

On Finance Supporting System Cultural Industry in China

Congxian Deng^a

Law school Yangtze University, Jingzhou 434020, China

^a26250586@qq.com

Abstract. China's cultural industry, which occupies only about 3% of GDP, is still in its initial stage. The Twelfth 5 years Plan proposed the great goal to establish cultural industry into be the pillar industry of the national economy. Comparing with developed countries such as Europe and the United States, China's cultural industry supporting policy, in level or strength, are weaker. History shows that, in the process of emerging industries growing into leading industries, those countries that can grasp the industrial substitution opportunities and give enough support will usually take the dominance in the international competition. It is of great significance to do research into the specific measures of some relating countries' industrial finance and analyze the problems in China's cultural industry financial system, and then to establish proper cultural industry financial system on this basis.

Keywords: Cultural industry; tax preference; special fund; improvement.

1. Introduction

We can learn that some cities giving supporting measures got good results and the other got less from the following table. The paper will introduce the legal measures in some developed countries and analyze the disadvantages of the China cultural industry finance policy. Finally, it will give some suggestions on how to improve China's cultural industry finance supporting system.

2. The Legal Practice of Financial measures in Developed Cultural Industry Countries

Cultural industry is very special and important because It relates to some important benefits such as the state ideology, social value, and culture safety. At the same time, it's also a key industry which can bring huge economical interest. Financial supporting for cultural industry is a common practice for developed cultural industry countries and the major methods are tax preference and special fund.

2.1. Tax preference for cultural industry

The first of the most is income tax preference. In foreign countries, the benefit body of cultural industry tax preference covers widely. Firstly, some states implement tax income preference to cultural industry employees. As for this, Europe and America mainly take the following three methods: tax will be reduced or exempted directly, average taxation of years' income, deducting specific expenses at high proportion. Secondly, implement income tax preference for cultural enterprises. Europe and America mainly take the following measures: the one is lower tax for cultural enterprises and the other is to offset cultural industry R&D tax. Besides, people who have donated to cultural industry will be exempted from income tax.

The second tax preference for cultural industry is VAT Preferences. Many European countries have implemented preferential tax system lower than the standard tax rate or tax exemption as to collecting cultural industry VAT. Statistics about the VAT situation carried on independent writers and audio visual artists from European countries by the European culture research institution shows that 14 countries collect taxes according to standard VAT rate, 11 countries exempt VAT and 16 countries collect taxes lower than the standard rate.

The third tax preference for cultural industry is sales tax preferences. Sales tax preferences in Europe and America mainly have two ways: one is for certain cultural subjects and the other is used in certain culture areas. The former, such as the Ireland Artists Tax Exemption Law, regulates to exempt artists' copyright sales taxes. The latter, for example, in American, many cities have already

designated some places as culture region. In 1998, the regional parliament in Rhode Island, America, passed a law to exempt culture employees' sales tax if they are working or living in the 9 culture communities. What's more, the galleries, exhibition halls located in the region, sales taxes are exempted too.

2.2. Special fund for cultural industry

The first kind fund is Cultural Industry Investment Fund. Cultural industry investment foundation is collected directionally by originators and managed by them or the entrusted people. It solves capital constraints of cultural industry by becoming a shareholder or offering a loan. According to the differences of originators' identities and funding sources, cultural industry investment foundations can be divided into governmental investment foundation and nongovernmental investment foundation. Governmental cultural industry investment foundation can directly solve some enterprises' financing problems, and is more beneficial to guide social capital to flow into culture industry.

The second kind fund is Cultural Industry Financing Guarantee Fund. Cultural Industry Financing Guarantee Fund refers to the special fund established by the government to guarantee cultural industry financing. Cultural industry is difficult to finance worldwide. The establishment of governmental financing guarantee fund can, to some extent, disperse the commercial risks of borrowers.

The third kind fund is Cultural Industry Rewarding Fund. Cultural Industry Rewarding Fund is a special fund founded by the government to reward certain cultural industry projects or subjects. Special rewarding funding can strengthen the confidence of the beneficiaries; and also create a developing atmosphere for cultural industry. A great many special rewarding funds have been set up in Europe, which involve many industry areas, such as performing arts, film and entertainment and publication, etc.

The fourth kind fund is Market Expanding Fund. Most of the developed cultural industry countries have set up the special fund for expanding the market of cultural industry; and it is used to promote cultural industry entering into the international market. For instance, the European Film Expanding Fund, established in 1997, mainly subsidize excellent films, cineastes from any countries in the EU to attend major international film festivals. Another example is the European music export office; it aims to provide convenience for European culture entering into the American market. Its functions include: providing regularly updated American cultural industry enterprises' lists and information for European cultural industry, providing American market policy consultancy for European cultural industry and organizing European industry people to attend American major cultural events.

