Analysis of Individual Income Tax Policies for Equity Incentives of Chinese Listed Companies

--Taking Midea Group as an Example

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Abstract

With the continuous development of socialist market economy, domestic market competition has become more intense. In order to consolidate market position and obtain sustainable profits, listed companies implement corresponding incentive policies to connect employees with the interests of the enterprise, fully mobilize employee enthusiasm, and help the enterprise retain core talents. Equity incentives, as an important means of promoting innovation and entrepreneurship, have attracted widespread attention from society in the context of the country's promotion of mass entrepreneurship and innovation. Starting from the perspective of tax related practice, this article selects Midea Group Co., Ltd., a listed company in China, as an analysis case to conduct in-depth research on its implementation of equity incentives and analyze the impact of personal income tax policies on incentive effects, to enhance the long-term incentive effect of equity incentives and promote the healthy development of China's tax policies.

Keywords

Equity incentives; Personal income tax; Tax policy.

1. Introduction to Case Background

1.1. Industry Background

(1) The industry has entered a quantitative game cycle. The household appliance industry has entered a quantitative game cycle, and major brands are increasing their diversified business to seek new business growth points. In 2015, Midea began to expand into the B-end market to counter cycles and improve profitability. In 2023, Midea will consolidate its core business in household appliances while developing strategic emerging industries such as industrial technology, building technology, robotics and automation, and innovative businesses, opening up the second engine of profit growth. Haier focuses on the high-end market and consolidates its market position by building high-end brands such as Casarte and scene brand Three Winged Bird. Gree has been expanding and experimenting in other fields since 2016. According to the financial report, Gree Industrial Products achieved a revenue of 5.488 billion yuan in the first half of 2023, an increase of 90.01% compared to the same period last year, accounting for 5.53% of the operating revenue; The green energy sector achieved a revenue of 2.915 billion yuan, an increase of 51.32% compared to the same period last year, accounting for 2.94% of the operating revenue.

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(2) The competition pressure for domestic smart home is high. At present, there are many smart home brands in China, including traditional home appliance enterprises represented by Midea Group, Haier Group, and Gree Electric Appliances, as well as technology enterprises led by Huawei, Xiaomi, and Baidu. Compared with internet technology companies with their own traffic, traditional home appliance companies not only lack traffic and platform advantages, but also face significant challenges in technological innovation and user habit development.

1.2. Enterprise Background

1.2.1. Company Introduction

Midea Group was founded in Shunde, Foshan in 1968 and is currently headquartered in Shunde District, Foshan City, Guangdong Province. It was listed on the Shenzhen Stock Exchange in 2013. Midea's early business was mainly focused on household appliances, with relatively limited product services. However, after years of development, Midea has now grown into a global technology group. Our business covers five major sectors: smart home, building technology, industrial technology, robotics and automation, and digital innovation. Forming multiple brand combinations including Midea, Little Swan, Hualing, COLMO, Kuka, Weiling, Hekang, Gaochuang, Wandong, and Lingwang, providing satisfactory products and services to over 400 million global users, important customers, and strategic partners in various fields every year. In 2016, Midea Group entered the Fortune Global 500 list for the first time, ranking 481st. In 2019, the annual operating revenue was 278.2 billion yuan, ranking first in China's home appliance industry. In 2022, the operating income was 345.7 billion yuan, ranking 278th on the Fortune Global 500. So far, Midea has approximately 200 subsidiaries, 31 research and development centers, and 40 major production bases worldwide, with over 160000 employees and business coverage in over 200 countries and regions worldwide. In the past five years, research and development funds have reached nearly 50 billion yuan, and the cumulative number of patent applications has exceeded 100000.

1.2.2. Equity Structure

Midea Group has undergone a transition from equity concentration to equity diversification. Previously, former chairman He Xiangjian had over 50% equity in both Midea Electric and Midea Group, the predecessors of Midea Group, and was the absolute controlling shareholder of Midea Industry, which is truly a family business. But "de familialization" was the attitude of He Xiangjian towards the future development of Midea before his resignation. He had publicly stated several times before his resignation that Midea was determined not to establish a family business, and ultimately the business would be managed by professional managers. The management framework designed by He Hejian for Midea Group is to introduce strategic investors and cultivate a team of professional managers for handover. After Midea Group merged and went public in 2013, Midea Holdings, controlled by He Xiangjian, only held 35.49% of Midea Group's equity, with the remaining 40.7% being outstanding shares. The remaining shares were almost evenly distributed between strategic investors and Midea Group's management team. At present, the controlling shareholder of Midea Group is Midea Holdings, which owns more than 30% of the group's shares. The largest shareholder is He Xiangjian, who holds nearly 95% of the shares.

