

Influencing Factors of Corporate Tax Avoidance

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Abstract: Enterprises are in passive positions on whether to pay tax or not due to the mandatory nature of taxation. However, economic benefits are the eternal pursuit of enterprises, and the origin of tax inevitably promotes the tax avoidance activities of enterprises. Therefore, enterprises are constantly making trade-offs between economic benefits and tax avoidance costs on the issue of tax. This article briefly analyzes the demarcation of avoidance activities, focuses on the analysis of corporate income avoidance through internal and external factors, aimed at providing reasonable suggestions for the improvement of anti-avoidance ability of tax authorities in China.

Keywords: Corporate Income Tax; Tax Avoidance Activity; Influencing Factors

1. Introduction

Tax avoidance activities is one effort that enterprises made to achieve the purpose of paying less tax by taking advantage of leaks and gaps of tax law and adopting a series of tax planning methods in the case of not illegal. Tax avoidance is conducive to the improvement of tax system, but meanwhile, it's a kind of action that transfers national wealth to enterprises, which results in large loss of national tax revenue. In terms of enterprises, on the one hand, it helps enterprises to get cash inflow and seek more investment opportunities. On the other hand, it's a short-sighted behavior which may expose enterprises to higher risks. Once discovered by tax authorities, enterprise faces not only the payment of back taxes, but also the risk of additional fines and the damage to its image. How to take tax avoidance actions, and to what extent, requires companies to weigh tax avoidance gains against costs and risks.

Enterprises' judgments of how to weigh profits against costs are influenced by multiple factors. Scholars at home and abroad have put forward many constructive conclusions on the issue, and gradually elaborate on specific traits, such as certain characteristics of the management, specific enterprises types, etc. Generally speaking, the influencing factors can be divided into internal and external causes. On this basis, this paper selects several representative influencing factors and analyzes them.

2. Internal factors of tax avoidance

2.1 Nature of property rights

State-owned enterprises are the lifeblood of the national economy. They are owned or controlled by the state, and their actions often have certain policy objectives. Due to the natural mutually beneficial relationship between state-owned enterprises and the government, state-owned enterprises will not typically regard tax payment and net profit as two opposite sides, but regard tax payment as one of the ways to realize their enterprise value. With the characteristics of commercial and public welfare, state-owned enterprises will shoulder more social responsibilities compared with private enterprises, who may make profit their sole purpose. Meanwhile, their corporate nature determines that they are subject to tighter government control, so state-owned enterprises will not spend too much energy pursuing low tax burden. In contrast, profit maximization is the basic goal of private enterprises, and they have strong incentives to

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transfer national wealth to enterprises for higher profits through various tax avoidance activities.

2.2 Debt level and financial demand

When enterprises take on high debt to better perform the function of financial leverage, they may take relatively high financial risks due to the obligation to pay fixed interest on each interest payment date and a larger amount of debt on maturity date. In this case, companies will consider the feasibility of tax planning activities while cutting down some unnecessary costs and expenses. Enterprises can increase its cash flow through tax avoidance, so as to alleviate short-term financial distress. This is actually a form of internal financing, in which way enterprises do not have to bear high financing costs, but only bear the costs caused by tax avoidance.

When enterprises have financing demands and hope to raise funds through external financing, they would focus more on the evaluation of stakeholders and the credit ratings publicized by relevant agencies, and hope to deliver outwards information which is beneficial to enterprises such as strong financial position and solid credit ratings, so as to obtain more financing. Enterprise may expand the gap between accounting profit and taxable income as much as possible under the condition of increasing or not making big changes in accounting profit for the purpose of seeking higher retained profits and easing recent financing problems.

2.3 Management capability

As the decision-makers and the actual controllers of enterprise's business activities, the management layers have a direct impact on enterprise's tax avoidance. In essence, tax avoidance is also a venture capital, which was expected to get considerable return through a series of planning of enterprises. Though one avoidance activity could bring enterprise short-run cash retention, the uncertainties it brings would long exist in enterprise. With its gradual accumulation, it may deliver a hard blow to enterprise at any time without warning.

