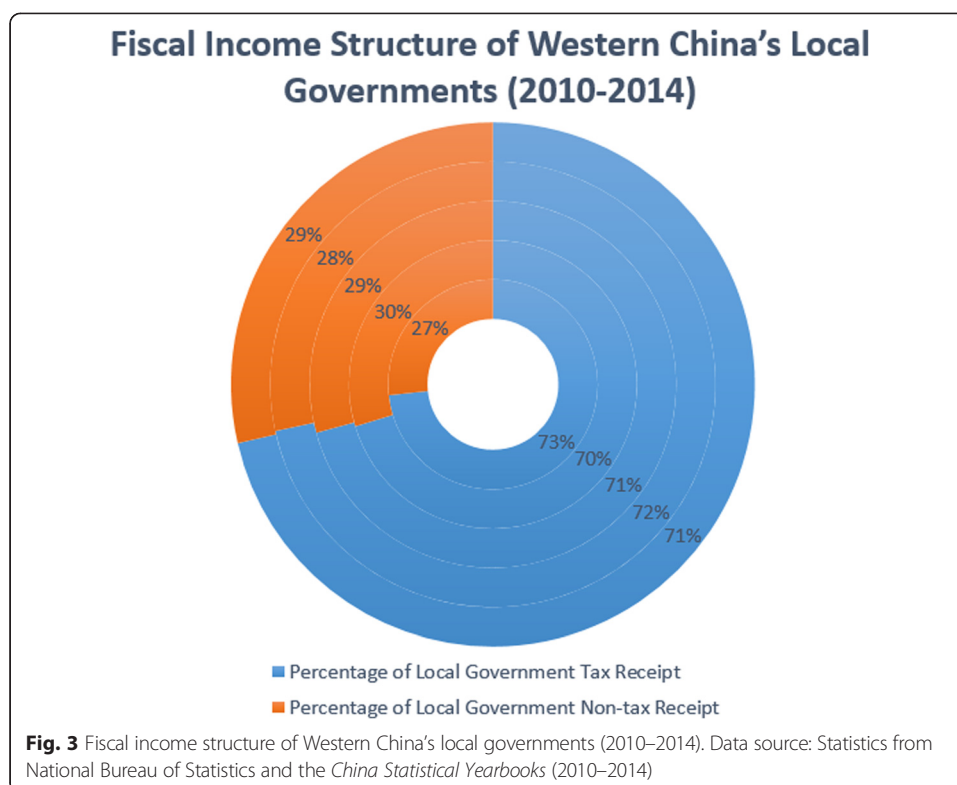
Table 1 Expenditure-to-income ratio at the local level (2010–2014)

	2010	2011	2012	2013	2014
National total	1.82	1.76	1.75	1.74	1.70
Western China	2.72	2.53	2.53	2.46	2.44
Western/national	1.49	1.43	1.44	1.42	1.44



The biased of transfer payment system is not reasonable China’s biased of transfer payment system is mainly reflected in two aspects. Firstly, transfer payment from the central government to the local government is bias towards wealthier regions. Empirical evidence shows that regions with higher per capita GDP (mainly referring to the eastern part of China) are likely to receive more transfer payment from the central government than regions with lower per capita GDP (mainly referring to the central and western regions, especially the western region); in short, rich areas get more transfer





payment (Luo and Cao 2006). Such biased transfer payment system is likely to widen the gap between the rich and the poor and the degree of urbanization between more developed regions and less developed regions. Western China is the region with the smallest per capita GDP and the lowest level of urbanization, and thus, instead of receiving the least amount of transfer payment, it should receive a greater proportion; otherwise, the current transfer payment system harms the western regions more than it harms any other region.

Secondly, transfer payment from the central government is bias towards large and medium cities, and such bias of transfer payments is likely to increase the difference between cities and countryside, which will obstruct the goal of achieving unified urban and rural development. As is known that Western China is less urbanized than other regions, and hence, it has less large- and medium-size cities and has more small cities and towns as compared with the eastern region of China. If the transfer payment system continues to be bias towards large and medium cities, the gap between Western China and other parts of China in terms of overall level of urbanization will continue to increase, as the less urbanized region gets less governmental support.

