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Empirical Analysis of the Impact of Tax Incentive Policies on Corporate Investment Behavior in China

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Abstract: Tax incentives are widely used to lower the effective cost of capital, strengthen enterprise cash flow, support technological upgrading, and encourage productive investment. China provides a particularly informative setting because tax policy has been repeatedly adjusted through value-added tax (VAT) reform, accelerated depreciation, enterprise income tax preferences, and targeted incentives for small and low-profit enterprises. This article examines how tax incentive policies affect corporate investment behavior in China by integrating the user-cost-of-capital framework with firm-level evidence from quasi-natural experiments. Rather than manufacturing a new regression dataset, the empirical section synthesizes evidence from published firm-level studies and sets out a reproducible empirical strategy that can be implemented with Chinese administrative tax or listed-firm panel data. The evidence consistently indicates that tax reductions can stimulate investment when firms are able to claim the incentives and face binding liquidity or financing constraints. Liu and Mao report that the 2004-2009 capital-tax reform increased investment among treated firms by 38.4 percent relative to controls, while Chen et al. identify a 36 percent increase following the VAT reform, driven partly by investment spikes. Evidence from small and low-profit enterprises also shows increases in fixed-asset and labor investment following income-tax relief. At the same time, accelerated depreciation introduced in 2014 and 2015 did not automatically generate additional investment, highlighting the importance of take-up, tax capacity, and policy design. The article therefore argues that the investment response is heterogeneous rather than uniform. Tax incentives are most likely to affect investment when they reduce the marginal user cost of capital and/or relax internal and external financing constraints, but poorly targeted thresholds can create bunching and weaken growth incentives. Policy recommendations emphasize transparent eligibility rules, stable incentives, improved take-up, and evaluation based on additionality and investment efficiency rather than tax relief alone.

Keywords: Tax incentives, corporate investment, value-added tax, enterprise income tax, financing constraints, investment efficiency, China.

1. Introduction

1.1. Research Background

Corporate investment is a central channel through which fiscal policy can influence production capacity, productivity and long-run economic growth. Standard investment theory emphasizes that firms compare the expected return on an additional unit of capital with its user cost, which depends on financing costs, depreciation and taxation [1]. When a tax incentive reduces the effective acquisition cost of a productive asset or lowers the tax burden on returns, the after-tax return to investment can rise and the desired capital stock can increase. The empirical literature has long used major tax reforms as quasi-natural experiments because statutory reforms can generate discrete changes in firms' investment incentives [2,3].

China is an important case for studying this mechanism because its tax system has undergone several large-scale reforms with heterogeneous effects across firms. The 2004-2009 transition toward a more consumption-oriented VAT system made input VAT on equipment investment deductible for many firms, changing the tax cost of capital. Liu and Mao use firm-level data from 2005-2012 and a quasi-experimental design to show that the reform increased investment and productivity among treated firms, with stronger effects for financially constrained firms [4]. Chen, Jiang, Liu, Suárez Serrato and Xu similarly show that the 2009 VAT reform increased investment by 36 percent in their setting, with the response concentrated in investment spikes [5].

Subsequent policies further broadened the range of tax instruments affecting firm behavior. Accelerated depreciation was introduced for specified industries in 2014 and 2015, while special treatment for small and low-profit enterprises progressively expanded. Research on accelerated depreciation finds that tax relief can improve total factor productivity through fixed-asset investment, R&D investment and reduced financing constraints, although the strength of the effect varies across firm characteristics [6]. Research on the small-enterprise income-tax preference also finds significant increases in fixed-asset and labor investment [7]. These findings suggest that tax policy may alter not only the quantity of investment but also its timing, composition and financing source.

However, tax incentives should not be treated as mechanically effective. Wang, Shen and Tang show that VAT reform improved firms' external financing capacity by reducing borrowing costs and promoting commercial credit [8]. Bai and Wu find that the replacement of business tax with VAT improved investment efficiency, especially among firms with low liquidity and high reliance on external financing [9]. By contrast, the accelerated-depreciation evidence in Chen et al. shows that many eligible firms failed to claim the incentive, and the reform did not automatically generate additional investment [10]. These contrasting findings motivate a broader research question: under what institutional and financial conditions do tax incentives translate into additional corporate investment?

1.2. Research Questions

This study addresses four questions. First, do tax incentive policies increase corporate investment in China? Second, through which channels do tax incentives affect investment behavior? Third, which firms respond more strongly to tax incentives? Fourth, what policy-design features can improve investment additionality while minimizing distortions?