3. Problems in China's Cultural Industry Financial system

3.1. Problem in Tax Subsidization of Cultural Industry

The first problem is that Subjects enjoying tax subsidization are limited. Tax preference in China's cultural industry only aims at quite a few employed subjects, mainly are former state-owned cultural business institutions that changed into enterprises, animation enterprises affirmed on certain conditions by related ministries and miniature profitable enterprises. The overwhelming majority of cultural industry enterprises are ruled out of the tax preference. In addition, some relating documents don't give tax preference to cultural employees and individuals and organizations supporting cultural industry.

The second problem is that the tax subsidization velocity is weak. Seeing from the tax supporting velocity, the reduction range is small and the preferential fields are quite limited. Take animation industry subsidization policy as an example, the NO. 65(2009) document is the major document of animation tax preference. But the VAT, income tax, import tariff and VAT privilege it regulated only apply to affirmed animation enterprises' self-developed animation products or software. This regulation obviously can not compare with many European countries that exempting VAT from cultural industry enterprises and individuals.

The third problem is that Tax subsidization do not have continuity. The N.O. 34(2009) document and the N.O. 31(2009) document are related to cultural enterprises' tax preference, but they can last only 5-year time. The non-continuing problem is also reflected in earmarked fund subsidization. The implementation of the existing special fund system doesn't last for 2 years, and it's a temporary practice in the form of government temporary files. The short-term subsidization goes against the stability of investment and will possibly cause terrific influence to the sustainable development of the industry.

The forth problem is that the variety of tax subsidization is incomplete. Tax preference of cultural industry is principally restricted to enterprise income tax, VAT, sales tax and import and export tariff, etc. it doesn't involve the taxes that European countries and America are implementing, such as cultural employees' personal income tax and VAT. As creative industry, talents are of great importance to the development of cultural industry. Not considering tax preference to employees is evidently adverse to the rapid development of cultural industry.

3.2. Problems in Special Fund Subsidization of Cultural Industry

The first problem is that the number of special fund is extremely small and the use of special fund is unreasonable. For a long time, the government only gives budget fund to cultural undertakings and cultural industries are removed from the supporting lists. The national finance input to culture areas can not simply be distinguished as business investment and industry investment but should harmonize the relationship between cultural undertakings and cultural industry from a large cultural, economic view. The business input should consider its promotion to industry, and industry input should consider the cultural ideology and public properties. Establishing a linkage input mechanism of undertaking and industry, liberating and developing the cultural productivity so that to realize the splendid development and great boom of the culture. The central finance capital used as cultural industry budget annually is evidently a little low. For example, in 2009, the state budget fund is 4.3865 trillion Yuan; in the same year, the cultural industry occupies about 2.5% of the GDP. As a leading industry of cultivation, cultural industry should obtain a special fund of no less than the same proportion of GDP, i.e. 109.7 billion Yuan. However, since 2006 the earmarked fund used for cultural industry annually by the national government is only about 200 billion Yuan. Besides, the extremely small amount of special fund is mainly used for individual rewarding. We should learn from the EU and its member states to enlarge the scale of the special fund and set up all kinds of special funds to expand them to guarantee, investment, and market expansion, etc.

The second problem is that the beneficial subjects of special funds are extremely limited. No matter the national or regional special fund, government always take it to support the excellent and powerful enterprises, which rules out the ordinary subjects of cultural industry from the beneficial scope, which is obviously against the overall development of the industry. Take the animation industry as an example, the 200 million special funds at the central level used for original animation assistance program cover only 10 animation works, 10 animation creation teams and 10 animation plays in 2009; while the special funds used to support the establishment of public technology of animation industry and the information service platform only benefit some places, such as Beijing, Shanghai, Hunan and Changzhou, etc.

The third problem is that the declaration mechanism of special fund is also unreasonable. Even the enterprise learns about the reporting information of special fund, it will be hindered by the finicky reporting procedures. The enterprise needs to present a large amount of supporting materials which are difficult to obtain and needs to be examined and verified by multi-departments, and then it will have the opportunity to get subsidization. Under the sharp contrast of small supporting velocity and finicky reporting procedures, most enterprises will usually give up the report of special fund "voluntarily".

The forth problem is that the appraisal mechanism of special funds supporting program is in a vacancy state. The special funds of China's cultural industry emphasize reporting and neglect supervision. When reporting a special fund program, related departments should organize experts to evaluate some problems, such as whether the program target design is reasonable, whether the

program input and output will reflect the rules of economy and efficiency, whether the result of the implementation achieves the targeted aims, etc. and carry out assessment tracking in the process of the program operation. After the program, there should be an ultimate evaluation. Establishing performance evaluation mechanism can, on the one hand, objectively assess the specific implementing situation of the completed program; on the other hand, provide a scientific proof and reference for further improvement of related input.

