ISSN: 1813-4890

The Impact of Tax Reductions and Fee Cuts on Enterprise Digital Transformation

Haoxuan Zou[1, a], Zejiong Zhou[2,b,*]

[1]School of Accounting, Anhui University of Finance and Economics, Bengbu, Anhui, 233030, China

[2]School of Economics, Anhui University of Finance and Economics, Bengbu, Anhui, 233030, China

[a]471323327@qq.com, [b]120080985@aufe.edu.cn

Abstract

The paper first analyzes the evolution of China's tax policies, and then analyzes the definition and importance of enterprise digital transformation; Once again, the impact mechanism of tax reduction and fee reduction on the digital transformation of enterprises was analyzed; Finally, propose countermeasures and suggestions.

Keywords

Tax policy; Digital transformation; Tax reduction and fee reduction.

1. Introduction

In recent years, intense global competition and rapid technological advancements have made digital transformation crucial for continuous growth and enhanced competitiveness of businesses. As the world's second-largest economy, digital transformation in Chinese enterprises is particularly significant, where the government has played a key role in supporting technological innovation and upgrading through adjustments in tax policy.

Since 2015, the Chinese government has launched various tax reduction and fee reduction measures, such as adjusting the VAT rate, providing tax incentives for small and micro enterprises, and allowing extra deductions for R&D expenses, all aimed at reducing the business burden and stimulating market vitality. The core purpose of these policies is to lower operational costs for enterprises and increase liquidity, thereby encouraging investment in new technologies and business models.

Additionally, the Chinese government has elevated the importance of digital transformation to the level of a national strategic issue, through policy documents like the "National Informatization Development Strategy Outline" and "Made in China 2025." These policies emphasize accelerating the development of the digital economy and promoting the widespread application of key technologies such as cloud computing, big data, and artificial intelligence to support technological innovation and upgrading in enterprises.

However, despite government policy support, Chinese enterprises still face numerous challenges on the path to digital transformation. These include insufficient technological infrastructure, a shortage of digital talents, and the need for shifts in corporate culture and management styles. The level of societal support, the enterprises' own capacity for innovation, and their openness also significantly affect the effectiveness and speed of digital transformation.

2. Tax Reductions and Fee Cuts: The Evolution of China's Tax Policy

In exploring the various drivers of enterprise digital transformation, tax policy has played an indispensable role. This section will review the development of China's tax policy and analyze

ISSN: 1813-4890

how these policies have impacted enterprises, especially in promoting technological innovation and economic structural transformation.

During the planned economy period in China, tax policy primarily served the planned economic system, with a single type of tax and fixed tax rates, mainly through the remittance of profits from state-owned enterprises to increase fiscal revenue. In the early stages of reform and opening up, China's tax system focused on enhancing the financial contribution of state-owned enterprises. The Corporate Income Tax Law implemented in 1984 marked an important step towards transitioning to a market economy, establishing a unified tax system applicable to all enterprises. Thereafter, as the market economy deepened, the tax system gradually introduced a variety of taxes to adapt to the diversified development of the economy. With China's further reforms and opening up, actively integrating into the wave of economic globalization, China joined the World Trade Organization, and its tax policies gradually aligned with international standards, reducing trade barriers and optimizing the tax environment for foreign enterprises.

During the global financial crisis of 2008, the Chinese government implemented a series of tax cuts to stimulate economic growth, including adjusting the value-added tax policy and implementing structural tax cuts. After this, the Chinese government continued to implement and expand the scope of tax cuts. From 2012 onwards, tax reduction and fee reduction policies gradually favored small and medium-sized enterprises, implementing tax reduction and exemption policies for small and micro enterprises to support innovation and employment. Since 2015, tax cuts and fee reductions have become one of the important measures of supply-side structural reform, aimed at reducing enterprise costs and stimulating market vitality and innovative drive. Tax cut and fee reduction policies, especially the additional deduction for R&D expenses, significantly increased the R&D input of enterprises, particularly small and medium-sized ones. The additional fiscal space allowed enterprises to invest in new technologies and equipment, thus accelerating the pace of digital transformation.

In 2019, significant tax cuts and fee reductions were implemented: China enacted the largest scale of tax cuts and fee reductions in history, with an estimated total of 2 trillion yuan for the year. This included adjustments to the VAT rate, the promotion of VAT exemption policies for small-scale taxpayers, and large-scale tax incentives for the manufacturing sector and small and micro enterprises.

In 2020 and beyond, in response to the COVID-19 pandemic, the Chinese government further implemented temporary tax cuts and fee reduction measures to help enterprises, especially small and medium-sized ones, overcome difficulties.

3. Enterprise Digital Transformation: Definition and Importance

Enterprise digital transformation is the process by which companies fundamentally overhaul their business operations and value creation methods through the adoption of digital technology. This transformation goes beyond mere technological application; it penetrates the core of corporate culture, organizational structure, and business processes. It aims to significantly enhance a company's competitiveness and efficiency through strategic use of these technologies.

The importance of digital transformation lies in its ability to significantly enhance operational efficiency, improve responsiveness to customer demands, and create new revenue streams. Digital technologies help businesses better understand the market and consumers, optimize decision-making processes, and reduce costs and increase productivity through automation and data-driven insights. Additionally, as global market competition intensifies, companies that can quickly adapt to digital transformation are more likely to maintain a leading market position.

