

# Research on the Incentive Mechanism and its Impact of Reducing Taxes and Fees to Promote the High-quality Development of Small and Micro Enterprises

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## Abstract

Tax reduction and fee reduction are not only conducive to deepening the supply side structural reform, but also conducive to promoting the continuous improvement of the quality of China's economic growth. Based on the goal of high-quality economic development, this paper comprehensively combs the tax preferential policies issued by the state for small and micro enterprises, deeply analyzes the incentive mechanism of tax reduction and fee reduction for small and micro enterprises from the theoretical level, and empirically tests the incentive effect of tax reduction and fee reduction on small and micro enterprises through actual data. Finally, based on the theoretical mechanism analysis and empirical test results, this paper puts forward reasonable optimization suggestions for the tax reduction and fee reduction policies of small and micro enterprises under the impact of the epidemic, so as to promote the tax reduction and fee reduction work to take root and promote the stable and healthy development of small and micro enterprises.

## Keywords

Tax Reduction and Fee Reduction; Small and Micro Enterprises; High Quality Development.

## 1. Introduction

### 1.1. Research Background and Research Significance

At present, there is downward pressure on China's economic form, and the external economic environment is uncertain. Small and micro enterprises are an important part of the national economic system. However, under the background of the normalization of the epidemic, small and micro enterprises are subject to factors such as small scale, insufficient financial strength, weak anti risk ability, and so on, which will affect them more permanently. Tax reduction and fee reduction are not only conducive to deepening the supply side structural reform, but also conducive to promoting the continuous improvement of the quality of China's economic growth. This can effectively help small and micro enterprises "light up" and promote industrial upgrading.

With the implementation and effectiveness of the structural and inclusive tax and fee reduction policies issued by the state for small and micro enterprises, many small and micro enterprises in China have obtained the conditions for sustainable development under the background of domestic and foreign economic reform, supply side reform and the fight against the epidemic. The effectiveness of the tax reduction and fee reduction policy can directly reduce the tax burden of small and micro enterprises, improve enterprise profits, reduce the survival pressure of small and micro enterprises, and promote the transformation and upgrading of enterprises; On the other hand, it will also help stabilize employment and promote employment. At the same

time, it will increase people's disposable income and consumption dividends by reducing taxes and fees, stimulate market consumption, and then promote national economic growth.

## **1.2. Domestic and Foreign Research Review**

The position of small and micro enterprises in the market has become increasingly prominent and has become a hot topic in recent years. Z. Lei (2021) analyzed the fiscal effect of tax cuts and fee reductions from the perspective of fiscal revenue, fiscal expenditure and fiscal deficit. L. Yang (2021) pointed out that promoting the policy of tax reduction and fee reduction from fragmentation to institutionalization is the key to enabling the long-term high-quality development of small and medium-sized enterprises. Y.X. Zhang (2020) analyzed the positive role of tax reduction and fee reduction policies from the perspective of protecting people's livelihood, promoting the resumption of work and production of enterprises and stimulating market vitality, and pointed out that we must pay attention to the rational application and future development of tax reduction and fee reduction policies. Y.B. Wang (2019) selected the micro data of the "survey of China's small and micro enterprises" as the data source, comprehensively analyzed the impact of the tax reduction and fee reduction policy on the labor productivity of small and micro enterprises, and put forward suggestions to improve the economic effect of the tax reduction and fee reduction policy of small and micro enterprises and promote high-quality economic development from the micro level.

## **1.3. Research Content**

This project takes small and micro enterprises as the research object to analyze the incentive mechanism and its impact of tax reduction and fee reduction policies to promote the high-quality development of small and micro enterprises. The main contents are as follows:

First, comprehensively sort out the preferential tax policies for small and micro enterprises. During the research process of this project, a series of preferential tax policies issued by the government for small and micro enterprises are comprehensively collected, summarized and sorted out through field research and consulting relevant literature.

Second, analyze the mechanism of tax reduction and fee reduction on the high-quality development of small and micro enterprises from the theoretical level. The spread of COVID-19 has had a great impact on the national economy. As an important part of the market economy, small and micro enterprises are subject to factors such as scale and capital, and the impact is more lasting. Firstly, this project analyzes the current situation of tax reduction and fee reduction of small and micro enterprises, and then reflects the current implementation effect of tax reduction and fee reduction in combination with micro data. Finally, it theoretically analyzes the mechanism of tax reduction and fee reduction on the high-quality development of small and micro enterprises.

Third, the incentive effect of tax cuts and fee reductions on small and micro enterprises is empirically tested through actual data. This part analyzes the collected data and empirically tests the incentive effect of tax cuts and fee reductions on small and micro enterprises through micro data.