1.2.3. Business operations

Main business scope: Production and operation of household appliances, motors and their components; Research and development, manufacturing, sales, installation, maintenance, and after-sales service of central air conditioning, heating equipment, ventilation equipment, heat pump equipment, lighting equipment, gas equipment, compressors and related general equipment, specialized equipment, household air conditioning equipment and their components; Engaged in the import and export, wholesale, and processing of household appliances, home appliance raw materials, and spare parts; Information technology services; Provide investment advisory and management services to enterprises; Computer software and hardware development; Installation, maintenance, and after-sales service of household appliances; Industrial product design; Hotel management; Advertising agency; Property management; The engineering and technical research, development, sales, and promotion required by the enterprise; Investing in the financial industry.

In the first half of 2023, despite the gradual recovery of domestic market demand and the overall recovery of the economy, the global political and economic environment remains complex due to overseas economic fluctuations, exchange rate changes, and intensified geopolitical conflicts. The business situation still faces challenges. Midea Group firmly adheres to its business philosophy, effectively implements the annual business principle of "stable profitability, driving growth", and continues to focus on core businesses and products, Core indicators such as profitability and cash flow have further improved, and the overall operating situation has broken through on the basis of meeting expectations, demonstrating Midea's long-term business resilience and high-quality growth. In the first half of 2023, the company's total operating revenue was 19.7 billion yuan, a year-on-year increase of 7.84%, achieving a net profit attributable to the parent company of 18.2 billion yuan, a year-on-year increase of 13.98%. Net profit was 18.232 billion yuan, a year-on-year increase of 13.98%

1.2.4. Financial analysis

The basic earnings per share were 2.67 yuan/share, an increase of 14.09% compared to 2.34 yuan/share in the same period last year. This indicates an improvement in the company's profitability and an increase in returns to shareholders. Midea Group's 2023 interim report shows that the company's operating revenue and net profit have continued to grow, with impressive cash flow performance. Basic earnings per share and diluted earnings per share have both improved, and total assets and net assets attributable to shareholders of the listed company have also increased. Although the weighted average return on equity has decreased, overall, the company's operating condition is good and its financial situation is stable.

2. Background of Implementing Equity Incentive Plans

Midea Group's equity incentive plan has a rolling characteristic. From 2014 to 2021, the group implemented eight stock option plans, launched a partner shareholding plan in 2015, and began implementing restricted stock plans in 2017, establishing a mixed and diversified incentive model combination.

2.1. Reasons for the implementation of equity incentives in Midea Group

2.1.1. Strengthen the guarantee of core human resources in the company

In order for Midea Group to transform from a single home appliance company to a diversified technology group, it must continuously transform and upgrade, enhance its independent innovation capabilities, and master core technologies. The success of transformation cannot be achieved without a certain number of core talents. Midea needs to continuously attract and retain high-level and high-quality talents, expand the company's human capital reserves, improve its competitiveness, and maintain a leading position in the industry. Equity incentives have a long-term incentive effect, which can effectively connect the long-term benefits of the enterprise with the personal interests of employees, generate a "binding" effect, and solve the problem of core talent loss. Moreover, diversified incentive methods have stimulated the potential and creativity of Midea Group employees, while also rapidly increasing the company's market share. In 2015, the total number of employees receiving salaries at Midea Group was 9329, of which 16047 had a bachelor's degree or above, accounting for 17.2%. In 2019, Midea Group used the long-term growth value of the company as a constraint indicator, further increasing the construction of the company's core management team. In 2020, the total number of employees receiving salaries at Midea Group reached 149239, with 33261 having a bachelor's degree or above, accounting for 22.29%. From this perspective, implementing an equity incentive plan is very correct and necessary for Midea Group.

