

The Impact of Corporate Tax Burden on Employment in China

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Abstract

Employment is the foundation of society, relating to the economic development and social stability. Enterprises play a vital role in employment. In theory, reducing the operating costs of enterprises can promote the expansion of enterprises, thereby promoting to absorb more workers and increase social employment rate. Therefore, this paper examines and analyzes the theory from an empirical point of view, through panel data analysis of the 10-year data of 805 Chinese A-share listed companies. Two important conclusions can be drawn: First, if the corporate turnover tax burden is reduced, the number of employees will increase. Second, for labor-intensive industries, as service industries and agriculture, reducing corporate tax burden to promote employment is more effective. Therefore, in order to promote employment, the government should continue to implement various tax and fee reduction policies, focusing on reducing the labor-intensive industries' turnover tax burden, and give full play to the role of tax reduction and fee reduction in employment.

Keywords

Tax incentives; Employment; Labor-intensive enterprises.

1. INTRODUCTION

In December 2018, China held the Central Economic Work Conference. General Secretary Xi Jinping put "employment stability" at the top of the "six stability" work, and put forward the argument that employment is the foundation of people's livelihood. The "employment priority policy" has also become a macro policy for the first time as a policy tool for the government to achieve the goal of stabilizing employment. Since China entered the new economic normal in 2013, the economic growth pattern has changed and the growth rate has also been slowing down. Although China's urban registered unemployment rate has been generally stable and declining in the past two years, due to the complex and volatile external environment, severe economic situation, and increasing downward pressure, there are still many uncertainties in employment and employment problems. It is still a livelihood issue that the government needs to solve urgently.

Generally speaking, the employment situation facing China is still relatively severe, and the government's employment task is still very arduous. Adhering to the employment priority strategy is the focus of government work in the current period and for a long period of time in the future. In recent years, with the promulgation of various government policies to stabilize employment and promote employment, there have been certain effects in alleviating the contradiction in total employment in China.

In addition, reducing corporate tax burden can theoretically accomplish the government's goal of promoting employment. Taxation has a significant impact on investment and consumption. The government can respond to short-term economic fluctuations and stabilize employment through proactive fiscal policies such as tax cuts [1]. Expansionary fiscal policies such as expanding fiscal deficits and expansionary monetary policies that increase the supply

of base money can effectively promote employment growth [2]. Specifically, from the perspective of labor supply, tax reduction policies can reduce the relative price of labor purchased by enterprises, produce substitution effects, and increase labor supply [3]; from the perspective of labor demand, tax burdens increase the labor demand of enterprises. Costs, reducing the demand for labor [4]. Therefore, the state can adjust the supply and demand of the labor market and the labor structure by adjusting taxation policies and mechanisms [5-6].

2. THEORETICAL ANALYSIS

Reducing corporate tax burden has four main effects on promoting employment [7]. First, maintaining stable economic growth can lay a good social and economic foundation for stable employment. Second, intensify the policy of supporting enterprises to encourage enterprises to absorb more employees and increase their efforts to stabilize their jobs. Third, the promotion of mass entrepreneurship will help create new industries and expand jobs. Fourth, targeted tax cuts for key groups to support and promote entrepreneurship and employment of key groups.

Taxes, labor costs and capital costs are all important components of business operating costs. When the tax burden of enterprises increases, in order to reduce costs as much as possible, enterprises will choose to reduce labor costs or capital costs. The choice of which cost to reduce mainly depends on the type of enterprise. For labor-intensive companies, labor costs account for a large proportion of product costs, while tangible capital costs are relatively small. Therefore, it is more likely to reduce labor costs. The way to reduce labor costs is usually to reduce employee wages and benefits, or to fire employees. Both methods will indirectly or directly reduce the level of social employment.

In order to reduce the tax burden of enterprises and improve the business environment, the Ministry of Finance of China has proposed a number of reductions in corporate income tax, value-added tax, and other transfers since the "structural tax reduction" proposed by the Central Economic Work Conference at the end of 2008. Tax and fee reduction measures from the perspective of tax burden reduce corporate tax burden. At the same time, in order to promote social employment and help enterprises expand their scale, the Ministry of Finance has continued to improve and implement preferential tax policies for reemployment during this 10 years, encouraging enterprises to hire new employees. Under the effect of multiple tax reduction and exemption policies, business operating costs have fallen. In order to maximize profits, enterprises will continue to invest the saved funds in operations and expand their scale by purchasing assets and increasing human capital. Therefore, this report draws the following assumptions:

H1: Corporate tax burden is inversely proportional to the number of new employees hired by the company