Fourth, provide optimization suggestions for the tax reduction and fee reduction policies of relevant departments. This project aims at the development status of small and micro enterprises, carries out statistical analysis with actual data, understands the implementation effect of tax reduction and fee reduction policies for small and micro enterprises, and puts forward optimization suggestions in combination with the current tax reduction and fee reduction policies and the characteristics of the times of the development of small and micro enterprises.

## **1.4. Shortcomings of Research and Innovation Points**

In the current research on tax reduction and fee reduction policies for small and micro

enterprises, most of the research literature focuses on the formulation of preferential tax policies, while there is less research and Analysis on the effect of policies. This project systematically combs the tax reduction and fee reduction policies enjoyed by small and micro enterprises, accurately explains the incentive mechanism of tax reduction and fee reduction for small and micro enterprises, analyzes the actual data, discusses the impact of tax reduction and fee reduction on small and micro enterprises, and makes a field investigation at the Tax Bureau to deeply understand the problems existing in the tax reduction and fee reduction policies, and then puts forward tax reduction and fee reduction policy opinions with more reference and practical guiding significance, which is innovative to a certain extent.

In recent years, the state has continued to introduce measures to reduce taxes and fees, so that small and micro enterprises can take the battle light, which has become an important measure to promote supply side structural reform and cultivate new competitive advantages in China. In the current research literature on tax reduction and fee reduction policies of small and micro enterprises, most of the literature focuses on the formulation of preferential tax policies, while the analysis of the incentive effect of tax reduction and fee reduction is relatively small, and some of the research on the incentive effect of tax reduction and fee reduction is also lack of in-depth analysis of examples. Therefore, the research on the incentive effect of tax reduction and fee reduction of small and micro enterprises has certain limitations.

## 2. Analysis on the Policy and Mechanism of Tax Reduction and Fee Reduction

### 2.1. Definition Standards for Small and Micro Enterprises

Small and micro enterprises refer to those small and micro enterprises and family workshop enterprises established with private or personal investment. When the state divides the size of enterprises, it mainly depends on its assets, the number of employees and tax standards. Therefore, it can also be used for small and micro enterprises. The specific contents are shown in Table 1.

**Table 1.** The definition standards for small and micro enterprises

| Form of business enterprise | Industrial enterprise                | Other types of businesses            |
|-----------------------------|--------------------------------------|--------------------------------------|
| general assets              | Less than 30 million yuan            | Less than 10 million dollars         |
| number of employees         | Less than 100 people                 | Less than 80 people                  |
| Tax standards               | Tax payment is less than \$1 million | Tax payment is less than \$1 million |

### 2.2. The Development Characteristics and Functions of Small and Micro Enterprises

First, there are many. According to statistics, the number of small and micro enterprises in China has increased year by year in recent years. With the development of economy and society, the development of small and micro enterprises has also risen.

Second, the enterprise has less self owned funds, small scale and weak ability to resist risks. In this context of social and economic development, the development of small and micro enterprises is facing a great crisis. The introduction of epidemic prevention and control policies has brought great constraints to the development of small and micro enterprises. The socio-economic development situation has been in a continuous downturn during this period, resulting in the lack of vitality of the development of small and micro enterprises, resulting in the closure and shutdown of a large number of small and micro enterprises. Therefore, the ability of small and micro enterprises to resist risks needs to be further strengthened, and the economic and policy support of the state for small and micro enterprises needs to be further

strengthened, so as to promote the healthy and rapid development of small and micro enterprises and inject lasting and fresh vitality into the development of social economy.

Third, small and micro enterprises are mostly concentrated in small processing and manufacturing, retail trade, catering services and other industries, and most of them are labor-intensive enterprises. This feature is mainly related to the fact that small and micro enterprises have less self owned funds and it is difficult to raise funds. Because it is difficult for enterprises to raise funds, the development and production fields of enterprises are mainly concentrated in labor-intensive areas with low development costs, which is conducive to obtaining relatively stable profits and effectively reducing the losses caused by risks.

## **2.3. The Role of Small and Micro Enterprises**

### **2.3.1. The Pillar of Economic Development and Social Stability**

Although small and micro enterprises have difficulties in raising funds, insufficient funds and small development scale, compared with large and medium-sized enterprises, small and micro enterprises can inject fresh blood and strong vitality into China's economic development, thereby driving economic development and social stability.

