

Empirical Evidence on Explicit and Implicit Corporate Tax Burdens for Public Listed Companies in the People's Republic of China

Submitted by Jifeng Cao to the University of Exeter as a thesis for the degree of
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Abstract

This thesis seeks to contribute to the Chinese taxation literature by researching effective tax rate (ETR), marginal tax rate (MTR) and implicit tax in particular. These areas have been addressed for a number of years within the developed market context, whereas the same research for companies in developing countries is largely non-existent in Western literature.

The first topic is the ETR and MTR analysis. The ETR analysis offers an overview of the actual tax burden for listed companies in the People's Republic of China (PRC), together with the Statutory Tax Rate (STR) analysis, which incorporates the tax structure aspect of tax preferences from 1994 to 2006. In 2002, the State Council stopped unauthorised corporate tax rebate from local government and 2002 became a breaking point of the corporate tax analysis. The ETR and STR analyses reveal that companies benefitted widely from tax preferences before 2002 regardless of their industry or region. However, after 2002, the ETRs increased significantly overall and the industrial and regional ETR differences are much more significant. The tax preferential industries and regions' companies are still in the lower ETR and STR range, but the non-tax preferential companies' ETRs and STR increased significantly after 2002. This evidences the effectiveness of Chinese tax preference policies. The MTR estimations are the first Chinese company specific MTR estimations. The MTRs were estimated from 1995 to 2002 and the MTRs results are generally consistent with ETR results, except that the MTR estimations jointly depend on the company Net Operating Loss (NOL) occurrences, income and STR.

The second topic is the determinants of ETR. An alternative view of ETR determinants is proposed. It incorporates the accounting-tax conformity theory and identifies a tax rate preference as the new ETR determinant variable to fit the Chinese taxation context. Five explanatory variables are hypothesized in associating company characteristics after controlling the company location, industry and sample period

dummy variables. These explanatory variables are tax rate preference, non-operating expenses, investment gain, provision for impairment and government ownership. The ETR determinants model is also examined by OLS regression (cross-sectional), and fixed-effects and random effects regression (panel data analysis). The results show that all of the explanatory variables are statistically significant coefficients with expected signs. The results also demonstrate that the proposed ETR determinant model is superior to previous determinant models.

The third topic is implicit tax research. The results are evidence of the existence of implicit tax at the corporate level. The relationships between the company Pre-tax Return of Equity (PTROE) and tax preference variables and other control variables are also examined. The results demonstrate that there is a negative relationship between PTROE and tax rate preference when considering the companies aggregately in a large scale; and there is a positive relationship between PTROE and income related tax preference when considering the companies individually. The contradictory results indicate that in reality, the imperfect market conditions impede the realisation of implicit tax at the individual company level.

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