2.1.2. Weakening the contradiction between entrustment and agency

The traditional incentive methods of enterprises often stimulate employees' work enthusiasm through certain bonuses, and the unlocking conditions of bonuses are generally short-term performance, which is evaluated based on the annual or semi annual work results of employees. A major drawback of this model is the lack of long-term performance evaluation standards. Employees are likely to violate the company's long-term development goals for short-term benefits, and cannot connect the long-term benefits of the company with the personal interests of employees, which is not conducive to the long-term development of the company. Moreover, employees may take advantage of the disadvantage of information asymmetry to erode the group's interest foundation and make decisions that are not conducive to the growth of the company. Equity incentives, due to their own characteristics, have a good long-term incentive effect, solving the problem of inconsistent interests between enterprises and employees, making their goals consistent. The strategic plan chosen by executives to maximize the company's interests can effectively reduce the decision-making of performance losses caused by mistakes, reduce the probability of executives engaging in short-sighted behavior, and maximize shareholder equity returns. By implementing equity incentive plans, risks caused by information asymmetry can be reduced, prompting Midea employees to work harder towards the company's long-term goals, thereby weakening the principal-agent conflict.

2.1.3. Reduce incentive costs

Equity incentives bind the company and employees together through the underlying stocks, and incentivized employees can participate in company dividends by holding equity in the future or transfer stocks to obtain profits after meeting the conditions. Throughout the process, the company did not use a large amount of cash, which alleviated the financial pressure, ensured the normal operation of cash flow, and to some extent reduced the incentive costs of the enterprise. At the same time, employees will do their best to earn more profits for the company in order to obtain more dividend income, achieving a win-win situation for both employees and the company.

2.2. Characteristics of Midea Group's Equity Incentive Implementation

Midea Group has been implementing equity incentive plans since 2014, which have the following characteristics:

Firstly, diversified incentive models. Since the launch of the first restricted stock incentive plan in 2017, Midea Group's equity incentives have formed a combination of rolling, diversified, and three coexisting incentive models.

Secondly, the differentiation of incentive targets. The three incentive models of Midea Group target different incentive targets. The incentive targets for stock options are mainly core technical personnel in various departments, the employee stock ownership plan mainly focuses on senior management personnel, and restricted stocks have both. Different modes of equity incentives cover different employees, making the majority of Midea employees included in the incentive plan, maximizing the implementation effect of equity incentives.

Thirdly, the unlocking conditions are gradually optimized. On the one hand, performance conditions have gradually relaxed, shifting from early two-way indicators to a single profit indicator, maximizing the possibility of unlocking stocks for incentive targets. On the other hand, adding personal indicators to unlock conditions. In the early stages, only performance indicators were set, which could not accurately quantify an individual's contribution and may lead to a situation of "free riding". After adding personal assessment, a two-way assessment is conducted through performance indicators and personal indicators, with personal indicators as the premise and performance indicators as the guarantee, to improve the efficiency of equity incentive implementation.

3. Implementation of Equity Incentive Plans

Due to the long span and phased exercise characteristics of equity incentive plans, in order to comprehensively review the main content and implementation of incentive plans, this section selects Midea Group's third stock option plan implemented in 2016, the first restricted stock incentive plan implemented in 2017, and the seventh global partner plan for research, providing practical basis for the theoretical analysis in the following text.

3.1. Stock options

3.1.1. Main contents of stock options

Midea Group announced its third stock option incentive plan in May 2016, which was approved by the company's board of directors and shareholders at the end of May and early June respectively. After a brief adjustment to the incentive plan at the end of June, the grant date was set as June 28, 2016. The incentive targets for this stock option are a total of 929, mainly core personnel from various departments of the company. The total number of stock options is 127.29 million, accounting for 1.98% of the total issued share capital of Midea Group. This incentive plan has a waiting period of 12 months and three exercise periods, with an average interval of 12 months between the start date of each exercise period and an exercise ratio of 1/3 for each period. The exercise conditions not only include performance indicators but also personal assessment standards. The equity granted by this stock option incentive plan accounts for 1.97% of the current total share capital of the company. The grant targets mainly core technical personnel of the company, involving employees in departments such as research and development, manufacturing, marketing, and information technology. The proportion of R&D personnel and information technology personnel in the total number of options granted this time is 36.01% and 5.15%, respectively, with the highest and lowest proportions in sequence.

3.1.2. Exercise of stock options

The main exercise condition for stock options is performance indicators. Based on Midea Group's 2013-2018 financial report, the changes in relevant financial indicators have been compiled to observe whether the exercise conditions have been met. Midea Group's net profit attributable to shareholders of listed companies and net profit after deducting non recurring gains and losses continued to grow from 2013 to 2018, with an average of 9.508 billion yuan and 8.097 billion yuan respectively from 2013 to 2015. In 2016, they reached 14.684 billion yuan and 13.493 billion yuan respectively, both higher than the average level of the previous three years, Performance indicator 2: "During the waiting period of stock options, the net profit attributable to the listed company for each year and the net profit after deducting non recurring gains and losses shall not be lower than the average level of the most recent three accounting years before the grant date and shall not be negative.".