### **2.3.2. To a Certain Extent, Solve Employment and Improve People's Livelihood**

The severe employment situation is a long-standing problem in the development process of our country. If our economy wants to further develop, we must speed up the solution of the severe employment problem. The development of small and micro enterprises has played a great driving role in China's employment. Due to the large number and wide distribution of small and micro enterprises, and most of them are labor-intensive industries, the development of small and micro enterprises has brought a large number of employment opportunities and jobs to a large part of China, alleviating China's employment problem. It is not only the propeller of economic growth, but also a powerful guarantee for social stability.

### **2.3.3. Promote Scientific and Technological Innovation**

With the continuous development of society, the development field of small and micro enterprises has gradually expanded to various technical products. The research shows that in the past 30 years, the comparative advantages of the private economy represented by resource costs, labor costs and environmental costs have gradually disappeared. Now the social development requires more technological innovation, product innovation, brand innovation and management innovation, which is the inevitable requirement of the private economy on the road to transformation and upgrading. According to the data, more than 60% of China's patent applications, more than 75% of enterprises' technological innovation and more than 80% of new product development come from non-public enterprises, among which a large number of small and micro enterprises with wide distribution contribute. Therefore, driven by social development, no matter in which field, the development of small and micro enterprises is working towards innovative development and high-quality development, which in turn has promoted the innovation of China's social and economic development.

## **2.4. Tax and Fee Reduction-related Policies**

In recent years, against the backdrop of domestic and international economic reforms, domestic supply side structural reforms and the fight against the COVID-19, in order to promote the high-quality development of the domestic economy, help enterprises operate continuously and stimulate the vitality of the domestic market, the state has successively deployed and issued a series of inclusive and structural tax and fee reduction policies, involving large-scale tax and fee reductions, many types of taxes and fees, and a wide range of beneficiaries. According to relevant data, the scale of tax reduction and fee reduction in China from 2016 to 2022 is shown in Table 2.

**Table 2.** China's tax and fee cuts in 2016-2022 (unit: one trillion yuan)

| a particular year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------|------|------|------|------|------|------|------|
| amount of money   | 0.57 | 1.00 | 1.30 | 2.30 | 2.50 | 1.10 | 2.50 |

Among them, small and micro enterprises, as an important part of the normal operation of China's economy and the stable development of society, have been greatly impacted by the complex and volatile foreign economic situation and the continuous COVID-19 in recent years. In order to promote the sustainable development of domestic small and micro enterprises, the state has issued and implemented structural and inclusive tax reduction and fee reduction preferential policies for small and micro enterprises, and expanded the reduction and exemption of value-added tax, income tax and other taxes, We will continue to reduce the tax burden on small and micro enterprises. The specific policies for tax reduction and fee reduction in recent years are as follows.

#### 2.4.1. Policies on VAT Tax and Fee Reduction

**Table 3.** VAT tax reduction and fee reduction related policies

| year    | policy                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| In 2018 | Tax rates on taxable consumption and imported goods were adjusted from 17% and 11% to 16% and 10%, respectively. Structural tax reduction: (1) small-scale taxpayers' monthly sales are exempted from VAT below 100,000 yuan (inclusive); (2) the input tax on acquiring real estate or real estate projects under construction can not be deducted for two years; and (3) the input tax on purchasing domestic passenger transport services can be deducted from the output tax. |
| In 2020 | Small-scale VAT taxpayers with monthly sales of less than 100,000 yuan (quarterly tax, quarterly sales of less than 300,000 yuan) will be exempted from VAT.                                                                                                                                                                                                                                                                                                                      |
| In 2021 | Taxpayers of small and micro enterprises with monthly sales less than 150,000 yuan (more than 450,000 yuan) will be exempted from VAT.                                                                                                                                                                                                                                                                                                                                            |
| In 2022 | Announcement of the State Administration of Taxation No.15 of 2022, from the beginning of April this year to the end of the year, small-scale taxpayers have VAT taxable behavior, their taxable income was originally applicable to the 3% levy rate; the Prepaid VAT items originally applied to the 3% advance levy rate are suspended.                                                                                                                                        |

#### 2.4.2. Corporate Income Tax, Tax and Fee Reduction Related Policies

**Table 4.** Policies related to corporate income tax reduction and fee reduction

| year    | policy                                                                                                                                                                                                                                                                              |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| In 2020 | For the part of the annual taxable income amount that does not exceed 1 million yuan, the collection rate of enterprise income tax is 5%; for the annual taxable income amount of 1 million to 3 million yuan, the collection rate of enterprise income tax is 10%;                 |
| In 2021 | For small and micro enterprises whose annual enterprise income tax is less than 1 million yuan, the enterprise income tax will be halved to 25% on the original 5%; for the annual enterprise taxable income tax of 1-3 million yuan, the actual income tax will be reduced to 10%. |
| In 2022 | The annual taxable income amount of a small and small-profit enterprise of RMB 1-3 million yuan shall be reduced by 25% and included in the taxable income amount, and the enterprise income tax shall be paid at the rate of 20%.                                                  |

#### 2.4.3. Other Tax Reduction and Fee Reduction Policies

In 2020, taxpayers' income from transporting epidemic prevention and control materials will be exempted from value-added tax. Taxpayers' income from providing public transportation, living services and express delivery services of residents' necessary living supplies is exempt from value-added tax.

