Audit Reform, Local Government Intervention and Tax Burden of State-owned Enterprises

Yao Huang1, *

1 School of Finance and Public Administration, Anhui University of Finance and Economic, Bengbu, China
* Corresponding author: Huang Yao (Email: 673370922@qq.com)

Abstract: The tax burden of state-owned enterprises has been widely disputed under the intervention of the government, and the tax collection and management audit can effectively restrain the intervention of local governments. Therefore, this paper theoretically analyzes the impact of audit management system reform on the tax burden of state-owned enterprises and the mechanism of action. The research shows that the audit reform has a catalytic effect on reducing the tax burden of local state-owned enterprises, which is mainly reflected in the reduction of the circulation tax burden of local state-owned enterprises, and the reduction of the tax burden of state-owned enterprises by reducing the degree of local government intervention.

Keywords: Audit management system reform, Local state-owned enterprises, Local government intervention, Tax burden.

1. Introduction

In 2020, my country's fiscal revenue will reach 18.3 trillion yuan, of which tax revenue will account for 84.4%. Strengthening tax collection and management and realizing a fair tax burden is an inevitable requirement for promoting sustainable and healthy economic development. As the main body of tax payment, the tax department should strengthen tax collection and management. Different from non-state-owned enterprises, local state-owned enterprises are sheltered by the local government due to the different nature of the enterprises, and they are less worried about the review of the local tax authorities (Chow et al., 2018), so they are more “confident” to engage in tax avoidance. Of course, there are also opposite views. Under government intervention, state-owned enterprises need to bear a higher tax burden to help the local government make up for the lack of fiscal revenue and achieve policy goals, but it will have a negative impact on the creation of state-owned enterprises’ tax contributions (Wu Liansheng), 2009). At the same time, SOEs tend to implement more conservative tax avoidance behaviors, exhibiting higher effective tax rates than non-SOEs. (Zheng Hongxia and Han Meifang, 2008).

In the local government governance system, local audit institutions, as an indispensable part, shoulder the important responsibility of auditing and supervising local state-owned enterprises and tax authorities, pay attention to the tax collection and management trends of local state-owned enterprises by local tax authorities, and have a better understanding of local state-owned enterprises' tax compliance of state-owned enterprises, and give full play to their role in supervision and governance. However, under the dual leadership of the superior audit institution and the local government, the independence of the local audit institution is affected. The local government has the right to make decisions on many matters of the local audit institution. Therefore, the performance of the audit supervision function of the local audit institution depends on The local government's emphasis on audit work (Zheng Shiqiao et al., 2011). National auditing is an important cornerstone of government governance. To lay the institutional foundation for the full play of auditing supervision functions, my country needs to reform the auditing management system (Xu Baijun, 2008).

In December 2015, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the "Framework Opinions on Several Major Issues Concerning the Improvement of the Audit System". Select 7 provinces and cities including Jiangsu, Zhejiang, Shandong, Guangdong, Chongqing, Guizhou, and Yunnan to carry out the pilot reform of the management of personnel, property and materials for local auditing agencies below the provincial level, and improve local auditing through unified management of personnel recruitment, budgeting and auditing projects. Independence of the agency. Can the current reform of the management of personnel and property of local audit institutions have an impact on the tax compliance of local state-owned enterprises? If so, what is the mechanism of action?