ISSN: 1813-4890

4. Analysis of the Impact Mechanism of Tax Reductions and Fee Cuts on Enterprise Digital Transformation

4.1. Tax Reductions and Fee Cuts Facilitating Enterprise Digital Transformation by Easing Financing Constraints.

Tax relief directly impacts corporate cash flow and investment decisions. By reducing the tax burden, especially for small and medium-sized enterprises, government tax reduction and fee cut policies significantly increase free cash flow. This additional capital can be utilized for crucial investments in technology upgrades and digitization, such as acquiring advanced hardware, updating or purchasing new software systems, and conducting digital-related R&D activities. These investments can accelerate the technology update cycle of enterprises, enabling them to respond more quickly to market changes and thereby enhancing their competitiveness.

4.2. Tax Reductions and Fee Cuts Boosting Enterprise Digital Transformation by Enhancing Innovation Levels.

Tax incentives act as a "reservoir" that encourages enterprises to allocate more resources to technological innovation, thereby enhancing their capability for technological innovation and reducing the risks associated with it. First, tax incentives, particularly the additional deductions for R&D expenses, increase the economic incentives for enterprises to develop new products and improve technologies by providing additional pre-tax deductions. This policy not only reduces the cost of R&D activities but also increases the expected returns on innovation investments, thus motivating enterprises to intensify their research and development efforts in key digital technologies such as artificial intelligence, big data, and cloud computing. Enhanced R&D capabilities are crucial for enterprises to achieve technological breakthroughs and maintain technological leadership.

4.3. Tax Reductions and Fee Cuts Promoting Enterprise Digital Transformation by Alleviating Corporate Debt Risk.

Tax incentives can alleviate corporate debt risk. Tax incentives typically act as a "non-debt tax shield" by first reducing the tax burden of enterprises, increasing cash flow and retained earnings, potentially increasing the return on owner investments, and enhancing the likelihood of equity financing, which in turn produces a "crowding out effect" on debt financing. The reduction in corporate debt demand lowers financial risk and enhances the enterprise's capacity to take on risk. Enterprises undergoing digital transformation face multiple obstacles, such as internal organizational change conflicts, data technology leakage and compliance risks, and sharply increased market response uncertainties. Therefore, the implementation of tax incentive policies can facilitate enterprise digital transformation. Moreover, increased cash flow sends positive signals to the market, enabling access to other financing channels and suppressing the motive for precautionary savings, effectively enhancing the enterprise's capacity to take risks and support digital transformation.

4.4. Tax Reductions and Fee Cuts Facilitating Talent Acquisition and Retention to Promote Enterprise Digital Transformation.

Tax incentives, especially those related to personal income tax relief, allow enterprises to offer more attractive compensation packages to attract and retain the key digital talents needed. High-skilled talents such as data scientists and software engineers are the driving force behind digital transformation. Favorable tax policies enable enterprises to offer higher net incomes, thereby maintaining competitiveness in the talent-intensive tech industry.

ISSN: 1813-4890

5. Policy Recommendations

First, the intensity of policy incentives should be increased, and the scope of such incentives should be broadened. Specific measures include expanding the proportion of deductible expenses for R&D and reducing the depreciation period for digital-related fixed assets. This will encourage companies to accelerate technological updates and investments in digital equipment, thereby promoting technological iteration and innovation during the digital transformation process.

Second, the government should introduce specific tax incentives targeted at the digital transformation of enterprises. Unlike general policies, these specialized policies should focus on supporting the adoption of key digital technologies such as cloud computing, big data analysis, and artificial intelligence. They should provide more targeted tax breaks, such as additional pre-tax deductions for investments in these technologies, to stimulate innovation and investment in these areas.

Third, the government should implement more targeted tax incentive policies, especially for high-tech and manufacturing enterprises. Based on the industry characteristics and technical needs of enterprises, finely tailored tax incentive measures should be designed, such as offering a higher proportion of pre-tax deductions for R&D activities of high-tech enterprises and providing financial subsidies for small manufacturing enterprises in their digital upgrades, to address the financial and technical obstacles these enterprises face during transformation.

Fourth, increase the tax incentives for enterprise innovation input. Firstly, investment tax credits could be offered, allowing for the deduction of investment losses before tax, to encourage a high proportion of innovative input. Secondly, establish a risk subsidy mechanism for R&D fields. Current policies mainly focus on successful projects or enterprises, while those not achieving results need improved risk compensation capabilities. Attention should be paid to perfecting the risk compensation mechanism to support more enterprises' innovative inputs and thereby indirectly promote enterprise digital transformation.

Acknowledgments

This work is supported by 2023 Anhui University of Finance and Economics Undergraduate Research and Innovation Fund Project (XSKY23187).

References

[1] Liu Weidong, She Xishui. How Tax Reduction Empowers Digital Transformation of Enterprises: From the Perspective of Upgrading Human Capital and Stable Cash Flow Expectations[J]. Journal of Guizhou University of Finance and Economics, 2024 (3).

[2] Li Yajie. Research on the Impact of Tax Reduction on Digital Transformation of Enterprises [D]. Shandong University of Finance and Economics, 2024.

[3] Lu Xiaoqi, Yu Maomao. Research on the Impact Path of Tax Reduction Policies on Digital Transformation of Enterprises: From the Perspective of Reducing Value Added Tax Rates [J]. Contemporary Finance and Economics, 2023 (9).