For the net profit attributable to shareholders of the listed company after deducting non recurring gains and losses, the average for the years 2013-2015 was 8.097 billion yuan, 2014-2016 was 11.294 billion yuan, and 2015-2017 was 13.339 billion yuan. The values for 2016, 2017, and 2018 were 13.493 billion yuan, 15.614 billion yuan, and 20.058 billion yuan, respectively, which were higher than the average levels for the previous three accounting years, Performance condition ①: The net profit attributable to the shareholders of the parent company after deducting non recurring gains and losses for the three exercise periods of 2016, 2017, and 2018 shall not be lower than the average level of the previous three accounting years.

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The exercise situation of stock options in this period is roughly as follows: for the positions of exercise personnel, except for senior management personnel Xiao and Zhong, the rest are core personnel in various departments. For the number of exercise personnel, the number has decreased from 887 in the first exercise period to 735 in the third exercise period. The main reason is that during the implementation of stock options, some incentive subjects resigned, adjusted their positions, or did not meet personal assessment standards, resulting in their loss of exercise qualifications. Some incentive subjects voluntarily gave up exercise due to their own reasons. As the number of exercise personnel decreased, The number of exercise stocks has also decreased from 40.395 million to 32.905 million.

3.1.3. Analysis of the effectiveness of personal income tax policies

After analyzing the main content and exercise situation of the Perfect Group's third stock option, the following text explores the effectiveness of individual income tax policies for stock options from three aspects: standardized taxation, employee mobility, and company performance.

(1) Analysis of the role of standardized taxation. Standardized taxation is mainly reflected in two aspects: tax collection and tax avoidance space. From the perspective of tax collection, the stock option tax policy has played a good regulatory role. The main reasons are as follows: firstly, stock options are an important incentive model in China, which has been favored by listed companies since the introduction of equity incentives. Their personal income tax policies are relatively complete, tax treatment is more detailed, and tax disputes are less. Secondly, China has made a simple classification of individual income tax policies for stock options, and the tax regulations for each stage of different types of stock options are relatively clear. Although the tax regulations in the exercise stage lead to inconsistency between the tax collection point and the income realization point, to some extent, they ensure the timely entry of taxes. Thirdly, under the current policy regulations, the income from wages and salaries attributable to equity incentives does not need to be included in comprehensive income. The separate taxation regulations provide the greatest convenience for both taxpayers, thereby improving the efficiency of tax collection and management. However, from the perspective of tax avoidance space, the current personal income tax policy still has certain shortcomings in regulating taxation. The main reason is that incentive recipients often have a certain position in the company. They can use their power and information advantages to freely choose the exercise date, and use the trend of stock prices to lower taxable income, thereby reducing their tax burden.

(2) Employee mobility analysis. One of the goals of equity incentives is to attract and retain core talents, and alleviate the problem of talent loss in listed companies. During the implementation of stock options, the resignation of incentive recipients often represents the effectiveness of the incentive and can also demonstrate the implementation effect of personal income tax policies. Between 2017 and 2019, the turnover rate of motivated employees in Midea Group was much lower than the national level during the same period, indicating that stock options have a certain "binding" effect on employees and can effectively retain the core talents that the company needs. However, during the implementation of stock options, the turnover rate of incentive recipients is gradually increasing, which also indicates that Midea Group's third stock option plan does not have ideal talent retention. There are many factors that affect employee turnover, and tax policies may not be a direct factor affecting employee turnover, but they may also indirectly become a catalyst for employee turnover. Due to the inability to obtain actual benefits from equity incentives, incentive recipients often face dual financial pressure during exercise. As the exercise time gradually passes, for those incentive recipients who are determined not to have sufficient funds to pay the price and taxes, there may be a tendency to choose clearly defined enterprises that can obtain high returns, leading to talent loss and weakening the incentive effect.

