

Tax Avoidance Advice for Enterprises to Improve Innovation Performance from A Lifecycle Perspective

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Abstract: From the perspective of enterprise life cycle, this paper analyzes the tax avoidance suggestions for enterprises to improve innovation performance. In the growth stage of enterprises, the more active the corporate tax avoidance behavior, the better the company's innovation performance. During the mature and declining periods of enterprises, the more aggressive the tax avoidance behavior of enterprises, the worse the performance of innovation. Through the analysis of corporate tax avoidance on innovation performance from the perspective of enterprise life cycle, suggestions are put forward from three aspects: government, enterprises and investors.

Keywords: Life cycle, Reasonable tax avoidance, Innovation performance.

1. Introduction

Innovation is the driving force of social development, and it is also the first meaning for enterprises to maintain development. What are the factors that affect innovation performance, and how to use these factors to improve the innovation performance of enterprises, is a topic of general concern in society. There are many studies on tax avoidance, and in the past research literature, most scholars believe that tax avoidance behavior will increase the economic benefits of enterprises and provide more financial support for reform and innovation. However, in recent years, more and more studies have pointed out that corporate tax avoidance will aggravate the agency problem between corporate managers and enterprise owners, which is not conducive to enterprise innovation. At the same time, the enterprise life cycle theory proposes that the enterprise, like a living organism, will have different characteristics at different stages. Therefore, at different life cycle stages, companies have different tax avoidance strategies to improve innovation performance. From the perspective of enterprise life cycle, this article discusses tax avoidance strategies and suggestions for enterprises to improve innovation performance.

2. Characteristics of Corporate Tax Avoidance and Innovation Performance Under Different Life Cycles

2.1. Growth period: Tax avoidance has a significant impact on innovation performance

When the enterprise is in the growth period of rapid development, the internal funds of most enterprises are difficult to keep up with the speed of enterprise development, in order to support the leapfrog development of the enterprise, a lot of money needs to be invested. For enterprises in the growth stage, the main contradiction between the high demand for capital and the lack of funds in order to develop is the main contradiction. According to the optimal financing theory of enterprise fundraising, when raising funds,

enterprises generally consider internal financing channels first and then consider external financing channels, specifically, due to the hidden nature of R&D activities and the development prospects of enterprises in the growth stage are not clear, there is a large information asymmetry problem between internal and external investors, and it is difficult for enterprises in the growth stage to obtain loans or investments; Even if it can be obtained, considering that R&D projects often need to last for a long time, external investors will bear more risks, investors will demand higher risk compensation, and external financing costs will be higher than internal financing costs, so internal financing is an important source of funding for corporate innovation activities.

However, the tax burden will reduce the internal cash flow of the enterprise, and when the enterprise faces high external financing costs and financing difficulties, it usually chooses to avoid tax, reduce the outflow of cash, maintain the optimal amount of R&D investment of the enterprise, and ensure the smooth progress of R&D activities. Therefore, in the growth period, corporate tax avoidance is mainly to retain internal retained funds as much as possible to invest in activities such as research and development. At the same time, tax avoidance can also help enterprises to increase their internal cash flow in a planned way to cope with the uncertainty of cash flow that enterprises may face in the future, and this method of obtaining internal financing through tax avoidance can help enterprises cope with the uncertainty of the external market, reduce operational risks, seize innovative investment opportunities in a timely manner, increase R&D and innovation activities, and improve competitiveness. In addition, due to the generally small scale of enterprises in the growth period, entrepreneurs and owners are often single, the agency problem is not obvious (Hou Qiaoming et al., 2017), and the consequences of the tax avoidance agency concept are not obvious. Therefore, in the growth period, the more aggressive corporate tax avoidance, the more obvious its positive incentive for innovation performance should be.

2.2. Maturity: Tax avoidance does little to improve innovation performance

When enterprises are in a mature period of stable development, the impact of tax avoidance on enterprise

innovation is more complicated. In the mature period, the enterprise is like a person in the prime of life, when its position in the market is relatively stable, the scale of operation increases, it enters the return period, and gradually has positive cash flow. However, the problem is that with the increasing number of management levels and the increasing complexity of the organizational structure, the problem of entrusting agents in the management of enterprises continues to appear, and managers have begun to pursue self-interest.

