

# The Impact of Preferential Tax Policies on Corporate Investment --An Analysis Based on The Perspective of Economic Fluctuations

Lvdan Wang<sup>1</sup>, Jiacheng Wu<sup>2</sup>, Jiaqi Liu<sup>3</sup>

<sup>1</sup>Institute of finance and public management, Anhui University of Finance & Economics, Bengbu 233000, China;

<sup>2</sup>School of international trade and economics, Anhui University of Finance & Economics, Bengbu 233000, China;

<sup>3</sup>School of Economics, Anhui University of Finance & Economics, Bengbu 233000, China.

## Abstract

**In order to achieve self-reliance and self-reliance in science and technology and further enhance corporate R&D and innovation capabilities, it is necessary to increase corporate R&D investment. As one of the important means by which the government supports corporate R&D and innovation, tax incentives play an important role that cannot be underestimated. Therefore, studying the impact of tax incentives on corporate R&D investment can explore whether the effect of tax incentives on R&D investment meets expectations and further explore the impact of tax incentives. The factors affecting the implementation effect of preferential policies are of great significance to increasing the space for tax preferential incentives. Preferential tax policies can reduce corporate tax burdens and provide support for corporate R&D investment and innovation activities. There are significant differences in the implementation effects and influencing factors of preferential tax policies among different regions, industries and enterprises. Based on this, we first explore the incentive effect of tax preferential policies on corporate investment behavior through the analysis of relevant literature. Finally, based on the research results, suggestions are put forward from the perspective of enterprises: enterprises should pay attention to tax incentives, ensure the efficiency of R&D funds, and make full use of tax incentives for talents.**

## Keywords

**Preferential Tax Policies, Corporate Investment, Economic Fluctuations.**

## 1. Introduction

Since the reform and opening up, my country's economy has taken off. Investment, as one of the troika that drives economic growth, is an important engine for my country's rapid economic growth for many years. It can be seen from the data since 2010 that China's investment growth rate has begun to decline significantly. The data shows that the growth rate of fixed asset investment in China's society has dropped from 20.4% in 2010 to 5.1 % in 2022 . In a globalized economic environment, governments around the world are seeking effective policy tools to promote innovation and investment by domestic enterprises. Preferential tax policies have a major influence and guidance on corporate innovation and investment activities. Today, China's economic development is facing the triple pressure of shrinking demand, supply shocks, and weakening expectations. As an important means of macro-control, fiscal and taxation policies need to effectively stimulate corporate investment. behavior, thereby promoting stable economic growth. Under the current abnormal economic situation, whether the government's

tax policy can effectively play an important role in promoting investment and stabilizing growth is the focus of scholars.

## **2. The relationship between tax preferential policies and corporate investment**

### **2.1. Improve return on investment**

Preferential tax policies have a positive impact on corporate profits by reducing corporate tax burdens. For example, reducing corporate income tax or capital gains tax can increase a company's net profits and increase the rate of return on investment projects. This kind of exemption is a direct economic benefit to enterprises, making them more willing to invest. The investment income tax incentives included in the tax preferential policies can further increase the rate of return on investment. For specific types of investments, the government can grant preferential policies such as tax credits, tax exemptions or tax deferrals, allowing enterprises to enjoy more tax exemptions or preferential treatment on the income gained from investment projects. These preferential policies increase the return on investment and encourage companies to increase investment.

### **2.2. Increase investment willingness**

Preferential tax policies can stimulate companies' willingness to invest. When companies expect the rate of return from investment to increase and investment projects are supported by preferential tax policies, companies are more motivated to invest. For example, for investments in specific areas such as innovative companies or green industries, the government can grant larger tax rates. preferential policies to encourage companies to increase investment in these areas. Investment subsidies and exemptions in preferential tax policies can also increase companies' willingness to invest. The government can reduce the investment burden of enterprises and reduce their investment risks by providing investment subsidies and exempting specific projects from taxes. These measures make investment more attractive, encourage enterprises to actively invest, and promote economic growth.

### **2.3. Optimize investment structure**

Preferential tax policies can guide the investment structure of enterprises. The government can guide companies to increase investment in specific industries or fields by establishing specific tax incentives. For example, for investments in emerging industries or high-tech industries, the government can provide greater tax incentives to encourage companies to increase investment in these fields and promote the optimization and upgrading of the economic structure. Some industry-specific tax incentives can have a positive impact on corporate investment. For example, for investments in the clean energy field, the government can provide tax credits, exemptions, subsidies and other preferential treatment to encourage companies to increase investment in clean energy projects.