In addition, the way an enterprise uses the saved funds is closely related to the type of enterprise, and mainly depends on what kind of judgment the enterprise makes to maximize profits. For example, labor-intensive industries such as service industries and agriculture, which are obviously dependent on human resources, will have a greater opportunity to apply tax burden reduction and exemption "welfare" to employing more laborers. Therefore, this article has a second assumption:

H2: For labor-intensive industries, as service industries and agriculture, reducing corporate tax burden to promote employment is more effective

3. EMPIRICAL ANALYSIS

This paper adopts the panel analysis method of mixed regression analysis, fixed effect analysis, and random effect analysis to analyze the impact of various corporate tax burdens on employment behavior, so as to study the impact of corporate tax and fee reduction measures on the expansion of employment in society. Among them, the tax burden of Chinese enterprises mainly comes from corporate income tax, value-added tax, business tax (before the implementation of the "VAT reform"), consumption tax, resource tax, urban maintenance and construction tax, and education surcharges.

3.1. Model Setting

This report divides the main tax burdens of enterprises into three categories, corporate income tax, value-added tax, and other turnover taxes. Since the comprehensive promotion of the "VAT reform" policy, value-added tax has become the main source of corporate tax burdens. With the advancement of the value-added tax reform, there will be more tax and fee reduction actions on the value-added tax. Research on value-added tax The impact on corporate employment behavior is also significant. Business tax (before the implementation of the "VAT reform"), consumption tax, resource tax, urban maintenance and construction tax, and education surcharges are also important parts of the corporate tax burden, especially before the implementation of the "VAT reform" policy. Therefore, this report They are also classified as one category and defined as other turnover taxes.

In terms of model construction, this report expresses the above various tax burdens in a relative amount, which makes companies of different sizes comparable. Controlling the time effect, this paper obtains the model:

$$\lnstaff_{it} = \alpha + \beta_1 BTS_{it} + \beta_2 VATS_{it} + \beta_3 ITP_{it} + \eta_t + \mu_i + \gamma X + \varepsilon_{it}$$

Instaff is the explained variable, BTS, VATS, ITP represent other turnover tax rate, value-added tax expense rate, and corporate income tax expense rate respectively as explanatory variables. η_t are time fixed effects. μ_i are individual fixed effects of enterprises, and X are control variables. ε_{it} are errors item. The key variables of the model are BTS, VATS, and ITP, which represent the three tax burdens of enterprises. The corresponding coefficients β_1 , β_2 and β_3 are the core coefficients of this article, reflecting the impact of the three taxes on the employment behavior of enterprises.

3.2. Variable Description & Descriptive Statistics

In this paper, the logarithm of the number of employees at the end of the year (Instaff) is used as the explanatory variable to examine the adjustment of the company's annual employment behavior as the tax burden changes.

The explanatory variables include corporate income tax expense rate (ITP), other corporate turnover taxes (BTS), and value-added tax expense rate (VATS).

The corporate income tax expense rate (ITP) is calculated by the ratio of the enterprise's current income tax expense to the total pre-tax profit, which is used as an indicator to measure the corporate income tax expense rate and reflects the changes in the enterprise's annual corporate income tax expense rate.

At the same time, this article uses the "business tax and surcharges" in the year-end financial statements of each company as an indicator to reflect the company's other turnover tax (BTS). Among them, business tax and additional items include business tax (cancelled), consumption tax, resource tax, land value-added tax, urban construction tax, education surcharge and local education surcharge.

The employment behavior of an enterprise is affected by factors such as its operating capability, capital structure, profitability, and wage level. Therefore, this article selects the company's revenue ratio (AT, total operating income/assets, which is also total asset turnover), gearing ratio (ALR, total assets/total liabilities), and pre-tax profit margin (PAIS, corporate profit before tax /enterprise income) reflects the company's profitability, wage cost rate (wageC, the company pays employees' salaries and benefits and other expenditures/total expenditure in business activities) reflects the company's wage level, as the control variable.

This report selects the annual financial statements of all A-share listed companies in China from 2009 to 2018 as a sample. For the feasibility of the experiment and to exclude the impact of companies that have made layoffs due to losses, this article eliminates the sample of companies whose financial statement items are missing, discontinuous, and whose profits before tax have suffered losses during the year. The final sample includes 805 listed companies. The panel data for a total of 10 years from 2009 to 2018 and 72 anomalous observations were eliminated, and finally 7978 observations were obtained. The following table shows the basic situation of the main variables.