First, based on the principal-agent theory, the innovation of enterprises will be affected by the principal-agent problem. On the one hand, there is an inherent information asymmetry between management and shareholders, and management has more private information related to the company's operations than shareholders. However, the complexity of innovation activities and the high risk of investment make it more difficult for shareholders to identify the extent of management's efforts, firstly, it is difficult to estimate the future cash flow of innovation investment activities in an appropriate way, and secondly, it is difficult for shareholders to accurately grasp the amount of innovation investment and whether it is effective. Management may reduce investment in R&D and innovation due to short-sightedness or avoidance of its own operational risks; It is also possible to abuse innovation investment for private gain out of opportunism (Lu Rui, 2014), both of which will ultimately lead to a reduction in innovation output. On the other hand, due to the inconsistency of the residual income enjoyed by management and shareholders, the interests of the two are not always aligned, and management cannot always take the maximization of corporate interests as the criterion for decision-making. Agency problems lead management to invest less in innovation. For example, management may prefer to invest in safety projects over high-risk technological innovation projects for risk avoidance reasons. Due to the uncertainty of innovation outcomes, management can also lead to poor innovation performance in pursuit of short-term benefits (Eberhart et al. 2008). In this context, corporate tax avoidance can exacerbate this proxy conflict. First, corporate tax avoidance exacerbates the degree of internal and external information asymmetry. Second, corporate tax avoidance facilitates opportunistic behavior by management.

When companies conduct tax avoidance activities, they often adopt complex and less transparent transactions to conceal their tax avoidance behavior. This makes it easy for insiders to take advantage of this opaque information to engage in certain self-interested behaviors and obtain private benefits (Chen & Chu, 2005). In the case of heightened agency conflicts, management may choose to reduce real investment in innovation. And, to avoid detection, designing complex tax avoidance methods distracts management from innovation activities. And for mature enterprises, compared with the growth period, their financing capacity has been enhanced, financing problems have been alleviated, tax avoidance and cash flow saving to promote innovation is not obvious, the resource concept no longer plays a major role, and the tax avoidance agency concept plays a more dominant role in this period.

2.3. Recession: Corporate Tax Avoidance and Innovation Performance

When the enterprise enters a recession period, from the perspective of external performance, the operating conditions of the enterprise gradually deteriorate, its sales begin to

decrease, its market share gradually shrinks, the profit margin is getting smaller and smaller, and it will be more and more difficult for enterprises to raise funds. From the perspective of internal structure, the organizational flexibility of enterprises has declined, internal bureaucracy has risen, management efficiency has declined, and systems are numerous and ineffective (Hou et al., 2017). Moreover, the problem of enterprises entering the recession period compared with mature enterprises is that their administrative departments, such as finance and legal departments, gradually grasp the right to speak, and the overall performance is characterized by emphasizing form and light function. In terms of innovation ability, enterprises in the recession period will show "excess and insufficient strength" in the current environment of rapid technological update and fierce competition, which is mainly due to the fact that most of these enterprises have problems such as aging technology, outdated equipment, and brain drain (Liu Shiyuan et al., 2020). On the one hand, the problem of corporate agency in the recession period continues to be in the mature period, and there are more serious problems such as the rise of bureaucracy and the continuous rigidity of organizational structure. When enterprises begin to decline, management is more likely to engage in opportunistic behavior when engaging in tax avoidance activities, the degree of information asymmetry between the two parties of the entrusted agent may be increased, the tax avoidance agency concept will still play a leading role, and innovation performance will further deteriorate. On the other hand, due to the decline of enterprise innovation ability, even if enterprises avoid tax, they will invest throttling funds into regular production and operation activities to maintain the survival of enterprises, rather than innovation activities, and the negative impact on enterprise innovation performance in the recession period may be less than in the mature period, but on the whole, corporate tax avoidance at this time is still not conducive to the output of innovation performance.

3. Tax Avoidance Advice for Enterprises to Improve Innovation Performance

Innovation is the source of continuous improvement for enterprises. The state vigorously advocates and deepens reform, fully opens up to the outside world, and enterprises should seize the opportunity to continue to maintain the pace of independent research and development and innovation. This article makes suggestions from three aspects: government, enterprises and investors.section.

3.1. The Government shall formulate tax policies in a measured manner

First of all, lack of funds has always been a major problem that hinders the continuous R&D and innovation of enterprises. According to the theory of priority financing, enterprises choose tax avoidance to save funds and ease financing pressure. Therefore, the government should first make corresponding improvements to the financing difficulties of enterprises. my country's capital market started late, and there is still a long way to go to improve my country's capital market. The government can strengthen the construction of the capital market, lower the barriers for enterprises to enter the capital market, improve the disclosure of information by enterprises, and use the capital market to

provide enterprises with research and development funds, to alleviate the shortage of funds faced by enterprises when conducting research and development activities, and to minimize the negative impact of corporate tax avoidance.

Second, since the tax avoidance behavior of enterprises in different life cycles has different impacts on innovation performance, the government should timely evaluate enterprises in different life cycles, formulate tax supervision policies in a targeted manner, provide R&D subsidies and incentives to eligible enterprises, and provide R&D and innovation support to enterprises from the tax perspective. In addition, from the previous analysis, it can be seen that enterprises in the growth stage are more inclined to use tax policies to avoid taxes and save cash flow. From the perspective of long-term development of enterprises, corporate tax avoidance may bring some negative effects to enterprises.