1.3. Research Significance

Theoretically, the study connects the user-cost approach to firm financing constraints and investment efficiency, treating tax incentives as both price instruments and liquidity shocks. Empirically, it synthesizes evidence from multiple Chinese policy episodes rather than focusing on a single reform. Practically, it emphasizes that a policy should be assessed not only by the amount of tax revenue forgone but also by whether the relief generates incremental investment, productivity and productive capacity.

1.4. Research Framework and Contribution

The conceptual framework is: Tax incentives -> lower effective user cost / higher after-tax cash flow -> improved investment capacity and expected returns -> additional corporate investment. Financing constraints, firm size, ownership, industry characteristics and incentive take-up moderate this transmission mechanism. The article contributes in three ways. First, it combines several Chinese tax-policy episodes in one analytical framework. Second, it distinguishes direct price effects from financing-capacity effects. Third, it highlights take-up and threshold responses as critical elements of policy effectiveness, drawing on recent evidence concerning accelerated depreciation and small-enterprise tax preferences [10, 11].

2. Theoretical Basis and Literature Review

2.1. User Cost of Capital and Investment

The user-cost framework starts from the firm's optimization problem. A simplified expression for the user cost of capital can be written as:

$$UC = Pk \times (r + \delta - \pi k) \times TaxAdj$$

where Pk is the acquisition price of capital, r is the financing cost, δ is economic depreciation, πk is expected capital-goods price appreciation, and TaxAdj captures the effect of depreciation allowances, tax credits and corporate income taxation. A tax incentive that reduces TaxAdj lowers the user cost and raises the required pre-tax return threshold for accepting an investment only to a lesser degree. The classic literature therefore predicts a negative relation between user cost and investment [1, 2].

Empirical evidence from major tax reforms supports the relevance of this channel. Tax reforms in the United States have been shown to influence equipment investment through tax-induced changes in user cost [3]. More recent evidence also finds that changes in tax-adjusted user costs are associated with changes in investment rates, reinforcing the importance of tax policy as an investment-price mechanism [12]. These international findings provide a theoretical benchmark for interpreting China's reform experience.

2.2. Tax Incentives and Chinese Corporate Investment

The China-specific literature generally reports positive, but heterogeneous, investment responses. Tung and Cho find that Chinese tax incentives affected the location of foreign direct investment and the organizational form chosen by investors, demonstrating that taxes can shape capital allocation even beyond domestic fixed-asset investment [13]. Liu and Mao find a large positive effect of the 2004-2009 capital-tax reform on treated firms' investment and productivity, with stronger effects among firms facing financial constraints [4]. Chen et al. document a 36 percent investment increase after the 2009 VAT reform and show that the response was driven by investment spikes, indicating that tax policy can affect the timing as well as the level of investment [5].

The financing channel receives further support from Wang et al., who find that VAT reform improved external financing capacity through lower borrowing costs and increased commercial credit [8]. If a tax deduction increases retained cash flow and makes firms more credible to lenders and suppliers, the policy can relax a binding financing constraint even when the direct tax-price effect is moderate. Bai and Wu similarly report that VAT reform improved investment efficiency and was especially effective for firms with low liquidity or heavy reliance on external finance [9].

Evidence from targeted income-tax incentives reinforces the role of firm heterogeneity. Liu et al. find that accelerated depreciation improved productivity through fixed-asset investment, R&D and financing channels, with stronger effects among non-state-owned, labor-intensive and growth-oriented firms [6]. Xue, Cai and Zhang find that the income-tax incentive for small and low-profit enterprises significantly increased investment in fixed assets and labor input, with stronger effects in several disadvantaged or resource-dependent groups [7]. These results imply that tax incentives can have broader production-factor effects than capital spending alone.

2.3. Tax Incentives, Investment Efficiency and Behavioral Distortions

A critical issue is whether more investment is necessarily better investment. Government support can alleviate underinvestment when profitable projects are constrained by liquidity, but it can also weaken selection discipline and encourage investment beyond the firm's optimal capital stock. Evidence from government subsidies in China illustrates this tension: subsidies can alleviate under-investment while also being associated with over-investment, implying that fiscal support needs an investment-efficiency criterion [14]. Although subsidies are not identical to tax incentives, the comparison is useful because both alter the marginal cost of investment.

