

Research on the Impact of Tax Burden on Entrepreneurial Household Consumption

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Abstract: This study delves into the impact of tax burden on the consumption behavior of entrepreneurial households, revealing that as the tax burden increases, the disposable income of these households decreases, leading to more cautious consumption behaviors. These households tend to prefer saving over spending, which impacts their quality of life and consumption structure. The study indicates that household consumption patterns vary significantly at different levels of tax burden. High-tax households are more likely to cut non-essential spending, whereas low-tax households maintain higher consumption vitality. Additionally, the uncertainty of tax policies and regional differences influence the consumption decisions of entrepreneurial households. The article suggests measures such as implementing tax reductions, offering specific tax incentives for entrepreneurial households, and improving the transparency and stability of tax policies to alleviate the economic pressures on these households, enhance consumer confidence, and promote healthy economic development.

Keywords: Tax Burden, Entrepreneurial Households, Consumption Behavior, Economic Pressure, Tax Policy Incentives.

1. Research Background and Significance

1.1. Research Background

The global economy currently faces complex challenges, especially since the outbreak of the COVID-19 pandemic at the end of 2019, which has severely impacted global industrial and supply chains. Against this backdrop, China's economy has also been affected, with the uncertainty caused by the pandemic exacerbating the downward trend in the economic cycle, particularly placing significant pressure on economic recovery and structural adjustments. This pressure has directly transmitted to the residential level, leading to a noticeable impact on consumer demand and expectations, becoming a key factor constraining economic development. Therefore, to promote China's consumer demand and establish a new development pattern based on domestic circulation, enhancing the "dual circulation", the Central Committee of the Communist Party of China and the State Council issued the Outline of the Strategy for Expanding Domestic Demand (2022-2035) in January 2023. This document proposes implementing an expansion of domestic demand strategy, aligning with the trend of consumption upgrading, enhancing traditional consumption, fostering new types of consumption, expanding service consumption, and appropriately increasing public consumption to focus on meeting personalized, diversified, and high-quality consumption needs.

Since entering the new normal, entrepreneurship has become a significant engine driving China's economic development. The 2015 government work report proposed that promoting mass entrepreneurship and innovation is an important decision that aligns with social realities and public demand. In the same year, the State Council issued the Opinions on Promoting Mass Entrepreneurship and Innovation, emphasizing that mass entrepreneurship and innovation are crucial for expanding employment and stimulating societal potential, fostering new growth drivers for the economy. The September 2018 Opinions on

Promoting High-Quality Development of Innovation and Entrepreneurship and Creating an Upgraded Version of Mass Entrepreneurship and Innovation by the State Council again highlighted the importance of entrepreneurship for China's economic development. Tsinghua University's latest Global Entrepreneurship Monitor (GEM) 2018/2019 China Report indicates that China's entrepreneurial environment scored 5.0 out of 10, ranking 6th among G20 economies, a leading position. The concept of "mass entrepreneurship" has deeply rooted itself in the public mindset. According to the National Economic and Social Development Statistical Bulletin, from 2020 to 2022, the number of newly registered market entities in China was 25.02 million, 28.87 million, and 29.08 million, respectively, showing an increasing trend. By the end of 2022, the total number of market entities in China had nearly reached 170 million, becoming a vital force in China's economic development and providing ample momentum for economic growth. Consequently, the economic behavior of this group has become a focus of related research.

The economy determines taxation, and taxation, in turn, impacts the economy. Taxation, as a tool for national macroeconomic regulation, plays a role in influencing household consumption by adjusting household income and relative prices of goods. In recent years, to address economic downturn pressures and enhance market vitality, the state has introduced several tax reduction policies. From the structural tax cuts in 2008 to the comprehensive implementation of "Business Tax to VAT" in 2016, followed by large-scale, combined tax and fee reductions, the scope of tax cuts in China has gradually expanded. At a press conference, Vice Minister of Finance Xu Hongcai stated that from 2013 to 2021, a total of 8.8 trillion yuan in new tax and fee reductions were introduced nationwide, effectively supporting market entities in lightening their burdens and accelerating development. Correspondingly, China's macro tax burden decreased from 18.7% in 2012 to 15.1% in 2021. The implementation of large-scale tax reduction policies has positively impacted the expansion of household consumption in China. However, despite this, insufficient consumer demand remains a significant constraint on China's economic development,

necessitating an urgent increase in the intensity of tax reduction policies to stimulate consumer potential and elevate household consumption levels.