## **3. Different impacts of preferential tax policies on different types of enterprises and industries**

### **3.1. Comparison of preferential tax policies for small and micro enterprises and large enterprises**

#### **3.1.1. Small and micro enterprises**

For small and micro enterprises, the government has generally implemented a series of preferential tax policies. These policies include but are not limited to corporate income tax reductions, value-added tax concessions, resource tax exemptions, urban land use tax, etc. For

small and micro enterprises whose annual sales are below a certain amount, they can often apply for policies to exempt them from VAT and to pay tax at a lower tax rate. The implementation of preferential tax policies for small and micro enterprises has greatly promoted the development of small and micro enterprises. These preferential policies have reduced the operating costs of small and micro enterprises, improved their capital liquidity, and enhanced their market competitiveness. Tax incentives also encourage more entrepreneurs to devote themselves to small and micro enterprises, further promoting employment and economic development.

### 3.1.2. Large enterprises

Compared with small and micro enterprises, the preferential tax policies for large enterprises are often more complex and diverse. The government usually formulates different preferential tax policies based on factors such as the industry, region and economic contribution of large enterprises. These policies may involve corporate income tax rate adjustments, investment deductions, tax exemptions, etc. Assessment of the impact of preferential tax policies for large enterprises usually requires a comprehensive consideration of multiple factors. Whether tax preferential policies have a positive impact on the investment willingness and investment structure of large enterprises. Whether these policies promote technological innovation and technological upgrading of large enterprises. In addition, it is also necessary to evaluate whether these preferential policies have produced significant changes in the profitability and market competitiveness of large enterprises. Evaluating the effects of policies also requires considering the impact on the overall economy, including the impact on employment, industrial structure and tax revenue.

**Table 1:** Differences in preferential tax policies between small and micro enterprises and large enterprises

	Small and micro enterprises	large enterprise
Personalized tax policy	VAT exemption and other policies	Diversified tax preferential policies are formulated based on industry, region, economic contribution and other factors
Implementation Effect	Reduce operating costs	The impact is complex and difficult to summarize simply. Multiple factors need to be considered comprehensively.
investment willingness	Stimulate entrepreneurs to engage in entrepreneurship and promote employment and economic development	The impact is complex and may vary according to different policies
impact assessment	Promote the development of small and micro enterprises and enhance market competitiveness	Diversification assessment needs to consider multiple factors, such as profitability, technological innovation, etc.
overall impact	Promote economic growth and entrepreneurial vitality	Promote economic diversification, industrial upgrading and innovative development

## **3.2. Comparison of preferential tax policies for traditional manufacturing and technology industries**

### **3.2.1. Manufacturing industry**

The government has implemented an excess tax credit refund policy, which allows enterprises to carry forward the excess tax credit formed by investment in a later period and use it to offset the output tax generated in subsequent tax periods. The retained tax refund policy has been described as sending "real money" directly to the hands of enterprises, which is particularly meaningful for technological innovation enterprises in the start-up and rapid development stages. This policy reduces the burden on enterprises and increases the enthusiasm of scientific and technological innovation enterprises to increase investment in research and development.

### **3.2.2. High-tech industry**

Analysis of the effects of tax preferential policies on innovation and investment in the technology industry shows that tax preferential policies have played a positive role in promoting the innovation investment and product research and development of technology-based small and medium-sized enterprises. For small and medium-sized enterprises, insufficient funds have always been a problem for continuous innovation, and the super deduction policy for R&D expenses allows enterprises to obtain the benefits of more R&D investment and tax reductions, thereby encouraging enterprises to continue to strengthen R&D work. The super deduction policy for R&D expenses This enables enterprises to obtain more financial support when conducting research and development of new technologies and new products. Preferential tax policies also play a positive role in equipment updates and improvements in intelligence. When enterprises purchase equipment, they can enjoy preferential policies of one-time deduction and 100% plus pre-tax deduction, which encourages high-tech enterprises to increase investment in equipment upgrades and better realize the transformation of technological achievements.

## **3.3. Comparison of preferential tax policies at the national level and local level**

### **3.3.1. Preferential tax policies at the national level**

Encourage the development of high-tech industries and levy corporate income tax at a reduced rate of 15% for high-tech enterprises. Research and development expenses incurred by enterprises in developing new technologies, new products, and new processes are allowed to be deducted before tax at 150% of the actual amount incurred . Provide corporate income tax reduction or exemption for transfer of scientific and technological achievements, technology development, etc.

### **3.3.2. Preferential tax policies at local level**

For Shenzhen, Hainan, Zhuhai, Shantou, Xiamen and Shanghai Pudong New Area, preferential corporate income tax transition period policies will be implemented and gradually transition to the statutory tax rate. Implement preferential tax policies for the Western Development Strategy, such as a reduced corporate income tax rate of 15% . The local share of corporate income tax in ethnic autonomous areas can be reduced or exempted.