The current fiscal system neglects the migrating population China's current fiscal system (including fiscal income and expenditure, the division of financial responsibilities, and the system of transfer payment) is under the assumption that the population does not migrate and is based on the system of household registration (Liu 2012). Western China produces the largest output of migrant workers and thus, migrant workers and their families are harmed by the greatest deal because of such negligence.

These migrant workers and their families are counted as urban population in their home provinces; however, they have not been settled and become real urban residents in either their place of work or their place of household registration. Under the urban-rural dual structure and the dualistic household registration system, they usually do not, or do not fully and equally, enjoy basic public services such as education, employment, medical care, housing, and pension that real urban residents enjoy.

Land finance *Land finance* is the product of the system of compensated use of land and the shortage of fiscal income. On the one hand, land finance can increase the revenue of the local governments; on the other hand, it contributes to the local GDP, which is one of the driving forces of urbanization in the past. However, as the degree of dependence of the local governments to land finance increases, the problem of urban land overdevelopment becomes more serious. The long-term dependence on land finance is harmful to the healthy development of local fiscal income structure, as the model itself is difficult to sustain in the long run. Land transfer revenue and real estate tax revenue fell sharply in big- and medium-sized cities due to the depletion of land resources and have entered into a post *land finance* era (Fu and Zhang 2014). Indeed, many parts of Western China do not face the depletion of land resources yet; however, if such reliance on land finance continues in Western China, it would be extremely dangerous for this region. On the one hand, it will fall into the *post land finance* era trap where a source of fiscal income is no longer generating sufficient income, and on the other hand, the sky-high real estate price will become overly unaffordable to the citizens. In addition, the western region is ecologically weak and it must function as a region that conserves the ecological natural resources according the national functional zone plan; therefore, a large amount of land resources cannot be used for commercial purposes in Western China, and thus, it is indeed urgent for this region to undergo a fiscal system transformation and to seek alternative sources of fiscal income to support urban construction.

Results and discussion

Improving fiscal transfer payment system and hence promoting new urbanization

The *Budget Law of the People's Republic of China (2014 Amendment)* stipulates that transfer payment in China includes transfer payment from the central government to the local government and transfer payment across different levels of local governments (NPC 2015). According to this law, transfer payment takes three forms in general: general transfer payment, special transfer payment, and tax rebate.²

The 1994 tax system gradually widens the gap of per capita fiscal income across provinces, but the implementation of transfer payment plan since 1995 prevented the gap from widening quicker (Liu 2008). However, the effect of financial transfer payment is not as obvious, so it is necessary to improve the transfer payment system so that it can play a greater role.

Establishing a fiscal system where the expenditure responsibility and the fiscal right corresponds with each other

The division of government levels makes it necessary to divide fiscal responsibility, and the basis of fiscal responsibility division is the function of various government levels.

The functions of the government differ across levels, and thus, their fiscal responsibility, especially so the expenditure responsibility, is different. According to the current fiscal system in China, it is not difficult to find that the specific work of urbanization is mainly to be done by local governments; this means that the responsibility of urbanization lies in the local governments. However, since the tax reform in 1994 to 2010, the central fiscal income has always been higher than that of the local governments, fiscal right has gotten centralized; however, as urbanization progresses, it is inevitable that the responsibility of expenditure of the local government will increase. Reduction in local fiscal income and the increment in the responsibility of expenditure, fiscal self-sufficient rate of local governments stayed low for a long period, especially in the western regions, the fiscal self-sufficient rate is particularly low. According to the National Bureau of Statistics, in 2011, the fiscal self-sufficient rate of the western regions (except Chongqing) is below 50 %, and in certain even less-developed areas, the rate is lower than 30 %. Although the amount of local fiscal income exceeded that of the central government after 2010, the local governments still heavily depend on transfer payments from the central government.