1.2. Research Significance

In recent years, with the rapid development of China's economy and the continuous improvement of the market economy system, entrepreneurial households have played an increasingly important role in economic and social life. As a crucial source of social wealth creation and economic vitality, the economic behavior of entrepreneurial households, especially their consumption behavior, not only directly affects the quality of life and future prospects of these households but also has a profound impact on the healthy operation of the macroeconomy. In this context, studying the impact of tax burden on entrepreneurial household consumption has important practical significance and theoretical value.

As one of the state's important tools for economic regulation, taxation directly influences household income and expenditure structures. Particularly for entrepreneurial households, whose income is often unstable and who face higher operational risks, the impact of tax burden on their consumption behavior is even more significant. However, current research mainly focuses on the impact of taxation on corporate investment decisions, with less attention paid to the effect of tax burden on household consumption behavior, especially concerning entrepreneurial households as a specific group. Therefore, exploring how tax burden influences the consumption behavior of entrepreneurial households through income effects, substitution effects, and other mechanisms is particularly necessary to fill this research gap.

2. The Impact of Tax Burden on Entrepreneurial Household Consumption Behavior

In the research on the impact of tax burden on entrepreneurial household consumption, Li Wen (2011) [1] started from Keynesian consumption demand theory and tax burden shifting theory, initially conducting a theoretical analysis of the relationship between the two. He argued that reasonably controlling the tax burden positively affects entrepreneurial household consumption. Li then established an ADL model, selecting macro tax burden as an explanatory variable for empirical research, concluding that the macro tax burden has a limited impact on entrepreneurial household consumption. He believes that a tax burden does not necessarily suppress entrepreneurial household consumption. Li Puliang and Jia Weili (2013) [2] argued that the growth in tax burden is not the culprit behind the suppression of entrepreneurial household consumption, and its crowding-out effect is not obvious; instead, it may show some crowding-in effect. These scholars believe that China's macro tax burden still has room to rise and that there is still potential for an increase.

On the other hand, Nie Haifeng and Yue Ximing (2012) [3] constructed a tax burden shifting model to study the impact of indirect tax burden on entrepreneurial household income. They found that the consumption behavior of lower-income groups is more likely to be suppressed by increasing tax burden compared to higher-income groups. Fan Yixia (2018) [4] believes that the theoretical effects of tax burden mainly

manifest in four aspects: income adjustment effect, psychological expectation effect, price effect, and supply effect, which align to some extent with the life cycle theory. He emphasized stimulating the consumption growth of entrepreneurial households primarily through tax reductions. Li Yongyou and Zhong Xiaomin (2012) [5] found that consumption capacity and willingness are key factors determining whether entrepreneurial households engage in consumption. The rapid growth of China's macro tax burden would lead to a decline in the marginal propensity to consume for entrepreneurial households, and the continuous increase in the tax burden has negatively impacted this propensity. Liang Hongmei (2014) [7] studied the relationship between tax burden and consumption from the perspective of effective tax rate. She constructed a panel threshold model to study the nonlinear impact of consumption expenditure tax on entrepreneurial household consumption behavior. The empirical results show that when the effective tax rate of consumption expenditure is below 0.090, it significantly suppresses entrepreneurial household consumption. Chu Deyin and Yan Wei (2012) [7] used the GMM model to estimate the effects from the perspective of commodity tax, property tax, and income tax, concluding that property tax has a crowding-in effect on entrepreneurial household consumption, while commodity tax and income tax have crowding-out effects. Since commodity tax and income tax account for a large proportion of China's tax system structure, the tax burden more likely suppresses entrepreneurial household consumption at the macro level.

Regarding the impact paths, Li Junlin (2007) [8] believed that the impact path of the macro tax burden on entrepreneurial household consumption is not a single path. It can influence both disposable income and the supply of public goods. Xin Xiaoli (2009) [9] suggested that tax burden regulation should start with the reform of the individual tax system by reducing the highest marginal tax rate applicable to wage income, thereby increasing the consumption and investment levels of high-income earners. High-income earners, after meeting their basic living needs, tend to allocate more funds to luxury goods. From this perspective, China's consumption tax base could cover more luxury goods. Currently, with the trend of luxury goods becoming more popular, not only are high-income earners gradually increasing their purchasing power, but middle-income earners are also allocating a greater proportion of their spending on luxury goods for various reasons.