(3) Company performance analysis. The incentive plan of Midea Group has a rolling characteristic, with three stages of incentive modes: stock options, restricted stocks, and employee stock ownership plans. As a major competitor of Midea Group, Gree Electric Appliances has similar company size, number of employees, and financial indicators to Midea Group. From 2014 to 2020, Gree Electric Appliances almost did not implement equity incentive plans, so its financial indicators for the same period were selected for comparative analysis with Midea Group. The total asset growth rate of Midea Group in 2014 increased compared to 2013, with a faster development rate and a slight decline in 2015. However, in the following two years, the development rate increased sharply. In 2018, due to the sluggish development of the entire home appliance industry, the development rate declined, and 2019 and 2020 saw a growth trend again. From 2013 to 2020, the average growth rate of Midea Group's total assets was about 19.96%, while Gree Electric Appliances was only 12.93%. It can be seen that implementing equity incentives has to some extent improved Midea Group's development ability.

The overall trend of the net profit growth rate of Midea Group from 2014 to 2020 was relatively flat, with the value remaining around 15% after 2015, showing a stable and positive overall trend. However, the net profit growth rate of Gree Electric Appliances changed significantly, even showing negative values in 2015 and 2019. On average, Midea Group's 7-year average was 19.52%, which is also higher than Gree Electric's 16.36%. Based on the above analysis, after comparing with its main competitor Gree Electric Appliances, it was found that after implementing the equity incentive plan, Midea Group's two financial indicators, total asset growth rate and economic profit growth rate, have shown a certain growth trend. This indicates that Midea Group's development ability has been enhanced, and the company's performance is stable and improving. Although the individual income tax policy of equity incentives may affect the liquidity of core employees, thereby affecting company performance, from the perspective of financial indicators, this impact does not seem to be significant.

3.2. Restricted Stocks

3.2.1. Main contents of restricted stocks

Midea Group launched its first restricted stock incentive plan in March 2017. After verification by the supervisory board and approval by the board of directors, the grant date of this restricted stock incentive plan was determined to be May 12, 2017, with a total of 133 incentive recipients. The initial grant quantity was 23.13 million shares, and the grant price was 15.86 yuan per share. The incentive recipients can unlock restricted stocks in three installments within the next 36 months after 12 months from the first grant date, with each unlocking ratio of 1/3.

3.2.2. Unlocking of restricted stocks

Based on the financial reports of Midea Group from 2014 to 2019, the changes in net profit attributable to shareholders of the parent company after deducting non recurring gains and losses were compiled to observe whether the unlocking conditions were met. For the net profit attributable to shareholders of the parent company after deducting non recurring gains and losses, Midea Group reached 15.614 billion yuan in 2017, which is higher than the average value of 11.293 billion yuan from 2014 to 2016, 20.058 billion yuan in 2018, 13.339 billion yuan from 2015 to 2017, and 22.724 billion yuan in 2019, which is higher than the average value of 16.388 billion yuan from 2016 to 2018. Therefore, all unlocked performance conditions have been met. The three unlocking situations of restricted stocks are slightly different. Overall, the unlocking objects and the number of unlocked stocks are gradually decreasing. The main reason is that during the unlocking process of restricted stocks, due to the company's annual profit distribution, the stock grant price is constantly adjusting. Due to reasons such as the departure of incentive recipients, job adjustments, and unsatisfactory business assessments, the number of incentive recipients who meet the unlocking conditions is gradually decreasing. The company has repurchased and cancelled the restricted stocks previously granted to them, resulting in a continuous decrease in the number of unlocked target stocks.

3.2.3. Analysis of the effectiveness of personal income tax policies

Due to the joint influence of three incentive models on company performance, a specific analysis has been conducted on the effectiveness of individual income tax policies for stock options. Therefore, for restricted stocks, while retaining standardized taxation and employee mobility, the duration of holding stocks is used instead of analyzing company performance.

(1) Standardize tax analysis. In terms of tax collection, the current personal income tax policy for restricted stocks has both advantages and disadvantages. On the one hand, the tax regulations for each link of restricted stocks are reasonable and clear, ensuring the timely receipt of taxes. On the other hand, the calculation method for the taxable income of restricted stocks is unfair because the registration date and unlocking date of stocks are not at the same time point, and the changes in stock market prices cannot be accurately predicted. When taxing on the unlocking date, it seems unreasonable to use the market price of the stock registration date to determine the taxable income, resulting in inconsistency between the taxable income of taxpayers and their actual income. In terms of tax avoidance space, Midea Group has limited tax planning space for restricted stocks, as unlocking matters are often handled uniformly by the company, making it difficult for incentive recipients to independently choose the unlocking date like stock options.

