**ABSTRACT**

The income gap and the wealth gap constitute the category of the gap between the rich and the poor, which are reflected separately from the angle of flow and stock. Most of the existing studies focus on the income gap, namely, the perspective of the flow, and the wealth gap has not been given due attention. In fact, China's wealth inequality is higher than income inequality, and the household wealth gap in China is showing a growing trend, with wealth clearly converging to the highest income group. The problem of widening the income gap between residents is not able to form a truly valuable insight without considering the expansion of the wealth gap.

Income is the flow of wealth, and wealth is the stock of income. The gap between income distribution and the wealth distribution is a causal interaction, which is easy to form "positive feedback" and constantly aggravate itself. How to optimize the distribution pattern of China's income and its related system is a major practical problem to promote the modernization of the national governance system and the ability of governance in the transition of the economy and society. The most important function of taxation is to raise funds for government expenditure. At the same time, tax revenue has a significant function of income distribution, while raising financial income, it can deteriorate or improve the distribution of residents' income, and then adjust the gap between the rich and the poor. At present, the effect of the tax structure on the gap between the rich and the poor is not as good as that of the tax structure in China, but has few tax of direct tax function, and the reform process of direct tax, such as personal income tax and real estate tax, is slow. In the third Plenary Session of the 18th CPC Central Committee, the party proposed to deepen the reform of the tax system, improve the local tax system and gradually increase the proportion of direct tax. Therefore, the establishment of a direct tax system at least in the two levels of income and wealth to adjust the gap between the rich and the poor obviously should be on the agenda. How to narrow the gap between the rich and the poor in the design of direct tax system is very necessary.

In order to dissect this problem, there should be two perspectives: first, the gap between income and property constitutes the gap between the rich and the poor. The location of direct tax should cover two levels of income and wealth, that is, both income tax and property tax. The second is the two-way interaction between income and wealth, and the income of the past affects the current wealth accumulation. Besides, the current stock of property affects the amount of income. The design of tax system should be consistent with this two-way interaction.

In accordance with the basic theory of direct tax regulation on the gap between the rich and the poor, based on the main research results at home and abroad, this paper studies the regulation of the gap between the rich and the poor in China's direct tax on the basis of the two-way interaction between income and wealth. Starting from the logical starting point, this paper studies the two-way interactive relationship between income and wealth from two aspects of static and dynamic aspects and the mechanism of mutual promotion between the two. At the same time, it establishes the model to verify the relationship between the two, and then empirically studies the current situation of the direct tax adjustment of the gap between the rich and the poor in China. Finally, it puts forward the idea of perfecting China's narrowing the gap between the rich and the poor and the direct tax system and making specific arrangements for its system.

**KEY WORDS:** Wealth, Gap between Rich and Poor, Direct Tax