For competent managements, they pay more attention to risk management and control, and the balance between benefit and cost, and they will adopt moderate tax avoidance activities after comprehensive consideration of the whole enterprise. Meanwhile, it is entirely within their capacities to create more profits through other investments. It's unworthy for them to take tax avoidance as the main means to improve enterprise benefit, and bear the hidden and long-term risks for the limited tax avoidance income.

On the other hand, competent managers usually have good reputation and also care more for their reputation which may even provide more impetus than some material rewards. There is no clear boundary between tax avoidance and tax evasion, making it harder for enterprises to operate in practice. If enterprises fail to grasp the degree of tax avoidance in their practices, they will easily attract the vigilance of tax authorities and get punishment once they are found to have misbehaved. It will not only affect their tax bracket, but also damage the reputation of managers and corporate public image. In short, competent management tends to have a relatively low tolerance for tax avoidance.

3. External factors of tax avoidance

3.1 Mutually beneficial government-enterprise relations

All the activities of enterprises are based on externalities, which makes enterprises not only consider their own interests, but also should pay attention to the interests of government and public when they conduct tax planning. The relation between the government and enterprises are not merely tax leviers and taxpayers, and the development of enterprises in the market economy cannot be separated from the support of government. Chen Dong et al. (2016) found that the tax avoidance activities of state-owned enterprises has a feature of "counter-cyclical support effect", namely that state-owned enterprises will help alleviate the current fiscal pressure of local governments by reducing tax avoidance, and this initiative to reduce tax avoidance will help them obtain more government subsidies and support. They refer to the relation of mutual trust and mutual benefit as "give a plum in return for a peach". In fact, this relation stays not only in government and state-owned enterprise. Under certain conditions, the government and private enterprises can establish a mutually beneficial relationship, which is obviously reflected in local government and local backbone enterprises.

Unlike state-owned enterprises who have the natural basis of mutual trust with the government, if private

enterprises want to get more attention and support from the government, they need to develop their distinctive competence and gradually gain government's trust through paying tax by sincerity and actively cooperating with the government. Government has resource allocation rights and plays a significant role in market economy, and could help enterprises find greater development opportunities and strengthen enterprises' vitality. It's totally economical, rational and in line with enterprises' long-term goals to win tangible and intangible resources provided by the government by reducing tax avoidance. As a result, rational managers will maintain a more long-term relationship of mutual trust and mutual benefit with the government at the expense of tax savings.

3.2 The difficulty with tax collection and management

Nowadays, the state incredibly encourages mass entrepreneurship and innovation, especially providing more tax incentives and policy support to small and micro businesses. Private enterprises spring up and grow quickly in such circumstances, which will also increase the workload of tax authorities greatly. In the face of so many enterprises, the tax authority can't cover everything, also are hard to know enterprises' internal operation and management fully, producing a consequence that tax authorities have difficulties in judging the legality of corporate tax avoidance, which causes that some activities that exceed the law could not get noticed, corrected and punished promptly. In this context, enterprises may have fluke minds and conduct higher degree of tax avoidance activities, leading to larger-scale tax export.

In order to reduce tax burden, companies will try to meet the terms of the tax incentives with self-structure adjustment. However, when enterprises meet the favorable conditions, they may slack off and no longer strictly follow the relevant national policies. Enterprises still put their own interests in the first place, but no longer actively assume their responsibility or actively bring positive externalities to the society and the country, so that the national revenue will be lost for nothing.

Tax personnel requires relatively strong business capability, however, they may not have the same strong tax knowledge and skills as financial talents, law talents or other professionals in the enterprises. The means of tax planning are often diversified, complicated and hidden. It is difficult for tax personnel to find out the problems of enterprises after long-term and complex tax planning in the process of tax collection and management. The difficulty of tax collection and administration and the mild punishment would lead to larger-scale tax avoidance.

4. Conclusion

Whether it is the internal factors such as the management itself, corporate financial position, or the external factors such as taxation measures, government-enterprise relations, all have impacts on the tax avoidance activities, and exert their influences through different pathways. In fact, tax factors also include internal controls, enterprise scale, industry situation and so on. When the country takes anti-avoidance measures, it needs to take these factors into account. On this basis, the country will gradually close the gaps and loopholes in the tax law, strengthen and improve the tax collection and management, and promote the continuous improvement of China's legal system.

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