As urbanization progresses, functions of various levels of governments will change and get adjusted accordingly, and thus, the responsibility of expenditure, especially the responsibility in providing public services, of each government level should also be adjusted accordingly (Liu 2012). Only when the responsibility is well matched with fiscal right can the monetary fund security mechanism be improved and innovated and hence, realizing the goals of new urbanization. According to *Suggestions Concerning the Reform and Improvement of Transfer Payment from Central Government to Local Government* endorsed by the State Council, improving the system of transfer payment requires a clear and reasonable identification and division of the responsibility of expenditure (The State Council 2015).

Clearly and reasonably identifying and dividing the responsibility of expenditure should start from clearly defining the functions of government. As to promoting new urbanization, it is necessary to first identify clearly the functions of various levels of governments, and hence, determines their respective responsibility of expenditure. Throughout the process, the central government should partially centralize the responsibility of expenditure and hence directly shoulder more fiscal responsibilities; moreover, it should also reasonably decentralize fiscal right according to the tasks local governments have when promoting new urbanization. To be slightly more specific, concentrating the responsibility of expenditure means that the central government should expand its direct fiscal responsibility beyond national defense, foreign affairs, and national security to areas where the central government can either invest directly or coordinate with local governments, especially in the field of public service provision. As to trans-regional and cross-governmental public issues like environmental protection and social security, the responsibility of expenditure should belong to the provincial level. In terms of decentralization of fiscal right, county level government should enjoy more power, and the mechanism of transfer payment from provincial governments to levels below should also be improved. Enhancing the fiscal strength of the grassroot governments and granting local governments with greater fiscal freedom, thereby better adapt to the needs of urbanization.

Improving the system of general transfer payment

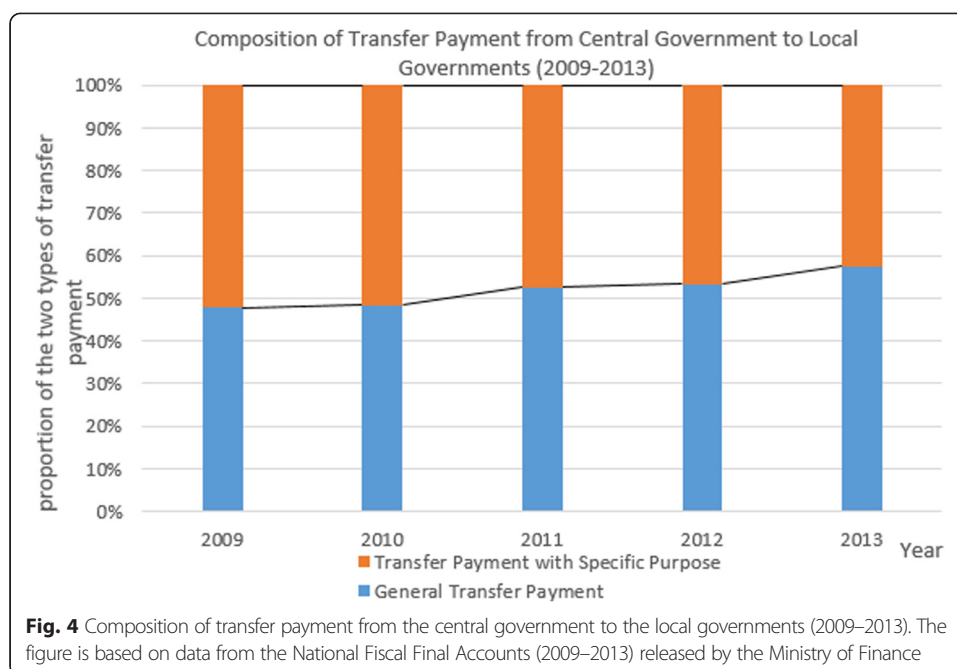
General transfer payment refers to the money grant by the central government to local governments with fiscal shortage in accordance with relevant rules and regulations. Under the current system, items of general transfer payment include balanced transfer payment, transfer payment to ethnic minority areas, transfer payments to rural areas for taxes reform, and transfer payment for salary adjustment (Ministry of Finance 2012). General transfer payments are not specifically designated for any usage; local governments accepting general transfer payments may follow the relevant regulations and use the money according their practical needs.