In February 2022, the state issued a notice to expand the scope of application of the "six taxes and two fees" policy from small-scale VAT taxpayers to small low profit enterprises. On March 1, the Ministry of Finance and the State Administration of Taxation issued an announcement,



which clearly pointed out that the implementation period of the "six taxes and two fees" reduction policy will be extended to December 31, 2024, and the beneficiaries will be expanded from the original small-scale VAT taxpayers to small low profit enterprises.

## **2.5. Function Mechanism of Tax and Fee Reduction Policies**

### **2.5.1. At the National Level**

First, by reducing taxes and fees on a larger scale, we can attract more foreign funds and domestic private funds to invest in the real economy through various channels, thus stimulating the vitality of a new round of economic growth in China, defusing the downward pressure on the economy, and realizing the transformation of China's economy from a high-speed growth mode to a high-quality development mode, which is conducive to the continuous, stable and healthy operation and development of the entire national economy.

Second, the implementation of a larger scale of tax cuts and fee reductions can effectively alleviate the problem of difficult and expensive financing for enterprises, help solve the current operational difficulties of many domestic enterprises, and make a large number of enterprises rejuvenate. Through a new round of innovation and reform, a large number of excellent enterprises will develop rapidly in the new round of strategic opportunities for China's economic development, and create more excellent Chinese brand companies, So as to increase China's export share in the international market and further enhance China's influence in the world.

Third, the implementation of larger-scale tax cuts and fee reductions will substantially improve the actual income level of the people, thereby improving the consumption capacity of the whole people and further improving and improving the quality of life of the people. It promotes the improvement of national consumption level, which in turn can further promote the vitality of production enterprises in the upper reaches of the entire industrial chain of China's economy, revitalize the entire market, and form a virtuous circle of the economy, which is conducive to greatly improving the employment rate of the people and truly implementing the employment priority policy.

### **2.5.2. From the Collective Level**

First, the implementation of larger tax cuts and fee reductions is conducive to accelerating the reform of state-owned enterprises and central enterprises and enhancing the vitality of state-owned enterprises. China has a large number of powerful state-owned enterprises and central enterprises, which are the backbone of the national economy and the backbone of China's industrial infrastructure exports. Through the promotion of the the Belt and Road policy, the main businesses of China's state-owned enterprises and central enterprises will further radiate from home to the world, which will further improve the net profit income level of the entire state-owned enterprises and central enterprise industrial clusters.

Second, the implementation of more large-scale tax cuts and fee reductions can greatly alleviate the operating costs of private enterprises and enhance the operational vitality of private enterprises. Private enterprises are the main force in China's current population employment market. A larger scale of tax reduction and fee reduction is a substantial benefit for private enterprises. For some private enterprises that are still in a state of loss, this policy can turn losses into profits from 2019. By seizing this new round of important strategic opportunities for China's economic development, a large number of excellent private enterprises and excellent private entrepreneurs will emerge in China.

Third, the implementation of larger tax cuts and fee reductions is undoubtedly a great benefit to enterprises in emerging industrial clusters such as scientific and technological innovation, such as artificial intelligence, big data, cloud computing, cultural creativity and so on. In 2019, the science and Innovation Board was launched. These science and innovation enterprises can

not only be listed on the science and innovation board for financing, but also have the assistance of large-scale tax reduction and fee reduction policies, which will set off a new wave of scientific and technological innovation in China and lead a new era of scientific and technological innovation in the world.

### **2.5.3. From a Personal Level**

First, the implementation of a larger scale of tax reduction and fee reduction, coupled with the release of the Interim Measures for special additional deductions of personal income tax, is the most direct manifestation of the reduction of tax payment and the increase of residents' income, so that the broad masses of people can have a real sense of gain.

Second, the implementation of a larger scale of tax cuts and fee reductions will significantly improve the per capita real income level. The implementation of this policy will further promote people's consumption level, improve and improve people's living standards, and improve people's happiness index.

Third, the implementation of more large-scale tax cuts and fee reductions is a group of substantial benefits for a large number of listed companies. The implementation of larger tax cuts and fee reductions will help China's capital market, especially the A-share market, regain its vitality and usher in a new round of rare once-in-a-decade major strategic opportunity. This will be a historic new opportunity for individuals with idle funds to realize the explosive growth of personal wealth.