(2) Employee mobility analysis. During the implementation of the first phase of restricted stocks by Midea Group, the employee turnover rate was relatively low and stable. At the same time, the absolute number of resignations was also lower than under the stock option plan, indicating that restricted stocks have a good "bundling" effect on employees and can to some extent alleviate the problem of talent loss.

(3) Analysis of shareholding duration. The impact of personal income tax policies on the duration of incentive object shareholding mainly depends on the choice of tax timing and the size of taxable amount, which also leads to the advantages and disadvantages of current personal income tax policies. On the one hand, setting the tax timing on the unlocking day can stimulate employees' preference for unlocking restricted stocks in batches, guide enterprises to set up incentive plans with batches and long cycles, and thereby increase the lock in period for employees, which is conducive to the effectiveness of equity incentives. On the other hand, the purchase restrictions paid before unlocking and the high taxes on the unlocking day have intensified the financial pressure on incentive recipients. In order to pay taxes in a timely manner, some incentive recipients may be forced to transfer stocks in a short period of time, thereby shortening the holding period.

3.3. Employee Stock Ownership Plan

In 2015, Midea launched the first phase of the Global Partner Program in order to expand its overseas business and attract global talent, with a total of seven phases as of 2021.

3.3.1. Main contents of the Global Partner Program

The main contents of Midea Group's 7th Global Partner Plan include the following aspects: firstly, the source of the underlying stocks is different. The first four periods are mainly stocks repurchased in the secondary market, while the latter three periods are converted into the underlying stocks acquired by the asset management plan from the company's repurchase special securities account. The second reason is that the sources of funds are different. The first phase of funds comes from multiple channels, while the remaining six phases are all special funds provisioned. The third is that the validity period of the shareholding plan is all 4 years, and the statutory unlocking period is set to at least 12 months. The fourth is that the performance conditions for each period mainly include financial indicators such as net profit growth rate, weighted average return on equity, and net profit attributable to the parent company, and there are certain differences in each period. The fifth reason is that the number of people in this plan is not large, fluctuating between 15 and 20. The sixth reason is that there are differences in the allocation arrangements of stock equity, with the allocation arrangements for the fourth and fifth periods being the same. That is, according to the assessment results of the holders, all stock equity will be allocated to the partners in one go in the corresponding year, without the option of installment. The other five phases are divided into three phases, with proportions of 40%, 30%, and 30% for each phase. After the final phase is completed, the stock equity can be circulated.

3.3.2. Main processes of the Global Partner Program

The main process of Midea Group's 7-phase global partnership plan is roughly the same, and individual matters of the plan may be adjusted in different years based on the company's specific development situation and future performance goals, such as the arrangement of the attribution period and the source of the underlying stocks. Take Midea Group's seventh global partnership plan in 2021 as an example. This process is first reviewed by the board of directors and the shareholders meeting for the shareholding plan. After approval, the target stocks used for this plan will be collected and repurchased within the specified time. Secondly, based on the achievement of performance conditions, determine the equity of the underlying stock to which the holder belongs for each period. Finally, for the portion of stock equity that cannot be attributed, the company shall dispose of it on its own.

3.3.3. Analysis of the effectiveness of personal income tax policies

(1) Analysis of the role of standardized taxation. In terms of tax collection, due to the lack of specific tax policies, there are varying degrees of tax disputes and tax processing gaps in various aspects of employee stock ownership plans, which cannot fully guarantee the full collection of tax receivables, and the efficiency of tax collection is low. In terms of tax avoidance space, due to the lack of specific tax treatment regulations for reference by tax authorities and taxpayers, the difficulty of taxpayers using employee stock ownership plans for tax planning is reduced, and the tax avoidance space for taxpayers is increased. Overall, the regulatory and taxation role of the current employee stock ownership plan personal income tax policy in China has not been fully utilized, and the lack of policies has brought certain difficulties to both taxpayers and taxpayers.

(2) Employee mobility analysis. Due to the fact that the target of Midea Group's employee stock ownership plan is mainly directors and executives, the analysis of employee mobility in this section mainly focuses on directors and executives who resigned during the implementation period of the plan. The turnover ratio is determined based on the number of resignations in the current year and the number of employees employed at the beginning of the year. From 2014 to 2020, the number of directors (excluding independent directors) and executives of Midea Group remained generally around 14, with an annual turnover of around 2 people and an average turnover rate of 15.21%. Although lower than the national average employment turnover rate during the same period, it is also much higher than the turnover rate under the other two incentive models, and the phenomenon of core talent loss still exists. Although employee turnover is influenced by various factors, it can also indirectly indicate that personal income tax policies have not effectively guided enterprises to establish long-term employee stock ownership plans, which to some extent leads to poor talent retention effects under this incentive model.