In summary, the impact of tax burden on entrepreneurial household consumption behavior is diverse and complex. From the reduction in disposable income to adjustments in consumption structure and changes in saving behavior, tax burden influences the consumption decisions of entrepreneurial households to varying degrees. Additionally, the uncertainty of tax policies and regional differences further exacerbate the cautiousness of entrepreneurial households in consumption. Therefore, understanding and analyzing the impact of tax burden on entrepreneurial household consumption behavior not only provides a basis for optimizing tax policies but also helps us better understand the economic logic behind household consumption behavior. When formulating and adjusting tax policies, the specific needs of entrepreneurial households should be comprehensively considered to ensure that tax policies can maintain national fiscal stability while promoting sustainable household consumption.

3. Changes in Household Consumption Patterns under Different Levels of Tax Burden

This study thoroughly analyzes the profound impact of changes in tax burden levels on the consumption patterns of entrepreneurial households. In a low tax burden environment, entrepreneurial households exhibit a stronger consumption propensity, as their relatively ample disposable income allows them to not only meet basic living needs but also invest in education, healthcare, entertainment, and leisure to enhance their quality of life. At this stage, households are more likely to make large expenditures such as purchasing property, buying cars, and making long-term investments, reflecting a diversification in consumption structure and a higher level of consumption activity.

As the tax burden level increases to a moderate level, entrepreneurial households begin to adjust their consumption patterns. The relative reduction in disposable income leads to more cautious decision-making in consumption. Households may reduce non-essential consumption such as dining out and travel, and instead increase spending on housing mortgages and children's education, which are directly related to family life. Additionally, households may place more emphasis on saving and investment to cope with expected economic fluctuations and uncertainties, leading to a greater emphasis on savings and financial planning in household finances.

Under a high tax burden, entrepreneurial households experience significant shifts in their consumption patterns. The substantial reduction in disposable income forces households to adopt more conservative and rational strategies in their spending. Households may drastically cut non-essential consumption, concentrating limited resources on meeting basic living needs such as food, housing, and healthcare. High tax burden may also suppress the willingness and ability of households to invest, leading to an increase in savings rates, but this savings behavior is more out of concern for future uncertainties rather than an active choice based on financial planning. In this scenario, household consumption patterns become conservative, with a more singular consumption structure, reduced non-essential consumption, and an overall decline in consumption levels.

The study also points out that changes in consumption patterns under different tax burden levels reflect not only economic aspects but also involve psychological and social behavior adjustments among family members. In a high tax burden environment, entrepreneurs and their family members may experience significant financial and lifestyle pressures, which could further influence household consumption decisions, making families more cautious when facing future expenses. In the long term, changes in tax burden levels may profoundly impact the consumption habits of entrepreneurial households, with those under prolonged high tax burden conditions potentially developing conservative consumption habits, while those in a low tax burden environment may be more inclined to maintain higher consumption levels.

Overall, the impact of tax burden levels on the consumption patterns of entrepreneurial households is multidimensional, directly influencing economic decisions and potentially causing psychological and social behavior changes among family members, which in turn affects the long-term well-being of the household. These findings provide important references for the formulation and adjustment of tax policies, helping policymakers better understand the economic logic

behind household consumption behavior and devise tax policies that both promote economic development and meet the needs of families.

4. Optimization Suggestions for Tax Policies Concerning Entrepreneurial Households

To effectively optimize tax policies for entrepreneurial households, this study proposes a series of comprehensive recommendations. First, the government should implement tax relief strategies to reduce income tax and value-added tax burdens on entrepreneurial households, especially during the initial stages of a business. This would alleviate the tax burden, providing necessary financial support, encouraging families to engage in entrepreneurship, and promoting economic growth and innovation.

Second, the government should design and implement specific tax incentives to support R&D activities in startups, reduce the costs of technological innovation, and enhance the market competitiveness of these enterprises. Simultaneously, the transparency and stability of tax policies should be improved to ensure continuity over a certain period, thereby reducing the uncertainty faced by entrepreneurial households and helping them with long-term planning.

Furthermore, it is recommended that the government establish a conditional tax incentive mechanism to provide more incentives for entrepreneurial households that meet specific criteria, promoting long-term investment and sustainable development. Additionally, the tax declaration process should be simplified, such as introducing an electronic filing system to reduce the administrative burden on entrepreneurial households, allowing them to focus more on business development.

