

Study on the influence of preferential tax policies on the financial performance of small and medium-sized ceramic enterprises in Jingdezhen

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Abstract

In recent years, small and medium-sized enterprises (SMEs) have played a vital role in the rapid development of China's economy, significantly contributing to economic growth, employment, and innovative development. In response to the financial challenges faced by SMEs, the government has implemented a series of preferential tax policies aimed at promoting their development. Jingdezhen, a city renowned for its historical significance in the ceramic industry, prioritizes the growth of small and medium-sized ceramic enterprises. However, the impact of these preferential tax policies on the financial performance of small and medium-sized ceramic enterprises in Jingdezhen remains to be explored. This paper addresses this critical issue by analyzing the influence and mechanisms through which preferential tax policies affect the financially healthy development strategies of Jingdezhen's ceramics sector. Grounded in demand management theory, tax incentive theory, and the optimal tax system, this research employs statistical analysis to examine the implementation of tax preferential policies for SMEs. It finds that tax reductions in Jingdezhen have significantly decreased operating costs for enterprises, fostered innovation in research and development, optimized the business environment, and contributed to stable growth in the scale of market participants. This study identifies several issues in the process of municipal tax reduction and fee reduction in Jingdezhen, including the need for further optimization of tax reduction and fee reduction policies, inadequate implementation by tax authorities, and insufficient understanding of these policies among taxpayers. To address these challenges, this paper proposes enhancements to the overarching design of tax reduction and fee reduction policies, aims to elevate the legal framework governing tax incentives, and advocates for a coherent and continuous policy system. Furthermore, it emphasizes the importance of synchronizing the implementation of tax reduction and fee reduction policies, improving the information management and collection processes, establishing a new collection and management framework, strengthening policy outreach, and optimizing tax service delivery.

Keywords : small and medium-sized enterprises; ceramics; tax incentives; financial performance

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The influence mechanism of preferential tax policies on the financial performance of smes

Preferential tax policies refer to national tax measures, such as exemptions and tax rebates, that are targeted at specific industries, enterprises, or individuals. In the context of small and medium-sized enterprises (SMEs), these policies are widely implemented to foster development and innovation. The mechanisms through which preferential tax policies influence the financial situation of SMEs primarily include both positive and potential negative impacts. The positive effects of these policies can alleviate the financial burden on SMEs, enhance the financing environment, and strengthen their growth potential. Specifically, preferential tax policies can improve the financial performance of enterprises by lowering their overall tax obligations, thereby increasing cash flow and capacity for investment and financing. For instance, a reduction in income tax can lead to significant improvements in short-term financial performance, while a decrease in turnover tax can positively affect long-term financial outcomes. This differential impact indicates that while immediate tax reductions can rapidly enhance cash flow, sustained growth and innovative investments may require long-term tax strategies. The effects of tax reduction policies can vary significantly based on the ownership structure of enterprises. Non-state-owned enterprises (NSMEs) tend to benefit more positively from tax cuts compared to state-owned enterprises. This disparity is influenced by the social status of these enterprises, which impacts their utilization of tax benefits to enhance their financial standing. Consequently, targeted tax policies that address the specific challenges faced by NSMEs may yield particularly advantageous outcomes. Beyond direct economic benefits, tax incentives can also stimulate research and development (R&D) and investment in small and medium-sized enterprises (SMEs). Specifically designed tax incentives for R&D can greatly encourage SMEs to increase their R&D expenditures, which is vital for fostering innovation and maintaining market competitiveness. In summary, preferential tax

policies can significantly enhance the financial profiles of SMEs by improving profitability, promoting R&D investment, and encouraging a focus on operational growth rather than financialization.

Analysis of the implementation of preferential tax policies and the problems of small and medium-sized ceramic enterprises in Jingdezhen

Preferential tax policy serves as a crucial tool for the government to stimulate enterprise development and promote economic growth through tax relief and refunds. In Jingdezhen, the implementation of preferential tax policies has been extensively applied and advocated for small and medium-sized ceramic enterprises.

Implementation analysis

1. Publicity and implementation of tax policies

The Jingdezhen municipal government, in collaboration with the finance and taxation departments, actively promotes tax preferential policies through various media, including the official website, WeChat public account, television, telephone, and newspapers. This initiative aims to address questions and concerns in real time, thereby fostering an atmosphere of publicity and public engagement. During the National Tax Publicity Month in April 2024, the finance and tax departments of Jingdezhen city enhanced communication with tax enterprises by establishing a tax volunteer service team that provided personalized services for ceramic enterprises. Furthermore, the Municipal Industry and Information Technology Bureau conducted an online questionnaire survey among ceramic enterprises to raise awareness of these policies. The municipal finance and tax departments have also organized multiple enterprise symposiums, implemented 'one-to-one' policy publicity, and offered individualized tax guidance to leading enterprises with significant production scales and aspirations to go public.