From the start of the tax system reform in 1994 to the year 2011, special transfer payment had played an important part in transfer payment from the central government to local governments, with a percentage of over 50 %. As its name suggests, a special transfer payment can only be used for a specific project. Transfer payments with specific purpose have contributed remarkably to the development of Chinese economy; however, due to its scattered feature and complexity, it has also brought some problems. Transfer payments with specific purposes are scattered because they are only to be used for specific projects and programs, they are not to be planned and used by local governments overall. Transfer payments with specific purposes are also complex, because they usually take a long period of time for such transfer payments to be examined, approved, and transferred. Urgent projects may not get the necessary fiscal support timely due to long waiting periods and complicated procedures, and this may lead to the projects losing their novelty, especially for seasonal projects, such as agricultural projects. In addition, before 2015³, a local government must prepare a counterpart fund for special transfer payment, and this had given the local governments some additional fiscal pressure. New urbanization emphasizes the overall development, and special transfer payment obviously meet the criteria of “overall”; in addition, the complexity of special transfer payment does not meet “government streamlining” commanded by the State Council. In this sense, it is necessary to improve the system of general transfer payment (Fig. 4).

The proportion of general transfer payment may increase with acceleration as the State Council endorsed the *Suggestions Concerning the Reform and Improvement of Transfer Payment from Central Government to Local Government*; however, according to past year's statistics, even after 2011 when general transfer payment exceeded special transfer payment, the amount used to narrow the gap between the rich and poor remains small⁴. Therefore, while it is necessary to increase the proportion of general transfer payment, it is also vital to increase the amount that is used to narrow the gap between the rich and poor within general transfer payment itself.

Improving subsidy measures for basic public service provision in urban areas

In terms of public services, gradually increasing the level of basic public service in urban and towns, promoting urban-rural integration, eliminating the differences between urban and rural areas, and pushing forward the balanced development of urban and rural areas are guidelines that should be insisted. However, throughout the process of development, it is vital to recognize, deeply, the imbalance among cities, towns, and villages. Taking health care as an example, the total investment structure of medical and health-care services is not very reasonable, and there are vast differences between the services in cities and rural areas in terms of both quantity and quality. From the



perspective of medical and health-care investment structure, EU countries' medical projects mainly depend on the governments, where government investment accounted for more than 80 % of the total, and in China, however, the percentage is only 28.7 % in 2010 (Local Tax Bureau of Anhui Province research team et al. 2013). It is not difficult to see that medical and health-care services in China need the support from public finance. From the perspective of medical and health-care resources (including personnel and facilities), China's medical resources are centralized in large cities and large hospitals, while in small- and medium-sized towns as well as rural areas, medical resources are of serious shortage. In 2012, the number of beds in health institutions per 1000 population is 4.24⁵ overall, this is not a low number, which is only slightly lower than the OECD average levels, which is 5.05⁶ per 1000 population. However, when taking a closer look, there is huge gap between urban level and rural level, the number of beds in health institutions per 1000 population in urban areas is more than two times greater than that in the rural areas. Something even worse, the difference between the number of health-care workers per 1000 population in urban areas and that in rural areas increases year by year. The degree of the health-care imbalance is worrying. Beside medical and health care, other public services such as education, culture and sports, and social security also display similar problems of total shortage and uneven distribution.

The principle that “demand determines supply” should be insisted throughout the process of new urbanization, subsidies are to be given according to local needs. According to *The Plan*, urban-rural integration will finally replace the dualistic structure. However, when pushing forward the integration, it is necessary to note that new urbanization does not blindly pursue construction of metropolitans; instead, it looks forward an integration of big- and medium-sized cities, small towns, and rural villages. Cities, towns, and villages demand different public services, and thus, it is necessary for fiscal subsidies to be statically appropriate, i.e., subsidize according to the different

demands cities and rural areas have; and the subsidies must also be dynamically flexible, i.e., be human centered, taking population migration into consideration, and coordinate the supply and subsidy of public service provision in urban and rural areas. For instance, when subsidizing for medical and health-care services, it is necessary to recognize what the local medical and health-care industry demands, and difference between urban and rural needs should be considered; at the same time, it is also important to make sure when rural population migrate and get settled in cities so that the already subsidized rural medical and health-care industry can also be transferred to the cities so as to avoid resource waste.