Policy take-up is another key condition. Chen et al. find that firms failed to claim accelerated-depreciation benefits on a large share of eligible investment, and that losses and tax sophistication affected the likelihood of take-up [10]. Cui et al. provide a related but different lesson for small firms: tax cuts increased investment among newly qualified firms with positive taxable income, while threshold-based eligibility also created bunching and slowed fixed-asset growth as firms approached the size threshold [11]. Thus, policy effectiveness depends not only on the statutory generosity of the tax incentive but also on how firms respond to eligibility rules.

Recent evidence also broadens the incidence perspective. Cao, Ma, Mao and Yin find that the 2009 VAT investment incentive increased employment and wages and raised firm profits; their incidence estimates suggest that the gains from the tax cut were shared between owners and employees rather than accruing exclusively to consumers [15]. This finding matters for the present study because a tax incentive can change multiple margins simultaneously: investment, labor demand, wages and profits.

2.4. Literature Gap

Three gaps remain. First, many studies examine one tax instrument at a time, making it difficult to compare the mechanisms of VAT deductions, income-tax preferences and accelerated depreciation. Second, the distinction between investment quantity and investment efficiency is not always explicit. Third, policy take-up and eligibility thresholds receive less attention than statutory tax rates, despite their capacity to determine actual treatment intensity. This article addresses these gaps by organizing Chinese evidence around a common investment mechanism and by treating take-up, financing constraints and firm heterogeneity as central empirical dimensions.

2.5. Hypothesis Development

2.5.1. Tax Incentives and Corporate Investment

H1: Tax incentive policies have a positive effect on corporate investment in China, conditional on firms having sufficient taxable income or eligible investment expenditures to use the incentive. This hypothesis follows from the user-cost mechanism and is consistent with evidence from China's VAT and income-tax reforms [4, 5, 7].

2.5.2. Financing-Constraint Channel

H2: The positive investment effect of tax incentives is stronger for firms facing greater financing constraints. Tax relief increases internal cash flow and can improve external financing capacity, making previously constrained projects feasible [4, 8, 9].

2.5.3. Investment-Efficiency Channel

H3: Tax incentives can improve investment efficiency when they primarily relax underinvestment, but poorly targeted incentives may create overinvestment or threshold-driven distortions. This proposition is supported by the contrast between investment-efficiency improvements after VAT reform [9] and evidence of distortionary responses to subsidy and threshold-based policies [11, 14].

2.5.4. Heterogeneous Effects

H4: The investment effect of tax incentives varies with ownership, firm size, industry, growth opportunities, liquidity and tax-incentive take-up. The expected heterogeneity is consistent with firm-level evidence across VAT reform, accelerated depreciation and small-enterprise tax preferences [6, 7, 10, 11].

3. Research Design

3.1. Research Strategy

Because the materials supplied for this manuscript do not include a raw firm-level dataset, this section distinguishes the proposed empirical design from the published estimates summarized later. The design is intended to be directly reproducible using firm-year panel data from China's listed companies or administrative tax records. The preferred identification strategy is a difference-in-differences (DID) framework around policy eligibility or staggered implementation, supplemented by event-study, placebo, heterogeneity and robustness tests. This approach follows the methodological logic used in several Chinese tax-reform studies [4-9, 11].

3.2. Sample and Data

A suitable listed-firm sample would include Chinese A-share non-financial firms observed over a multi-year period surrounding a clearly identified tax reform. The unit of observation is firm i in year t. An alternative administrative sample can use the Annual Survey of Industrial Firms or firm-level tax-return data where permitted. The sample should exclude firms with missing core accounting variables and address extreme observations through winsorization. Year and industry controls should be consistent with the policy being studied.

3.3. Variable Definitions

Table 1. Variable Definitions

Variable	Definition	Role
Investment (INV)	(Capital expenditure − proceeds from asset disposal) / beginning total assets	Primary dependent variable
Investment growth (ΔINV)	Change in fixed assets or capital expenditure scaled by beginning assets	Timing/intensive-margin outcome
Tax incentive (TaxInc)	Effective tax saving or policy-eligibility indicator	Main explanatory variable
Financing constraint (FC)	KZ/SA/WW-type index or financial constraint proxy	Mechanism/moderator
Liquidity (CASH)	Cash and cash equivalents / total assets	Mechanism variable
Size (SIZE)	Natural logarithm of total assets	Heterogeneity/control
Leverage (LEV)	Total debt / total assets	Control
Tobin's Q (Q)	Market value proxy / replacement-cost proxy	Investment opportunity control
Profitability (ROA)	Net income / total assets	Internal-funds control
Ownership (SOE)	Indicator for state ownership	Heterogeneity
Industry/Year FE	Fixed effects	Unobserved common shocks

3.4. Baseline DID Model

The baseline specification can be written as:

$$INV_{it} = \alpha + \beta\, TaxInc_{it} + \gamma X_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where INV_{it} is corporate investment, $TaxInc_{it}$ captures treatment exposure, X_{it} is a vector of time-varying controls, μ_i denotes firm fixed effects and λ_t denotes year fixed effects. The coefficient β measures the average investment response attributable to the tax incentive under the identifying

assumptions.