## **3. Analysis of the Effect of Tax Reduction and Fee Reduction Policies on Small and Micro Enterprises**

With the implementation and effectiveness of the structural and inclusive tax and fee reduction policies issued by the state for small and micro enterprises, many small and micro enterprises in China have obtained the conditions for sustainable development under the background of domestic and foreign economic reform, supply side reform and the fight against the epidemic. The effectiveness of the tax reduction and fee reduction policy can directly reduce the tax burden of small and micro enterprises, improve enterprise profits, reduce the survival pressure of small and micro enterprises, and promote the transformation and upgrading of enterprises; On the other hand, it will also help stabilize employment and promote employment. At the same time, it will increase people's disposable income and consumption dividends by reducing taxes and fees, stimulate market consumption, and then promote national economic growth. The implementation of the tax reduction and fee reduction policy has brought a series of positive economic effects to small and micro enterprises.

### **3.1. Tax and Fee Reduction Policies Will Effectively Reduce the Tax Burden on Small and Micro Businesses**

On the one hand, since 2017, the state has issued a series of tax reduction and fee reduction policies, and expanded the scope of various tax policies year by year according to the national conditions. The tax reduction policies involve all links such as production, transportation and sales, affect the cost of goods and services in all links, reduce the operating costs of small and micro enterprises, improve the operating profits of small and micro enterprises, and stimulate the economic vitality of small and micro enterprises.

On the other hand, we can reduce the tax burden by reducing the tax rate. The announcement issued by the Ministry of Finance and the State Administration of Taxation in March 2022 showed that small and micro enterprises also apply the "six taxes and two fees" reduction within the 50% tax range; In addition, the new combined tax support policy released in 2022 points out that all qualified small and micro enterprises are allowed to refund the stock tax at one time, and the proportion of incremental tax refund is increased to full refund, which enables

most small and micro enterprises to reduce taxes and fees, and the consumers of the actual tax bearers also reduce the tax burden.

### **3.2. Tax and Fee Reduction Policies Will Promote the Transformation and Upgrading of Small and Micro Businesses**

The preferential policies of tax reduction and fee reduction can promote the transformation and upgrading of small and micro enterprises. On the one hand, the preferential policies of tax reduction and fee reduction related to scientific and technological innovation issued by the state can promote enterprises to increase R & D investment, so as to improve the transformation and upgrading ability of enterprises. In 2021, in order to support the scientific and technological innovation of small and micro enterprises, the state issued the policy of enterprises enjoying the plus deduction of R & D expenses in the first three quarters in advance, and the deduction proportion of manufacturing companies increased to 100%. According to statistical data, the amount of plus deduction enjoyed by enterprises across the country in advance was as high as 1.3 trillion yuan, and the tax deduction and exemption was as high as 333.3 billion yuan, so that enterprises can enjoy more tax policy dividends in advance, reduce the cost of scientific and technological research and development, and improve the enthusiasm of enterprise innovation, Improve the ability of enterprise transformation and upgrading. On the other hand, after the tax reduction and fee reduction policy reduced the production costs of enterprises, enterprises in the same industrial chain negotiated with each other, the upstream enterprises reduced the prices of raw materials, and the downstream enterprises then introduced cheaper product prices. Finally, the prices of the whole industrial chain were lowered, while the sales volume was high, and the enterprises in the industrial chain jointly improved their competitive advantages and expanded their market share. In addition, the cash flow of enterprises with increased tax incentives will be used to expand the re operation of enterprises and promote the transformation and upgrading of enterprises.

### **3.3. Tax and Fee Reduction Policies Will Help Small and Micro Businesses Stabilize Employment and Promote Employment**

Small and micro enterprises are one of the main supports to stabilize employment and promote employment. The tax reduction and fee reduction policy can reduce the tax burden of enterprises, so as to enhance the confidence of enterprise development, improve the operation of enterprises and improve the ability of sustainable operation of enterprises, so as to ensure the stable employment of enterprise employees. In addition, from a long-term perspective, the tax reduction and fee reduction policies reduce the operating costs of enterprises and promote enterprises to have more surplus assets. On the one hand, enterprises expand reproduction, thereby increasing the number of jobs and employment; On the other hand, enterprises' investment in employee recruitment and training will also drive employment and improve business literacy. At the same time, in order to maintain the sustainable operation of small and micro enterprises and encourage small and micro enterprises to start businesses, the policy of reducing fees and taxes is in line with the national call for "mass entrepreneurship and innovation". Many excellent potential entrepreneurs are easier to take action under preferential policies. The increase in the number of entrepreneurs will provide more jobs for the society at the same time, thereby promoting the prosperity of the labor market.