Diversified demand requires diversified supply, as is mentioned earlier, it is important to adjust the responsibility of expenditure and fiscal right of the local government rationally, granting local governments more fiscal freedom, so as to allow them to subsidize for public services according to their respective needs.

Improving local tax system and new urbanization

Finding new main taxes in local government

Since the tax system reform in 1994, business tax has long been a main and sustainable source of local tax revenue. However, as the reform program to replace the business tax with a value-added tax progresses, local governments will soon lose their main tax. In order to enhance the local governments' ability in providing basic public services, it is imperative to seek new main taxes. The central task of improving the local tax system is the establishment of main tax. A main tax shall generally meet the following criteria: (1) a main tax should contribute a large proportion to the overall local fiscal income, (2) a main tax should be a sustainable source of tax revenue, and (3) a main tax should be able to enhance local governments' abilities in providing basic public services. From my opinion, as business tax is soon fading away, finding an alternative main tax should follow two steps. Step one, in the near future, it is necessary to speed up the reform and legislation of real estate tax; and step two, in the long run, it may be a good solution to promote the reform of a social security tax and specifically use social security tax in providing social security and social welfare, and hence, optimize the public service provision.

Short-term approach: accelerating the reform of real estate tax According to experiences from developed countries, real estate tax is usually a main tax local in local governments. For instance, in Canada, real estate tax contributes over 30 % to the local fiscal income (Xiao 2008). Well-designed real estate tax can be a major source of revenue and support urban construction and public service provision (Ren 2014). However, under the current local tax system, the percentage of housing property tax is not high, in 2013, it only accounted for 3 % of local tax revenue. It is obvious, housing property tax alone cannot be a main tax; however, if housing property tax, as the foundation, combined with house and land-related tax, the combination processes a huge potential in becoming a new main tax. Still with references to the statistics in 2013, housing property tax together with urban land use tax, land appreciation tax, contract tax, and farm land occupation tax contributed 22 % to the overall local tax revenue; if stamp tax, cooperate income tax of real estate enterprises, and individual income tax of

employees in real estate enterprises are taken into account, the percentage was even higher, and this suggests that a new real estate tax with the above items is capable of replacing business tax in terms of its scale.

From the perspective of real estate-urbanization relationship, real estate tax is closely link to urbanization. As an important component of land urbanization, the number of real estates is positively correlated to the rate of urbanization. As urbanization progresses, real estate prices increases, and hence, increases the amount of real estate tax revenue; this increment can be used to provide better public services, construct urban infrastructures, and promote the development of real estate industry. In addition, the scarcity of land does not affect real estate tax as greatly as it affects land finance; real estate tax allows for a more sustainable tax revenue as compared with land finance, and using real estate tax to replace land finance helps the modernization of China's tax system. In addition, real estate tax may help regulate and control the real estate market, curbing speculative demand and transforming the speculation-oriented market to a consumption-oriented one. Real estate tax is helpful in pushing forward a healthy development of real estate industry, and it is also helpful in improving the urban housing guarantee system, another important part of urbanization system.

Long-term approach: pushing forward the establishment of social security tax

Social security tax is also an important part of local tax experiences from western developed countries (Liu 2012); China has yet to impose social security tax, but imposing social security tax does have important practical significance, and it has the potential to become a main tax in local governments.

In 2013, the expenditure on social security and employment, health care, and family planning together accounted for 19 % of the annual local expenditure, which is the largest item of local expenditure; and in the same year, the central government expenditure on these items is below 5 %, it is not difficult to see that local governments' role in social security is much greater. Therefore, I believe that both the responsibility of expenditure and the fiscal right regarding social security should belong to the local governments.

Under the current system, social security funds and social security fees are the two main sources of revenue for social security causes, and I believe that this system should be replaced by the system of social security tax. Social security tax is compulsive as compared with social security fee, it guarantees a more stable revenue, and its greater coverage allows for a larger scale of revenue. Social security funds are close to commercial security, because principal and interest in personal accounts belong to individuals, and thus, losing the ability to coordinate the society's needs as a whole. Social security tax is fiscal and governments may use social security tax revenue for coordination. I suggest that social security tax should be specifically used for social security causes, such as guaranteeing employment, housing, medical, and health care.