Table 1. Variable description and descriptive statistics

Variable		Meaning	Observations	Mean	Standard deviation	Min	Max
Explained variable	lnStaff	Number of employees	7978	8.101	1.436	2.197	14.870
	BTS	Other turnover taxes	7978	0.023	0.035	-0.241	0.289
Explanatory variables	VATS	VAT burden	7978	0.038	0.230	-4.248	18.590
	ITP	Corporate income tax expense rate	7978	0.194	0.248	0.000	13.214
Control variable	AT	Management capacity	7978	0.718	0.620	0.001	7.871
	AIR	Capital structure	7978	0.502	0.212	0.007	6.348
	PAIS	Profitability	7978	0.180	0.558	0.000	38.997
	WageC	Wages	7978	0.119	0.093	0.001	0.652

3.3. Empirical Test Results

The empirical results of mixed regression, fixed-effects model, two-way fixed-effects model, and random-effects model all show that value-added tax burdens and other turnover tax burdens have a significant negative impact on corporate employment behavior. Among them, The VAT burden is also significant at the 1% significance level, with a coefficient of -0.147. Other turnover tax burdens are significant at the 1% level of significance, with a coefficient of -2.205. If the company's other turnover tax burden or value-added tax burden is reduced, the company will hire new employees, which will have a significant employment effect on society. However, the corporate income tax burden coefficient is not significant, indicating that from the perspective of the overall sample, the impact of the reduction of corporate income tax burden on the behavior of companies hiring new employees is not obvious.

Table 2. Empirical analysis results

Explanatory variables	Instaff			
	Pool	Fixed	Two-way Fixed	Random
BTS	-5.756*** (-3.61)	-3.438*** (-3.60)	-2.205*** (-2.68)	-3.676*** (-4.22)
VATS	0.00989 (0.15)	-0.165*** (-6.93)	-0.147*** (-9.47)	-0.158*** (-6.62)
ITP	0.0765 (1.17)	0.0472* (1.78)	-0.0104 (-0.36)	0.0488 (1.87)
AIR	2.271*** (6.03)	0.544** (2.24)	0.584*** (2.59)	0.644** (2.47)
AT	0.348*** (3.40)	-0.0785 (-1.32)	0.106* (1.79)	-0.0290 (-0.54)
WageC	3.870*** (7.17)	2.669*** (6.16)	1.172*** (2.74)	2.721*** (6.69)
PAIS	-0.185*** (-2.85)	-0.178*** (-13.80)	-0.160*** (-15.92)	-0.177*** (-12.97)
_cons	6.399*** (26.03)	7.674*** (54.26)	7.255*** (52.93)	7.583*** (48.41)
Individual	NO	YES	YES	NO
Time	NO	NO	YES	NO
F test	Prob = 0.000			
LM test	Prob = 0.000			
Hausmann test	Prob = 0.000			

3.4. Heterogeneity Analysis

The employment behavior of an enterprise has an important relationship with the type of enterprise. This paper analyzes the heterogeneity of the sample companies according to five types of industries: service industry, agriculture, commerce, industry, and comprehensive enterprise. Both the service industry and agriculture are labor-intensive industries, and theoretically they are more motivated to use tax and fee reduction benefits for hiring new employees. Business includes wholesale, retail, and real estate enterprises. Industry includes capital-intensive industries such as manufacturing and extractive industries. The labor intensity of industry and commerce is obviously not as high as that of service industries and agriculture. A comprehensive enterprise refers to an enterprise whose main business scope covers a variety of industries.

Table 3. Heterogeneity analysis results

Explanatory variables	Service	Agriculture	Business	Industry	Comprehensive
BTS	-5.142** (-2.24)	-10.16 (-1.54)	-0.693 (-0.82)	-1.761 (-1.01)	-3.871 (-1.34)
VATS	-0.255*** (-3.57)	-3.219* (-2.34)	-0.136*** (-9.81)	0.771 (1.52)	-0.172 (-1.57)
ITP	-0.0103 (-0.45)	-0.274** (-2.57)	0.268** (2.10)	-0.0302 (-0.57)	0.381 (0.82)
_cons	7.287*** (26.74)	7.415*** (11.11)	6.539*** (27.42)	7.428*** (50.14)	7.917*** (38.46)

This report uses a two-way fixed model to fix the individual types and time effects of enterprises, and analyze the heterogeneity of service industries, agriculture, commerce, industry, and comprehensive enterprises.

The reduction in the tax burden of service companies has the most obvious stimulus effect on their companies' hiring new employees. Among them, the other turnover tax burden coefficient is -5.142, which is significant at the 5% significance level. A reduction of 1% of the other turnover tax burden will increase the number of employees employed by service companies by 5.142%. The value-added tax burden coefficient is -0.255, which is significant at a significance level of 1%. Reducing the value-added tax burden of 1% will increase the number of employees employed by service companies by 0.255%. That is, the employment behavior of service industry enterprises is more obviously affected by the changes in other turnover tax burdens and value-added tax burdens.