### **3.4. Tax and Fee Reduction Policies to Promote National Economic Growth**

The tax reduction and fee reduction policy has a certain guiding effect on economic development. Reducing taxes and fees will drive the reduction of commodity prices, thereby effectively reducing the operating costs of small and micro enterprises and improving operating income and profits. In addition, reducing taxes and fees will also increase the after tax income of workers, thereby increasing the disposable income of residents, increasing people's



enthusiasm and ability to consume, and play a certain role in stimulating domestic consumption. In 2019, in addition to the good sales of social consumer goods, the outbreak of the COVID-19 in mid December 2019, many enterprises stopped production and business, and the national home was isolated, resulting in a sharp downward trend in consumption indicators such as the total amount of social consumer goods at the beginning of 2020, with negative year-on-year growth. This year, many small and micro enterprises were on the verge of bankruptcy or had declared bankruptcy due to shutdown, But at the same time, in order to maintain the survival deployment of enterprises, especially small and micro enterprises, the state has implemented a series of tax reduction and fee reduction policies in the context of the fight against the new crown. At the same time, with the major successful breakthrough in the fight against the epidemic in one year, the national consumption situation increased significantly in 2021. In 2021 and 2022, the tax bureau of the Ministry of finance also continued to issue a series of targeted tax reduction and fee reduction policies. According to the data, the national consumption situation remained in an increasing state at the beginning of 2022, The implementation of the policy of tax reduction and fee reduction reduces the tax burden and operating pressure of many enterprises, maintains the sustainable operation of small and micro enterprises, and improves people's disposable income, thus activating the market, promoting consumption, and stimulating the multiplier effect of national economic growth. In addition, the tax reduction and fee reduction policy can promote small and micro enterprises to reform their internal control management, reduce the impact of enterprise operating costs on enterprise investment and financing, stimulate consumption and then drive economic growth, so as to provide impetus for the long-term growth of regional economy.

#### **4. Deficiencies in the Implementation of Tax Reduction and Fee Reduction Policies for Small and Micro Enterprises**

In recent years, on the whole, the implementation of tax reduction and fee reduction is good, and the effect of the policy is increasing year by year, but the economic effect of each small and micro enterprise is not ideal. Due to their weak profitability, small and micro enterprises are facing huge problems in development, such as financing difficulties, frequent short-term capital problems, and excessive tax burden, which are the fundamental reasons for their inability to maintain normal operations. As a result, the average life cycle of small and micro enterprises is only 4.13 years, and the proportion of small and micro enterprises that survive for less than 3 years is close to 50%. In order to better implement the policy of tax reduction and fee reduction for small and micro enterprises and clarify the deficiencies of the current tax reduction and fee reduction for small and micro enterprises, it is mainly summarized in the following aspects.

##### **4.1. Frequent Changes in Tax and Fee Reduction Policies Lead to Worse Stability**

Although many tax reduction policies have been introduced at present, due to their frequent changes, there are many taxes involved, and the situation is more complex. From the beginning of 2019 to the end of 2021, the threshold and standard of small-scale taxpayers have changed three times, and the enterprise income tax standard has been expanded four times. From this, it can be seen that the national preferential policies and scope for small and micro enterprises are moving towards a good situation. However, due to the lack of long-term stability of the policy, the relevant tax authorities will have a series of difficulties in policy implementation and enterprise tax declaration. From the perspective of policy makers, the continuous change of policies is to comprehensively cover the benefit coverage of small and micro enterprises, which just shows that the formulation of policies lacks long-term overall planning. Uncertainty is the characteristic of policy. The shortcomings of policy can be improved by law. If possible, policies should be formulated into specific laws as far as possible.

#### **4.2. The Coverage of Policy Universality is Relatively Narrow and Not Comprehensive and Thorough Enough**

The tax reduction and fee reduction has been changed from preferential to inclusive tax preference. At the same time, the inclusive coverage of the policy is not comprehensive enough. It can be seen from the provisions of the relevant policies that small and micro enterprises do not restrict the registration type of taxpayers. The preferential policy is that taxpayers actively enjoy when filling out the enterprise income tax form, and whether the judgment meets the standards of small and micro enterprises, There are a class of enterprises (individual industrial and commercial households, wholly-owned enterprises, partnerships) that cannot enjoy the reduction or exemption of small and micro enterprises when filling in and reporting the personal income tax for business operation. The preferential policies in line with the general taxpayer are mainly to reduce taxes and fees in the process of operation, while the scope of tax reduction and fee reduction for small-scale taxpayers and small and micro enterprises is more generally benefited.