## **4. Suggestions on using preferential tax policies from a business perspective**

### **4.1. Increase the emphasis on tax incentives**

Enterprises should recognize the importance of tax incentives, keep abreast of the latest developments in tax reductions and fee reductions, actively obtain publicity information on government tax preferential policies, and actively participate in tax counseling. Relevant corporate accounting personnel should also actively participate in follow-up vocational

education to continuously improve their professional standards. , create more benefits for enterprises. At the same time, the interaction between enterprises and government departments is very important. Enterprises' needs in the tax payment practice process are promptly fed back to relevant departments so that relevant departments can solve them in a timely manner and form a positive interaction between government and enterprises. In addition, it is necessary to strengthen information exchange within the enterprise and improve the efficiency of enterprise work coordination. The data generated by enterprises during the production and operation process should be shared in a timely manner, and "rework" should be eliminated in reporting some tax preferential data and preparing preferential materials to avoid increasing time costs and wasting corporate resources.

#### **4.2. Ensure R&D fund efficiency and improve innovation performance**

Enterprises should use tax incentives as a means to reasonably position R&D investment based on their own actual conditions and avoid "follow-up" R&D investment. Excessive and insufficient investment in R&D are both manifestations of inefficient use of funds. To truly make good use of tax incentives as a government resource, we must ensure the efficiency of the use of this part of funds. When necessary, we can supervise the use of funds and establish an evaluation system during the R&D investment process to prevent The phenomenon of wasted use of funds. For enterprises, R&D innovation is a long process. In addition to the initial necessary R&D investment, we should also pay attention to R&D innovation output and take into account the quality of enterprise R&D innovation. We can establish an enterprise innovation performance evaluation system and give full play to innovation as the first driving force for high-quality development. role in promoting the sustainable development of the enterprise itself in the field of innovation while further achieving high-quality development of the enterprise.

#### **4.3. Make full use of preferential tax policies for talents**

The process of enterprise R&D activities cannot be separated from the support of human resources. Creative talents are the key to enterprise R&D innovation. Enterprises should pay attention to the work invested by R&D personnel and give full play to the "carrot" while strengthening the cohesion and cooperation of the R&D team. "The effect is to introduce an effective salary incentive mechanism, such as considering relevant equity incentives when R&D personnel invest in technology shares. At the same time, combined with the talent tax preferential system, it enhances the sense of acquisition and satisfaction of talents, continuously stimulates their enthusiasm and enthusiasm for R&D, and enhances corporate R&D efficiency.

### **5. Conclusion**

Preferential tax policies are an important tool to promote corporate innovation and investment. By reducing the tax burden on enterprises, preferential policies increase the availability of funds, reduce innovation costs, and promote R&D investment and technological innovation. Specific industries and types of enterprises respond differently to policies. Small and micro enterprises and large enterprises benefit in different ways. The investment structures of different industries are also affected by policies. At the same time, regional differences also lead to different preferential policies at the national and local levels. To ensure the effective implementation of policies, tax authorities need to establish effective policy implementation mechanisms, including review and approval procedures, and strengthen policy publicity and promotion.

## Acknowledgements

This work is supported by Anhui 2022 provincial college student innovation and entrepreneurship training program, Project number: S202210378055.

## References

- [1] Tian Weiya . The impact of preferential tax policies on corporate innovation and investment [J]. Taxation , 2023, 17(28): 31-33.
- [2] Zhang Yanlong , Wang Mingzhe , Zeng Yuya, etc. Can the implementation of preferential tax policies stimulate investment in agricultural enterprises under the impact of the new crown epidemic - an empirical analysis based on national representative agricultural enterprises [J]. China Rural Economy , 2023, (04 ):143-163.
- [3] Zou Chang . Analysis of the effect of preferential tax policies in stimulating the development of energy-saving and environmentally friendly enterprises [J]. Journal of Hunan Taxation College , 2023, 36(01): 53-60.
- [4] Yu Guansheng , Tian Jufang , Cao Can . Tax incentives and corporate foreign direct investment: an empirical study based on micro samples of listed companies [J]. World Economic Research , 2023, (01): 58-69+135.
- [5] Li Sheng , Yang Congcong . Research on the impact of preferential tax policies on corporate investment from the perspective of economic cycle [J]. Journal of Shandong University of Finance and Economics , 2022, 34(06): 14-24.
- [6] He Ming . Research on the incentive effect of preferential tax policy for investment deduction for venture capital enterprises [D]. Dongbei University of Finance and Economics , 2022.
- [7] Wang Hui . Preferential tax policies help the development of small and medium-sized enterprises [J]. Small and medium-sized enterprise management and technology ( early issue ), 2021, (11): 98-100.
- [8] Li Du . Research on the impact of preferential tax policies on corporate R&D investment [D]. Hangzhou University of Electronic Science and Technology , 2021.