Accelerating the reform of environmental protection tax and resources tax to help realize ecological civilization

The idea of integrating the ecological civilization into the process of urbanization is an important principle that new urbanization must adhere to. To protect the ecological environment and using natural resources reasonably are important contents of the ecological civilization.

Western China is the birthplace of the Yangtze River and the Yellow River, the region covers upstream of the two rivers and contains several of their tributaries. Protection of ecological environment and water resources in the western region is crucial to China. According to *The Plan*, urbanization in the central and western regions, especially in the western region, must strictly follow the protection of ecological environment. Considering the fact that the western region suffers from soil erosion and desertification, its ecological environment is very vulnerable (Wu et al. 2000). Together with the fact that the less economically developed western region is rich in energy and mineral resources, speeding up the reform of resources tax may help increase fiscal income for the western local governments and, simultaneously, promote the rational use of natural resources in the region. Therefore, it is not difficult to see that reforming of the environmental protection tax and resources tax may help the western region in realizing goals like ecological civilization, green economy, and low-carbon society in the process of urbanization.

When pushing forward the reform, the principle of fairness has to be adhered to. For instance, when reforming environmental protection tax, “polluter pays principle” must be complied, no polluter should be excused from paying tax and non-polluters should not be taxed. The principle of tax neutrality should also be followed; the reform should not heavily increase the burden on the tax payers. The efficiency principle is another rule that cannot be ignored, that means the taxation departments should try to eliminate the cost of taxation.

In addition, the environmental protection tax and resources tax are to be used in designated causes, respectively; environmental protection tax should be used for promoting environment-friendly acts and curbing environmental destruction and resources tax are to be used for encouraging resources protection and sustainable use of resources.

The tax revenue of the environmental protection tax can be used in projects that internalize environmental negative externality, i.e., pollution control, and ecological recovery. It may also be used to subsidize green industries so as to promote green economy. Accelerating the reform of resources tax is also helpful to ecological space protection.

Conclusions

This article mainly addresses the ways in which the innovation of urbanization system in Western China can be promoted from the perspective of public finance and taxation. In the article, it is discussed that public funding security is significant to China’s new urbanization system and the four problems of China’s current urbanization system (from the perspective of public finance and taxation) are also discussed, and hence, two general solutions, “improving fiscal transfer payment system” and “improving local tax system,” are given. Discussed under the first general solution, more detailed solutions are given, and they are establishing a fiscal system where the expenditure responsibility and the fiscal right corresponds with each other, improving the system of general transfer payment and improving subsidy measures for basic public service provision in urban areas. Discussed under the second general solution, the more detailed solutions are finding new main taxes in local governments, which requires accelerating the reform of real estate tax and pushing forward the establishment of social security tax, and accelerating the reform of environmental protection tax and resources tax to help realize ecological civilization.

Endnotes

¹Take the year 2013 as an example, according to data from the the “National Fiscal Final Accounts (2013)” is cited in text but not given in the reference list. Please provide details in the list or delete the citation from the text. National Fiscal Final Accounts (2013) released by the Ministry of Finance, fiscal income of the central government and that of the local government account for 46% and 54 %, respectively, ; the difference is not big, and the fiscal income of the local government is slightly more.

²Tax rebate is not discussed in this paper.

³According to the *Suggestions Concerning the Reform and Improvement of Transfer Payment from Central Government to Local Government* endorsed by the State Council, local counterpart funds are no longer necessary to special transfer payment unless the State Council stipulates otherwise. However, it must be noted that the scattered feature and complexity of special transfer payment may hinder urbanization.

⁴About 25 % of total transfer payment.

⁵Data source: *China Statistical Yearbook* 2013

⁶Data source: OECD database

Competing interests

The authors declare that they have no competing interests.

Authors' contributions

WY completed the preliminary drafting of the paper and carried out the successive editing of the paper. ZF revised the manuscript critically. Both authors read and approved the final manuscript.

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