Enhancing the promotion and education of tax policies is also crucial. The government should disseminate tax policy knowledge through various channels, provide professional training, and improve the awareness and application ability of entrepreneurial households regarding these policies. Regular surveys should be conducted to collect feedback from entrepreneurial households, analyze and adjust tax policies in a timely manner, and ensure their adaptability and effectiveness.

Finally, a tax policy evaluation mechanism should be established to regularly assess the effectiveness of policy implementation, identify and address issues in the process, and achieve continuous improvement of tax policies. These measures collectively build a supportive, fair, and efficient tax system that provides substantial assistance to entrepreneurial households while offering solid policy support for healthy economic development. Through the implementation of these coherent strategies, a favorable economic environment can be created for entrepreneurial households, promoting their economic activities and contributing to overall economic stability and growth.

5. Analysis of Economic Pressure on Entrepreneurial Households Due to Tax Burden

The tax burden imposes significant economic pressure on entrepreneurial households, affecting their financial health and daily operations. Entrepreneurial households often face financial shortages, market uncertainties, and operational

risks, which are exacerbated by increased taxation. Taxes directly impact the disposable income of entrepreneurial households, reducing their ability to consume and invest. When tax rates are high, more income is required for tax payments, squeezing consumption and investment budgets. This is particularly detrimental during the startup phase, where profits are unstable, and high tax burdens may hinder normal business operations, threatening survival.

Increased taxation also exacerbates liquidity issues for entrepreneurial households. These households, which rely on limited funds to support operations and growth, may face short-term cash flow problems due to mismatches between tax payment schedules and cash flow cycles. When quarterly or annual taxes are due, they may need to resort to loans or other means to raise funds, increasing financial pressure and debt. This not only affects their consumption capacity but also has a far-reaching impact on their overall economic condition.

Additionally, the tax burden has a negative impact on the psychological well-being of entrepreneurial households. The uncertainty and risks associated with entrepreneurship, compounded by tax burdens, can increase anxiety and stress among entrepreneurs, affecting their quality of life and decision-making ability, thereby limiting the innovation and market competitiveness of their enterprises.

Different tax policies have varying impacts on entrepreneurial households. Direct tax burdens such as income tax, VAT, or social security tax may increase short-term economic pressure, weakening consumption and investment capabilities. Indirect tax burdens can affect consumption spending through price increases in goods and services. The form and composition of the tax burden determine its specific manifestation of economic pressure.

In the long term, tax burdens affect the wealth accumulation and economic stability of entrepreneurial households. Households with volatile incomes may need to reduce savings and investments during economic downturns or even sell assets or borrow to cover tax payments, impacting long-term economic security and future development.

To mitigate the impact of tax burdens, the government should adopt flexible and targeted tax policies. For example, providing tax relief or deferrals for startups, simplifying the filing process, extending tax payment deadlines, and improving liquidity to reduce financial burdens. Tax incentive policies should also encourage long-term savings and investments to enhance the ability to cope with economic fluctuations.

In summary, the tax burden affects entrepreneurial households in multiple ways by reducing disposable income, exacerbating liquidity issues, and increasing psychological stress. The government needs to strike a balance between tax policies and entrepreneurial support policies to alleviate economic pressure and promote entrepreneurial activities and healthy economic development.

6. Conclusion

This study reveals that the tax burden significantly impacts the consumption behavior, consumption patterns, and economic pressure of entrepreneurial households. High tax burdens tend to suppress the willingness of entrepreneurial households to consume, leading them to be more cautious in daily spending and to favor savings over consumption, which affects the overall quality of life and consumption structure of

the household. Meanwhile, under different levels of tax burden, the consumption patterns of entrepreneurial households show noticeable changes, with high tax burden households more inclined to reduce discretionary spending, while low tax burden households demonstrate greater consumption vitality.

The study also finds that optimizing tax policies is crucial for alleviating the economic pressure on entrepreneurial households. Through reasonable tax reductions and incentive policies, the burden on entrepreneurial households can be effectively lightened, enhancing their consumption confidence and, in turn, driving healthy economic development. Therefore, policymakers should gain an in-depth understanding of the actual needs of entrepreneurial households and formulate more precise and flexible tax policies to support their sustainable development.

In conclusion, the tax burden greatly influences the consumption behavior and economic status of entrepreneurial households. Future research could further explore the differentiated responses of various types of entrepreneurial households under tax burdens and how policy tools can better support these households' consumption and economic growth.

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