2. Theoretical Analysis

2.1. The Impact of Audit Reform on The Tax Burden of Local State-Owned Enterprises

As a supervision mechanism, audit is a full-time supervision and inspection independent of the accounting department, so independence is an important factor affecting audit quality. Before the audit reform, my country's audit system was under "dual leadership". Local audit institutions at all levels had to accept both the administrative leadership of the people's government at the same level and the operational leadership of the audit institutions at the higher level. On the surface, both the people's government at the same level and the auditing agency at the higher level represent the interests of the public, and their interests should be consistent. Regulations stipulate that the appointment and removal of local auditors should seek the opinions of the audit institutions at the higher level, but in fact the final decision on the appointment and removal still rests with the local government. Under the intervention of local governments, the independence of auditing has been negatively affected, and the national auditing has not been able to give full play to the supervision of the taxation of local state-owned enterprises, which has lowered the quality of national auditing. According
to the national audit governance framework, national audit has the functions of prevention, disclosure and defense (Guo Mengnan, 2020). From the perspective of preventive function, "full audit coverage" has not been fully implemented so far, and there are still some "fish that slip through the net", but the audit reform has improved the deterrence of local audit institutions. To achieve "full coverage" of auditing, but the audit reform has improved the status and deterrence of local auditing agencies, which will help improve the randomness, standardization and punishment of national auditing, and prevent and restrain the "excessive" local state-owned enterprises by local governments. From the perspective of revealing functions, the audit reform has made it more difficult for local governments to intervene in audit work and tax collection and management, and local audit agencies can conduct audits of tax agencies and local state-owned enterprises more independently, in a more timely and objective manner. It can effectively expose the problems existing in the tax burden of local state-owned enterprises; from the perspective of defense function, the audit reform, by coordinating the audit project plans of the whole province (autonomous region and municipality), helps to make the overall audit layout, and finds and summarizes common It also provides suggestions on improving the system, standardizing management and preventing risks, and resisting various behaviors that may damage national taxation and the development of local state-owned enterprises.

2.2. The Impact Mechanism of Audit Reform on The Tax Burden of Local State-Owned Enterprises

Before the implementation of the reform of the management of personnel, property and assets of the local audit institutions below the province, the local audit institutions accepted the "dual leadership" of the local government and the higher-level audit institutions. Dominance of audit tasks (Zheng Shiqiao, 2010). Audit supervision with the participation of local governments loses its independence (Cao Xia, 2001), and government intervention has become an obstacle across the gap between local audit institutions and local state-owned enterprises. Local state-owned enterprises, local auditing agencies and taxation agencies are the main targets of local government intervention. There are two different views in academic circles on the impact of government intervention on the tax burden of local SOEs. Scholars who hold the view of “excessive plunder” believe that when local financial pressure intensifies, local governments will increase the tax burden of enterprises by strengthening tax collection and management (Li Wen, 2020). From the perspective of ownership classification, state-owned enterprises are local governments. The objects that are easier to sacrifice in tax competition, their own social responsibilities determine that local governments are more inclined to tap tax sources to make up for fiscal gaps (Zhan Xinyu, 2020), while local state-owned enterprises are more affected by local governments than central enterprises. Its tax burden is greatly influenced by local governments. When local finances are tight, they tend to levy more taxes to transfer the financial pressure to local state-owned enterprises (Yan Jinmei, 2021). When local governments directly lead the local tax authorities to collect more taxes, they also interfere with the auditing and supervision of the tax authorities and local state-owned enterprises’ reasonable taxation. On the contrary, scholars who hold “excessive favoritism” believe that local state-owned enterprises may also have problems of excessive tax avoidance (Liu Jun and Liu Feng, 2014). On the one hand, political identity can win more tax incentives for enterprises, and it also increases the channels for enterprises to legally influence government decision-making and lobby the government. When faced with an audit by the tax collection and management department, enterprises can make full use of their political status to lobby the government, which in turn affects the effectiveness and independence of tax audits and reduces the cost of tax evasion (Tian Binbin, 2918). Local auditing agencies originally supervise the tax collection behaviors of local tax agencies and state-owned enterprises as independent third parties, but in tax practice they may be subject to administrative intervention by local governments. Under the leadership of local governments, it is difficult for audit institutions to effectively perform tax audit work (Wang Chenglong, 2018).

3. Revelation

Based on the above conclusions, this paper puts forward the following policy recommendations:

(1) The audit reform has a significant impact on the tax governance of state-owned enterprises. The state should jump out of the constraints of the fiscal and taxation system when conducting tax governance, and emphasize the importance of auditing in tax governance from the perspective of the country as a whole;

(2) Improving the independence of audit institutions is an important means to reduce government interference. In the current situation where it is difficult to change the administrative audit model, it is necessary to speed up the reform of the management of personnel, property and materials in audit institutions below the provincial level to ensure that the organization, personnel and quality of local audit institutions are guaranteed. The independence of funds, improve the audit and supervision efficiency of state-owned enterprises, and reduce the tax burden of state-owned enterprises.

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