2. Tax services and enterprise development

Preferential tax policies can enhance the profitability of enterprises and improve their financing capabilities and confidence by alleviating the burden of corporate income tax and value-added tax. The tax department offers comprehensive tax services to enterprises, assisting them in understanding and accessing various preferential tax policies in a timely manner. Additionally, it provides cross-border tax guidance for the Jingdezhen ceramic industry, thereby supporting cross-border ceramic enterprises. Small and medium-sized ceramic enterprises in Jingdezhen face numerous challenges in financing, including low credit ratings, high risks, and elevated financing costs. By leveraging preferential tax policies, these SMEs can lower their financing costs, bolster their financing capacity and confidence, and attract increased investment and capital.

3. Cost management and accounting information problems

Many ceramic enterprises exhibit a weak awareness of cost management, resulting in incomplete cost accounting data, an inadequate cost management system, and unreliable accounting information. Typically, small and medium-sized enterprises do not employ professional accountants, leading to low levels of financial processing. According to the announcement from the Ministry of Finance and the administration of taxation, small-scale taxpayers are subject to a VAT rate of 3% on taxable sales revenue, with a deduction of 1% VAT (effective until December 31, 2027). Additionally, they benefit from a 50% tax reduction on other additional taxes, local taxes, and fees, which diminishes the incentive for small-scale taxpayers to register as general taxpayers and enjoy the advantages of a simplified tax regime.

Analysis of the implementation problems of small and medium-sized ceramic enterprises in Jingdezhen

1.Reduce government fiscal revenue

The implementation of preferential tax policies can alleviate the tax burden on small and medium-sized enterprises, thereby reducing government fiscal revenue. Government fiscal revenue is a crucial source for ensuring the functioning of the government and funding social welfare expenditures. Consequently, the implementation of preferential tax policies must carefully consider both the advantages and disadvantages to ensure that the government's fiscal operations are not excessively impacted. If these policies result in a significant decline in fiscal revenue, the government may need to address the resulting fiscal gap through alternative measures, such as reducing social welfare spending or increasing fiscal outlays.

2.Market bargaining power is not strong

Many small and medium-sized ceramic enterprises possess limited bargaining power, which allows upstream and downstream firms with stronger bargaining positions to easily appropriate the benefits generated by tax reductions. This dynamic results in diminished motivation and reduced autonomy for these enterprises when it comes to opting for straightforward collection methods.

3.Weak awareness of cost management ability

Many ceramic enterprises exhibit a weak awareness of cost management, resulting in incomplete cost accounting data and an unsound cost management system. Consequently, the reliability of accounting information is compromised. Small and medium-sized enterprises, in particular, often do not employ professional accountants, leading to a low level of financial processing.

Suggestions for promoting the development of smalland medium-sized ceramic enterprises in Jingdezhenunder the preferential tax policies

Tax preferential policies significantly influence the financial circumstances of small and medium-sized enterprises (SMEs). To ensure their sustainable development, SMEs should formulate appropriate strategies aimed at promoting financial health.

Strengthen the policy publicity and guidance, and improve the tax management ability

A variety of publicity methods, including the official website, WeChat public account, television, telephone, and newspapers, are employed to vigorously promote tax preferential policies. This ensures that enterprises can promptly understand and benefit from various preferential policies. Precise guidance is provided to enterprises in collaboration with the government to enhance investment attraction efforts, particularly in promoting and implementing policies related to foreign investment in ceramic enterprises. Additionally, management practices are standardized to maximize the effectiveness of a comprehensive information exchange platform. This platform facilitates information comparison, enables a better understanding of the actual production situation of industry taxpayers, and addresses gaps in tax collection and management.

Docking incentive policies and innovate tax service methods

We vigorously cultivate leading ceramic enterprises by supporting the establishment of funding initiatives aimed at rewarding and nurturing their growth. Concurrently, we actively assist small and medium-sized ceramic enterprises by formulating preferential policies that combine support for individual enterprises with regulations for small enterprises. This approach aims to create a hierarchical cultivation system encompassing individual industrial and commercial households, small and micro enterprises, as well as larger enterprises. We provide 'all-weather and seamless' services, facilitating online processing of tax-related matters, enabling self-management of routine issues, expediting the handling of tax-related transactions, and simplifying the process for tax incentives. These efforts are designed to enhance taxpayers' experience with convenient tax handling, ultimately achieving the objectives of cost reduction, an improved environment, and strengthened internal operations.