Finally, reasonable tax avoidance in the growth period can help enterprises optimize capital allocation and improve the efficiency of enterprise innovation, and tax collection and management are also strongly encouraged for enterprises to avoid taxes reasonably. Therefore, the government's tax collection and management departments should improve their own business level and audit efficiency, distinguish between reasonable tax avoidance and improper tax avoidance, reward enterprises that reasonably avoid taxes, and severely punish enterprises that do not improperly avoid taxes. Tax collection and administration departments play an active role in external governance to reduce the occurrence of improper tax avoidance. In addition, the government should set up an excellent regulatory team, use the rapid development of the Internet and big data technology, improve the degree of information disclosure, and improve the level of supervision.

3.2. Enterprises choose appropriate tax avoidance strategies in different life cycles

First of all, enterprises should consider their own life cycle when making decisions, correctly understand the duality of corporate tax avoidance, and choose appropriate tax avoidance strategies in different life cycles. From the previous research conclusions, it can be seen that only when enterprises are in the growth stage, tax avoidance can promote the improvement of innovation performance, and in the mature period and recession period, tax avoidance is not conducive to innovation. Based on this, when an enterprise is in the growth stage, the enterprise should reasonably avoid taxes on the basis of abiding by the law in accordance with its own reality, assume corresponding social responsibilities, and actively cooperate with the government's tax collection and management; At the same time, enterprise tax avoidance in the mature and recession period should not only consider its income, but also consider the negative impact brought about, at this time enterprise tax avoidance will likely increase the cost of corporate agency, which is not conducive to the output of enterprise innovation results, so enterprises should start from themselves, consider long-term development, and formulate practical and beneficial plans.

Second, enterprises should start from the overall and take into account the overall decision-making. Since chasing profits is the natural purpose of enterprises, most enterprises will choose to avoid taxes in their operations. However, according to the research conclusions, it can be seen that enterprise tax avoidance will also bring adverse consequences, and when the cost of tax avoidance is much greater than the

benefits, it is necessary to comprehensively consider the consequences of tax avoidance. Enterprises need to start from the whole, improve corporate governance, reduce agency conflicts, and take into account the overall situation.

Third, for mature enterprises, enterprises should establish a sound incentive mechanism to align management with shareholders' goals, reduce management's on-the-job consumption, and improve capital allocation to improve the efficiency of R&D investment and increase the output of innovation results. Enterprises should establish a sound R&D fund supervision and management system, do a good job in the initial budget, strengthen the supervision in the R&D process, so that the R&D funds are indeed used for the R&D investment of the enterprise, rather than being occupied by the management, and alleviate the problem of the shortage of R&D investment funds of the enterprise. For enterprises in the recession period, owners should pay attention to whether the organizational system of the enterprise is too rigid, whether the senior management team has tended to be conservative and lost vitality, and if so, the enterprise should improve the senior management team in time to reduce the negative consequences of the tax avoidance agency view.

Finally, no matter what kind of life cycle, enterprises should improve the quality of internal governance, consciously disclose accurate information to the outside world, build a sound information communication channel, and alleviate the problem of internal and external information asymmetry, so that enterprises can send good signals to the outside world, show good development prospects, attract external investors, broaden external financing channels, alleviate the problem of financing constraints, and reduce the negative consequences caused by excessive reliance on tax avoidance.

3.3. Investors should play a supervisory role in the corporate governance structure

External investors invest in enterprises, but do not participate in business activities, and have little knowledge of the operating conditions of enterprises and corporate tax avoidance behaviors. In addition, the tax avoidance behavior of enterprises is largely hidden, which makes the business activities of enterprises more complex, so that the information asymmetry between internal and external investors of enterprises is further increased, and external investors will also bear greater investment risks. When making capital investment, external investors should fully investigate and evaluate the existence of information asymmetry in investment, and must not blindly rely on the information disclosed by the enterprise to make investment decisions. The results show that in the mature and recession periods, corporate tax avoidance behavior does not promote significant improvement of corporate innovation performance. External investors should fully investigate and examine enterprises in the mature and declining stages of investment, especially institutional investors, who should adopt behind-the-scenes negotiations and interpretation letters in the corporate governance structure, play their due supervisory role, participate in major company decisions, and submit opinions as observers. If necessary, investors can seek social and government support and help, actively participate in corporate governance and evaluation, supervise management, and prevent management from taking advantage of their position to make on-the-job consumption, and in the name of tax avoidance, in fact, the possibility of seeking personal

interests for themselves. This solves the problem that enterprises abandon or reduce R&D capital investment due to insufficient funds, so as to improve the innovation performance of enterprises.

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