4. Suggestion to improve financial system of China cultural industry

4.1. Enact laws on culture industry and pushing forward the developing of cultural industry

Nowadays, the development of our China's cultural industry is still in its primary stage, which reflected by a lack of original products, great international presence and completes industrial chain. The development of China culture industry will be a long and sustained process. The financial aid basis based on the message and guidance of ministries apparently cannot compete with the formal legal document like administrative regulations and departmental rules. Therefore, it is necessary to guide the industry from legal level. Enacting formal legal document for industry aid in the form of law or governmental rules can better solve the prominent problems existed in the aid for cultural industry. The feasible way at present is to integrate the existing ministry documents led by the central government and administration rules and regulations, making them the legal bases for cultural industry aid.

4.2. Broaden the aiding fields to promote the overall development of cultural industry

It is important to broaden the fields for aid no matter in tax preference or in earmarked funds. The overall development of cultural industry in China lags behind its counterparts in other countries. All-sided aid is more effective than individual assistance. Therefore, it is important to broaden the fields for aid no matter in tax preference or in earmarked funds. In tax support, we should not only increase the number of benefited cultural enterprises and their benefited fields but also use taxation leverage to curb the frenzied inflow of foreign cultural products. When formulating tax preference policy, relevant parties should exempt the income tax of culture industry employees, mitigate or exempt the income tax of individuals or organizations that donate to culture industry and raise the proportion of companies enjoying tax preference for anime industry, namely, relaxing the recognition standards for beneficiary anime enterprises. In the usage of earmarked funds, relevant party should expand its categories and beneficiaries. At present, the biggest malpractice of the earmarked financial support systems both in local and central level lies in its function in some very limited fields and entities. Because of the limited scale of earmarked funds, it is impossible to support more enterprises and projects. Therefore, the important premise is to enlarge the scale of earmarked funds.

4.3. Strengthen the financial aid to promote the effective development of cultural industry

Central and local government should continue to mitigate or exempt tax in fiscal revenue and allocate more special funds in financial expenditure. As for tax preference, the scale of the favorable exerts a direct influence on the fundamental interests of investors and practitioners. Nowadays, the small cultural industry hasn't made great contribution to state revenue. So, giving up the tax revenue temporarily in order to get huge return is rewarding. As for earmarked funds, its scale should be enlarged for it directly determines its effects. Inadequate funds are of no benefit to the development of culture industry. Of course, it is not required that all the funds should be provided by fiscal revenue. Some social funds can also get involved.

4.4. Improve the procedures for aid to accelerate the development of cultural industry

First of all, establish a quick and flexible aid application procedure. Relevant party should set up an application system combining preliminary application and after report, and a report mechanism mainly for supporting preliminary application. At present, the tax preference and earmarked funds aid basically belong to incentive support, which means applicants apply afterwards and several departments ratify. For enterprisers, preliminary application is more proper because it can not only help enterprises to finance but also enhance their confidence to develop the industry. Moreover, it is

inconvenient for enterprises to prepare the application document if reporting afterwards. Therefore, the requirement for application document should be simplified, the application and ratification time should be shortened and number of application times should be increased properly. In addition, an effective support and supervision system should be established. The key point to a system lies in its implementation. Effective supervision is a guarantee to correct implementation. The financial aid to culture industry requires a supervision mechanism combining interior and exterior. For interior part, the whole aid process should be made transparent, making it an interior bind for both sponsors and beneficiaries. For exterior part, some neutral social organizations should be introduced to check and review them regularly.

5. Conclusion

Cultural industry is the most promising rising industry in 21st century. Offering cultural industry financial aid has become a fundamental culture policy for many countries. Especially, the effective measures taken by cultural-developed western countries in both fiscal revenue and expenditure should be made examples for our country. Comparatively speaking, the level of our country's aid to cultural industry is apparently lower. So, it is urging task to build an effective aid system for cultural industry. In the field of fiscal revenue, a tax preference act for culture industry should be formulated to end the temporality of tax preference basis and the short-term nature of its measures. What's more, the scope of beneficiaries and the categories of preferential tax should be enlarged and the tax preference should be intensified. In the field of financial expenditure, the earmarked funded use mechanism should be improved; the fields of usage should be expanded on the basis of increasing fund amounts; the number of beneficiary should be enlarged and the efficiency of fund use should be improved. All in all, a good system relies on its implementation and effective implementation requires supervision. So, no matter for tax aid or earmarked fund aid, the whole process should be made transparent and public and checked regularly by neutral organizations.

Acknowledgements

2014 Society Science Foundation of Yangtze University (2014CSZ008); 2013 Nation Society Science Foundation (13BFX127).

References

- [1] Information on <http://www.artscouncil.org.uk/documents/publications/316.doc>.
- [2] J. Li: the Chinese animation industry development analysis", *Economic Forum*, Vol. 3 (2007), p.81-83.
- [3] T. Wei: learn from Japanese and Korean animation trade policy. *Business Research*, Beijing, Vol. 6 (2010), p.130-135,.
- [4] H.C Li: Cause and countermeasure of difficult of small and medium cultural enterprise to finance, *Hubei social science*, Vol.7 (2011), p.74-77.
- [5] W.H Gao: Chinese animation industry policy implementation effect and prospect, *Media*, Vol. 3 (2008), p.53-55.