Characteristic development strategy, diversification strategy

Building upon the existing Jingdezhen Ceramic Industrial Park, this initiative aims to integrate ceramic industry resources, emphasize professionalism, and establish a nationally recognized ceramic industry park. The strategy includes the targeted introduction of high-end domestic and foreign ceramic enterprises through sole proprietorship or partnerships, as well as the promotion of various forms of ceramic industry technology alliances. Leveraging the brand appeal of 'Jingdezhen,' the plan seeks to create a Jingdezhen brand listed company through mergers and acquisitions. Concurrently, it will support local enterprises, particularly the Jingdezhen Ceramic Corporation, in consolidating their efforts to foster the development of the Jingdezhen Ceramic Enterprise Alliance. This approach aims to continually enhance the brand value and influence of Jingdezhen ceramics, shifting the business paradigm from 'selling products' to 'selling brand,' 'selling concepts,' and 'selling culture.' By positioning the brand at the forefront of marketing, the initiative aspires to attract a larger consumer base through the allure of the Jingdezhen brand.

Strengthen risk management and fund management

To mitigate financial risks and ensure the financial security of enterprises, it is imperative to strengthen both risk management and fund management practices. Enterprises should establish a comprehensive risk management system alongside an effective fund management system, implementing scientific and efficient measures in both areas. In terms of risk management, it is essential to proactively predict and respond to market risks, credit risks, and other potential threats. Various risk management tools, such as insurance and futures contracts, should be utilized to mitigate risks and minimize losses. Furthermore, a robust internal control mechanism must be established, which includes enhancing internal audit processes and supervision to improve the enterprise's ability to identify and respond to risks. Regarding fund management, a scientific fund management system should be instituted to facilitate the rational allocation and effective utilization of financial resources. This can be achieved through the establishment of a capital budget, which will strengthen capital supervision and control, thereby enhancing the enterprise's capital management capabilities. Additionally, fostering cooperation and communication with financial institutions is crucial for securing increased financing support and improving the overall financing capacity of enterprises. Moreover, small and medium-sized enterprises (SMEs) should also focus on enhancing their internal management and organizational coordination to bolster financial transparency and integrity. Establishing a sound financial system and internal control framework is vital, alongside conducting timely financial analyses and evaluations to identify potential financial risks, enabling the implementation of prompt measures to avert such risks.

Strengthening the construction of talents

To strengthen the construction of talent team is a necessary condition to realize the sustainable development of enterprises. Small and medium-sized enterprises should pay attention to talent training and introduction, and improve their management level and innovation ability. First of all, we should pay attention to the training and introduction of professional talents, establish a perfect talent training system, strengthen internal training and external learning, and improve the professional quality and skill level of employees. At the same time, through the recruitment and introduction of excellent talents, to make

up for the short board of enterprise talents, improve the technical level and innovation ability of enterprises. Secondly, to strengthen the incentive and retention of talents. Enterprises should establish a perfect talent incentive mechanism, such as salary incentive, career promotion, employee welfare, etc., to encourage employees to work actively and make contributions to the enterprises. At the same time, enterprises should also develop personalized retention plan and plans according to the actual situation of talents, so as to provide a good working environment and development opportunities for excellent talents, retain talents, and provide a strong guarantee for the development of enterprises.

Closing remark

To mitigate financial risks and ensure the financial security of enterprises, it is essential to strengthen risk management and fund management practices. Enterprises should establish robust risk management and fund management systems, implementing scientific and effective measures to address these concerns. Preferential tax policies are crucial for promoting the development of small and medium-sized enterprises (SMEs) and fostering economic growth. By alleviating the financial burden on enterprises, enhancing the financing environment, and encouraging cooperation among businesses, these policies can significantly improve the competitiveness, development capacity, profitability, and market share of SMEs. Concurrently, SMEs must enhance their financial management capabilities, technological innovation, risk management practices, and talent development to fully leverage the benefits of preferential tax policies and achieve sustainable growth. Furthermore, the government should design scientific and effective tax policies tailored to the actual circumstances, ensuring the rational allocation of resources while maintaining the fairness, rationality, and sustainability of the tax framework.

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