



Illinois Wesleyan University
Digital Commons @ IWU

John Wesley Powell Student Research
Conference

2001, 12th Annual JWP Conference

Apr 21st, 10:00 AM - 11:00 AM

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

Yi Linda Zhang, '02
Illinois Wesleyan University

Zhenhu Jin, Faculty Advisor
Illinois Wesleyan University

Follow this and additional works at: <https://digitalcommons.iwu.edu/jwprc>

Zhang, '02, Yi Linda and Jin, Faculty Advisor, Zhenhu, "A Study of the Effectiveness of the New Chinese Interest in Tax" (2001). *John Wesley Powell Student Research Conference*. 1. <https://digitalcommons.iwu.edu/jwprc/2001/posters/1>

This Event is protected by copyright and/or related rights. It has been brought to you by Digital Commons @ IWU with permission from the rights-holder(s). You are free to use this material in any way that is permitted by the copyright and related rights legislation that applies to your use. For other uses you need to obtain permission from the rights-holder(s) directly, unless additional rights are indicated by a Creative Commons license in the record and/ or on the work itself. This material has been accepted for inclusion by faculty at Illinois Wesleyan University. For more information, please contact digitalcommons@iwu.edu.

©Copyright is owned by the author of this document.

Poster Presentation 31

**A STUDY OF THE EFFECTIVENESS
OF THE NEW CHINESE INTEREST TAX**

Yi Linda Zhang and Zhenhu Jin*

Department of Business, Illinois Wesleyan University

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.