The reduction in the tax burden of agricultural enterprises has a more obvious stimulus effect on the behavior of enterprises to hire new employees. Different from service companies, the employment behavior of agricultural companies is more significantly affected by the burden of value-added tax and corporate income tax. For agricultural enterprises, the value-added tax burden coefficient is -3.219, which is significant at a significance level of 10%. Reducing the value-added tax burden by 1% will increase the number of employees employed by agricultural enterprises by 3.219%. The corporate income tax burden coefficient is -0.274, which is significant at the 5% significance level. A reduction of 1% of the corporate income tax burden will increase the number of employees employed by agricultural enterprises by 0.274%. That is, the employment behavior of agricultural enterprises is more obviously affected by changes in the burden of value-added tax and corporate income tax.

The reduction of the tax burden of commercial enterprises has a certain stimulus effect on the behavior of enterprises to hire new employees. Among them, the value-added tax burden coefficient is -0.136, which is significant at a significance level of 1%. A reduction in the value-added tax burden of 1% will increase the number of employees employed by commercial enterprises by 0.136%. However, unlike other types of industries, its corporate income tax burden coefficient is 0.268, which is significant at the 5% significance level. The increase in the income tax burden of commercial enterprises can stimulate companies to hire new employees to a certain extent.

For industrial and general industry enterprises, the reduction of various tax burdens does not significantly stimulate their hiring of new employees. This article considers that due to the low labor intensity of industrial enterprises, for tax reduction and fee reduction benefits, it may be more inclined to obtain the maximum profit by purchasing fixed assets, intangible assets and other capital. The sample companies in the comprehensive industry cover a variety of industry types, so it is expected that the tax burden coefficient is not significant, but this article can find out. The other turnover tax burden and value-added tax burden coefficient of comprehensive enterprises are negative, indicating that reducing the turnover tax burden of comprehensive enterprises also has a certain effect in stimulating the employment of new employees.

4. CONCLUSION

This paper analyzes the relationship between the various tax burdens of 805 eligible listed companies from 2009 to 2018 and the hiring of new employees. In general, the number of new employees employed by the company is significantly negatively correlated with the burden of value-added tax and other turnover taxes. Reducing the burden of value-added tax and other turnover taxes on enterprises can greatly stimulate enterprises to hire new employees. Reducing the burden of corporate income tax can also stimulate corporate employment

behavior to a certain extent, even if its effect is not as great as reducing the burden of corporate turnover tax.

Compared with other industries, labor-intensive industries such as service industry and agriculture, the reduction of corporate tax burden can stimulate the employment of new employees more significantly.

5. SUGGESTION

5.1 Focus on Reducing Corporate Turnover Tax Burden and Promoting Social Employment

The tax burden of Chinese companies mainly includes turnover tax and corporate income tax. After research and analysis, it is found that reducing the burden of corporate turnover tax can greatly promote the employment of new employees of the company, which is conducive to promoting social employment and maintaining social harmony. The state can reduce the corporate turnover tax burden by reducing corporate value-added tax, consumption tax, resource tax, urban maintenance and construction fees, and surcharges. Among them, after the comprehensive promotion of the "VAT reform", value-added tax has become an important part of business tax. In order to reduce the burden of turnover tax, it is necessary to concentrate on the reform and adjustment of value-added tax. Various measures such as reducing the burden of value-added tax will provide strong support for promoting social employment.

5.2 Appropriately Increase the Tax Incentives for Labor-Intensive Industries

Compared with other industries, for labor-intensive industries such as the service industry and agriculture, the effect of reducing corporate tax burden and promoting employment is more obvious. Labor-intensive industries rely on large amounts of labor. When enjoying the tax relief policy, they will be more motivated to hire new employees to expand the scale of production and operation in order to achieve the goal of maximizing profits. Therefore, in order to stabilize the level of social employment, maintain social harmony and economic prosperity, more tax reduction measures should be adopted for labor-intensive industries. For service companies, the state can reduce the burden of turnover taxes and fees, and stimulate service companies to hire more employees, thereby increasing the social employment rate. For agricultural enterprises, the state should pay more attention to reducing their value-added tax burden, thereby encouraging agricultural enterprises to expand their employment absorption scale. For commercial enterprises, reducing the VAT burden can also stimulate them to hire more employees. Therefore, in order to stabilize the level of social employment, tax reduction policies can be tilted to labor-intensive industries to a certain extent, allowing them to enjoy a higher degree of preference than other industries, thereby encouraging them to hire more employees.

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