#### **4.3. Tax and Fee Reduction Policies are not Innovative Enough**

At present, the most needed tax relief for enterprises is the innovation and entrepreneurship relief. Most enterprises face the problem of lack of working capital in the early stage of entrepreneurship. Although some existing policies can alleviate some problems, there are still shortcomings of insufficient innovation drive to fundamentally solve these problems, and some policies need to be optimized and improved. In terms of innovation, compared with large and medium-sized enterprises, small and micro enterprises are rarely engaged in large-scale R & D, and their R & D level is low, so they lack innovation power, which affects their rapid development.

#### **4.4. Poor Communication in Policy Implementation**

The policy of tax reduction and fee reduction is mainly implemented by subordinate business departments, and the coordination of policy implementation among organizations is insufficient, lacking a certain degree of integrity. The problem of poor communication mainly lies in the relationship between executive organizations and between executive organizations and small and micro enterprises. The different perceptions of the implementing agencies on the tax reduction and fee reduction policies lead to different priorities of the organizational work and different promotion directions. As the tax reduction and fee reduction policies of small and micro enterprises involve more taxes, and due to the reasons of the executives, good communication channels have been established, resulting in less communication between organizations during the implementation of the policy; At the same time, the tax reduction and fee reduction of small and micro enterprises are also affected by subjective factors, such as personal will, which leads to the differentiated effect of tax reduction and fee reduction.

#### **4.5. Tax Collection and Administration Measures are Not in Place**

Because the tax process is not simplified enough, enterprises need to spend more costs, affecting the operating costs of enterprises. Although a series of convenience policies have been issued, and although the tax procedures have been simplified to a certain extent, the overall effect is still not ideal, and it is difficult to meet the needs of taxpayers. These problems are mainly reflected in the following aspects: first, the policies have not been implemented in place, and the procedures for taxpayers to handle tax matters are cumbersome, with multiple windows running repeatedly; Secondly, China's tax administration law stipulates that enterprises, even if they have no business income, should also make a "zero" tax declaration, including small and micro enterprises, which should also go to the tax department to declare the recognized tax. Although taxpayers do not have to pay taxes, they pay the time cost. Finally, the online tax system launched by the tax department has unreasonable problems. For

taxpayers who are not familiar with the Internet, they will have some trouble in paying taxes and cannot use a convenient way to declare tax.

The publicity of tax reduction and fee reduction policies is not in place. Enterprises are not flexible enough in the application of tax reduction and fee reduction policies. The main reason is that the publicity is not in place and the intensity is not wide enough. Only a small number of enterprises are well aware of the tax reduction and fee reduction policies. Small and micro enterprises are at a disadvantage in their ability to obtain information. Some preferential policies issued by the government can not be learned in time. In this regard, large enterprises pay high attention.

#### **4.6. Taxpayers' Sense of Gain is not Obvious**

The sense of gain cannot be judged only by the data measured by the tax department. The lack of an obvious sense of gain will lead to the inconsistency between the behavior of taxpayers and the purpose of the policy, and then affect the implementation effect of the tax reduction and fee reduction policy, so that it can not achieve the desired effect. By comparison, it is found that large and medium-sized enterprises enjoy less preferential policies, and it is difficult for them to obtain the optimal tax reduction effect in line with the enterprises themselves. At the same time, these enterprises are the main contributors to the national tax revenue and the main driving force to promote economic development. There is a large gap between them and the tax preferences they enjoy, and the sense of acquisition of enterprises is not strong; There are also some enterprises that have problems due to their own business problems. Their influence ability in the process of operation is limited. The scale of enterprises is small, and the proportion of tax burden is relatively small. Such enterprises also do not feel much preference.

### **5. Suggestions on Improving Tax Reduction and Fee Reduction Policies for Small and Micro Enterprises**

After talking about the deficiencies in the implementation of the tax reduction and fee reduction policies for small and micro enterprises, we can see that today's tax reduction and fee reduction policies for small and micro enterprises are facing enormous challenges in both domestic and foreign environments. Therefore, government departments should give full play to the positive role of fiscal policy, calmly analyze and deal with the problems they face, and actively find the right ways to solve the problems. The following suggestions are put forward to improve the tax reduction and fee reduction policies for small and micro enterprises.