(3) Analysis of shareholding time. According to the main content of the employee stock ownership plan, it can be seen that the effective period set by Midea Group's global partnership plan is 4 years, and the lock in period for employees is relatively short. When the interests of

employees and the company are unbound, the constraints of equity incentives on employees disappear, which is not conducive to long-term employee stock ownership.

4. Analysis of Practical Issues Regarding Individual Income Tax Policies for Equity Incentives

4.1. Analysis of Defects in Individual Income Tax System Elements for Equity Incentives

4.1.1. There are drawbacks to choosing the tax payment time point

In China's personal income tax law, the choice of tax payment for equity incentive income is on the exercise date or the lifting date, which often puts significant financial pressure on incentive recipients at these two time points. Taking the restricted stock incentive plan implemented by Midea Group as an example, we assume that all eligible incentive objects have unlocked the underlying stocks on the first trading day when the stocks can be unlocked. Then, based on the specific unlocking situation in Table 13, we calculate the personal income tax faced by all incentive objects when unlocking

When all incentive recipients are unlocked for the first time, they need to pay a personal income tax of about 88 million yuan, with an average burden of about 670000 yuan per person. According to statistics from Midea Group, the maximum annual salary for the restricted stock incentive recipients this time is 3.85 million yuan, the minimum is 330000 yuan, and the average annual salary is 463500 yuan. Therefore, when unlocking restricted stocks, they need to pay 1.4 times their annual income tax. In addition, the subscription amount for restricted stocks is 367 million yuan, which puts them under dual financial pressure. If the incentive recipients do not have other sources of income, it will be difficult to bear this amount independently, and the huge funding gap also leads to some people choosing to immediately cash out after unlocking. So, within one year after the first unlocking, some managers of Midea Group reduced their holdings of 2.3245 million shares through the securities secondary market in exchange for funds to pay personal income tax. Overall, there are certain drawbacks to the timing of individual income tax payment for equity incentives in China. The incentive recipients only acquire ownership of the stocks on the exercise or unlocking date, without actual financial income, but face high tax burdens. In order to pay personal income tax within the prescribed tax period, most incentive recipients are forced to immediately reduce their holdings of stocks after exercising their rights, which to some extent hinders the effectiveness of incentives and contradicts the initial goal of equity incentives.

4.1.2. Excessive tax rates weaken incentive effects

The Personal Income Tax Law of China recognizes the exercise income of equity incentives as "salary income" and applies a seven tiered progressive tax rate of 3% -45%. Taking Xiaomou, Vice President of Midea Group in the stock option case, as an example, assuming that he conducted his third exercise on August 15, 2019, with an exercise price of 17.85 yuan per share, the closing price of the underlying stock on that day was 49.96 yuan per share. According to the tax laws of China and the United States, the personal income tax that Xiao needs to pay for the exercise income was calculated separately, and the results were compared and analyzed. Due to certain differences in the personal income tax system between the United States and China, we assume that Xiao adopts a joint declaration system with his spouse to pay personal income tax, and then discuss the situation based on the length of time he holds stocks after exercising his rights.

The first scenario: Xiao holds the underlying stock for no more than one year after exercising his rights According to the calculation method of personal income tax for stock option exercise of listed companies in China, the taxable amount is calculated as follows: (49.96-17.85) × one hundred and five thousand × 45% - 181920=1335277.5 yuan. ② The taxable amount calculated based on the US capital gains tax rate: (49.96-17.85) × one hundred and five thousand × 35%=118042.5 yuan.

The second scenario: Xiao held the underlying stock for more than one year after exercising his rights According to the calculation method of personal income tax for stock option exercise of listed companies in China, the taxable amount is calculated as follows: (49.96-17.85) × one hundred and five thousand × 45% - 181920=1335277.5 yuan. ② The taxable amount calculated based on the US capital gains tax rate: (49.96-17.85) × one hundred and five thousand × 15%=505732.5 yuan.