#### **5.1. Policy Making**

##### **5.1.1. Subject is More Targeted**

We know that the main body of the tax reduction and fee reduction policies for small and micro enterprises is undoubtedly small and micro enterprises, but from a deeper perspective, small and micro enterprises are also divided into small and micro enterprises at different levels, for example, the development level of small and micro enterprises in various regions is not the same; For another example, small and micro enterprises in different industries have different degrees of development and contribution to society. Therefore, when formulating the tax reduction and fee reduction policies for small and micro enterprises, we should fully consider the different development conditions of small and micro enterprises and their different contributions to national development. On this basis, we should improve the tax reduction and fee reduction policies for small and micro enterprises, formulate the stepped tax reduction and fee reduction policies for small and micro enterprises, and improve the tax reduction and fee reduction policies for small and micro enterprises.

### **5.1.2. Increase Tax and Fee Cuts for Small and Micro Businesses**

In today's epidemic environment, the development of small and micro enterprises is facing severe challenges. Research shows that during the epidemic period, nearly 90% of companies faced huge development problems, mainly including labor shortage, cash flow shortage, raw material shortage and other problems, and the situation was severe.

Under the impact of the epidemic, more than 40% of the companies have the problem of raw material shortage. Due to the restrictions on transportation, production and other aspects, the raw materials of the company have major problems in the source and transportation. Therefore, many enterprises are facing the problem of raw material shortage, and the production has also been impacted.

In the stage of epidemic prevention and control, many companies and small and micro enterprises have problems in the performance of contracts, due to the first few reasons. As a result, the development and production of the enterprise are insufficient, and the development of the enterprise is almost stagnant, resulting in great problems in the performance of contracts signed with other companies.

In addition to the above-mentioned difficulties, enterprises are also facing pressure from other aspects during the epidemic prevention and control period, with reduced demand for enterprises' products and insufficient market development vitality; There is also a shortage of prevention and control goods in enterprises. According to the survey, about 49% of enterprises face the problem of insufficient demand; 21.8% of the companies have the problem of insufficient epidemic prevention and control materials. Have brought severe challenges to the development and production of enterprises.

In view of the above serious challenges faced by the development of enterprises during the epidemic, in the formulation of tax reduction and fee reduction policies for small and micro enterprises, we should fully consider increasing the tax reduction and fee reduction efforts of small and micro enterprises, reducing the tax burden of small and micro enterprises during the epidemic, injecting development vitality into small and micro enterprises, and fully driving the steady and healthy development of small and micro enterprises.

### **5.1.3. We will Generally Maintain the Smooth Operation of the Tax and Fee Reduction System and Enhance its Long-Term Effectiveness**

The premise for the policy to play an effective role is that the policy can exist for a long time and has a stable mechanism to play a role. Therefore, in the process of formulating the tax reduction and fee reduction policy, we should make corresponding adjustments according to social changes and economic development on the premise that the overall goal and planning remain stable, and seek development in the process of policy improvement to enhance its long-term effectiveness. We should pursue progress in stability and make progress in stability. At the same time, we should also give full play to the role of other government mechanisms, strengthen the coordination and cooperation between various mechanisms, and ensure that the tax reduction and fee reduction measures for small and micro enterprises are given the best play.

## **5.2. Policy Implementation**

### **5.2.1. Encourage Enterprises to Strengthen Technological Innovation**

The innovation of science and technology is the core competitiveness of an enterprise. Therefore, under the impact of the epidemic, we should strengthen the tax reduction and fee reduction of enterprises and give enterprises the impetus to develop under great pressure. However, if enterprises want to truly achieve long-term and healthy development, they should not only rely on the system preferences given by the state, but also create their own vitality of development, that is, strengthen their own innovation ability, To improve the core

competitiveness of enterprises. The tax reduction and fee reduction policy should encourage enterprises to leave the development space and opportunities given by the policy to support their own scientific and technological innovation. Only by transferring the development preferences given by national policies to improve their internal capabilities can enterprises achieve sustainable development.

### **5.2.2. Standardize the Implementation of Policies and Strengthen Tax Collection and Administration**

There are still some problems in the implementation of the current tax reduction and fee reduction policy for small and micro enterprises in China, such as the specific standards for tax reduction and fee reduction are not popularized in place, which has not attracted sufficient attention and attention of small and micro enterprises; The numerous and complicated tax items have brought great challenges to China's tax work. In this regard, China's tax reduction and fee reduction policies should be widely paid attention to, strengthen the publicity of the policies and the degree of standardization in the implementation process, and enhance the recognition of small and micro enterprises to the tax reduction and fee reduction policies; At the same time, in view of the pressure brought about by the complex tax items and various management problems encountered in the collection process, we should innovate the way of tax collection and management, introduce advanced tax collection and management technology in today's information age, and move towards modernization and technicalization of tax collection and management; At the same time, standardize the tax collection process in the implementation of the tax reduction and fee reduction policy for small and micro enterprises, and promote the implementation of the policy in the direction of standardization and procedure.

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