By comparing the above calculation results, it can be seen that for Xiao's third exercise income, according to the current tax laws in China, regardless of the length of time he holds the underlying stocks after exercising, he needs to pay personal income tax of 1.3353 million yuan. However, according to the tax laws in the United States, if Xiao holds the underlying stocks for more than one year after exercising, he only needs to pay personal income tax of 505700 yuan, which is 829600 yuan different from China, In this situation, China's tax burden is almost 2.6 times that of the United States.

For the same equity incentive plan, the tax treatment in China and the United States is different, and there is also a significant difference in the amount of personal income tax payable. The US tax law sets differentiated preferential tax rates based on the length of the incentive object's shareholding, guiding them to hold the target stock for the long term. Our country's tax law not only applies a relatively high tax rate overall, but also does not set preferential tax rates based on the length of shareholding of incentive objects, resulting in their heavy tax burden. In addition, we will further explore the tax burden of Midea executive Xiao during three rounds of exercise using the indicator of effective tax rate. We assume that Xiao has completed three exercises in 2018, 2019, and 2020 respectively.

4.2. Analysis of the framework of individual income tax policies for equity incentives

4.2.1. Policy not properly classified

As of now, Midea Group has launched multiple stock options and restricted stock plans. Although the format of each incentive plan is generally consistent, there are differences in the specific content of the number of incentive recipients, exercise conditions, validity period, etc. Different incentive plans should enjoy differentiated tax treatment. However, the current personal income tax policy does not adopt differentiated tax treatment for different incentive plans. The current personal income tax policy has not been classified based on different incentive plans or other conditions, which greatly maintains tax fairness. However, in terms of implementation efficiency, it has not been able to reasonably guide listed companies to develop incentive plans that can maximize incentive effects.

4.2.2. Lack of tax regulations for employee stock ownership plans

Midea Group has currently launched seven global partnership plans, but the current equity incentive personal income tax law does not clearly stipulate the tax treatment of employee stock ownership plans, resulting in different practices of different enterprises in practice, exacerbating the difficulty of tax collection. From the practical process of Midea Group, it can be seen that the employee stock ownership plan is more like a derivative of restricted stocks and performance stocks, and its phased ownership arrangement is like the phased unlocking of restricted stocks. The assessment mode is similar to performance stocks, and the entire planning process appears relatively complex. It is still unclear whether the benefits obtained by incentive recipients through employee stock ownership plans should be recognized as income from wages and salaries or dividends. Some people believe that the incentive target is the income earned through hard work during the performance evaluation period, which is their labor achievement and should be classified as salary income according to the nature of the income. Some people believe that the reason why incentive recipients can obtain this income is because they have the dividend right to the underlying stock, and the essence of the income is dividend distribution, so it should be recognized as dividend income. It can be seen that the complexity of the plan and the controversy over income recognition make it difficult to introduce tax regulations for employee stock ownership plans. China's tax regulations on equity incentives still lag behind practical development, and the "blank" areas in policies urgently need to be filled.

4.3. Analysis of the Guiding Issues of Personal Income Tax Policies for Equity Incentives

4.3.1. Policy formulation can easily trigger opportunistic behavior among executives

According to the current tax laws in our country, the tax burden of the incentive object during the exercise stage depends on the difference between the market price of the stock on the exercise date and the exercise price. The exercise price is often announced by the company in advance and cannot be changed arbitrarily. The tax burden in this stage mainly depends on the market price of the stock. However, due to tax exemption regulations in the transfer stage, the incentive object does not need to pay personal income tax when transferring the target stock. In order to reduce their own tax burden, this tax regulation provides executives with the motivation to manipulate the company's stock price by utilizing their information advantages and power to manipulate performance or disclose information. That is, they first choose to exercise when the stock price is low, reduce the personal income tax that should be paid during the exercise process, and then reduce their holdings when the stock price is high, increasing their income at the time of transfer, To seek more personal benefits for oneself.

4.3.2. Policy formulation is not conducive to long-term shareholding of incentive targets

Under the stock options and restricted stock incentive plans of Midea Group, there is a phenomenon of early transfer of target stocks by incentive recipients. In addition to the factors related to the formulation of incentive plans, the high tax burden faced by incentive recipients when exercising or unlocking also exacerbates this phenomenon. Due to the fact that the stocks have not been transferred on the exercise or unlocking date, the incentive recipients have not truly obtained actual benefits, but they face tax pressure. In addition, the current personal income tax policy lacks strong tax incentives, which leads to the incentive recipients being eager to transfer stocks in exchange for cash to pay taxes on time.

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