For reforms with staggered treatment timing, a conventional two-way fixed-effects estimator should be supplemented with modern event-study or group-time estimators to avoid bias from heterogeneous treatment effects. The event-study specification is:

$$INV_it = \alpha + \Sigma_k \beta_k D_i,t+k + \gamma X_it + \mu_i + \lambda_t + \varepsilon_it$$

The coefficients before treatment provide a test of pre-trends, while post-treatment coefficients describe the dynamic response. The expected pattern is a rise in investment after tax treatment if H1 is supported.

3.5. Mechanism Tests

To test H2, the analysis should first examine whether tax incentives increase liquidity or improve financing conditions. A first-stage equation would regress CASH or an external-financing proxy on TaxInc. A second stage would interact TaxInc with the financing-constraint measure:

$$INV_it = \alpha + \beta 1\ TaxInc_it + \beta 2\ TaxInc_it \times FC_it + \beta 3\ FC_it + \gamma X_it + \mu_i + \lambda_t + \varepsilon_it$$

A positive $\beta 2$ under a constraint measure coded so that larger values indicate tighter constraints would indicate that tax incentives have stronger investment effects among financially constrained firms.

3.6. Investment-Efficiency Test

Investment efficiency can be evaluated through the deviation between observed investment and expected investment based on growth opportunities and firm fundamentals. Overinvestment and underinvestment can then be modeled separately. This step is important because a rise in investment expenditure alone cannot establish welfare-improving additionality. Evidence from China suggests that VAT reform may reduce underinvestment, especially for firms with low liquidity, while broad fiscal support can generate both under- and overinvestment effects [9, 14].

3.7. Robustness and Identification

The empirical design should include parallel-trend testing, placebo treatment dates, alternative investment measures, propensity-score or entropy-balancing adjustments where appropriate, firm-specific trends when defensible, and exclusion of firms close to policy thresholds. For threshold-based incentives, local or staggered designs should be used because eligibility may itself generate strategic behavior. Cui et al.'s evidence that firms slow fixed-asset growth near the small-enterprise threshold illustrates why threshold manipulation must be considered explicitly [11].

4. Empirical Evidence from China

4.1. Comparative Evidence Across Major Tax Incentive Episodes

The published evidence can be organized into a common empirical map. Table 2 reports findings from studies that use firm-level data and quasi-experimental or closely related identification strategies. These estimates are reproduced as findings of the cited studies rather than presented as new estimates generated from the present manuscript.

Table 2. Comparative Evidence Across Major Tax Incentive Episodes

Policy episode	Study	Design/Data	Reported finding
2004-2009 capital-tax/VAT reform	Liu & Mao [4]	2005-2012 firm-level data; quasi-experimental design	Investment +38.4%; productivity +8.9%; stronger for financially constrained firms
2009 VAT reform	Chen et al. [5]	Administrative tax data; DID	Investment +36%; driven by investment spikes
2014-2015 accelerated depreciation	Liu et al. [6]	Listed firms 2010-2018; gradual DID	Productivity increased; channels include fixed investment, R&D and financing constraints
VAT deduction and financing	Wang et al. [8]	ASIF 2000-2009; quasi-experiment	Improved external financing capacity; lower borrowing costs and more commercial credit
Business tax -> VAT	Bai & Wu [9]	A-share firms 2010-2018; DID	Improved investment efficiency, especially for low-liquidity and highly externally financed firms
Small/low-profit income-tax incentive	Xue et al. [7]	Tax survey data 2008-2016; staggered DID	Significant increases in fixed assets and labor investment
Accelerated depreciation take-up	Chen et al. [10]	Chinese tax-return data	No average additional investment; low take-up and tax capacity limit effectiveness
Small-firm CIT cuts	Cui et al. [11]	Confidential tax returns 2010-2016; threshold-based quasi-experiment	Newly qualified firms increased investment/productivity; threshold bunching and slower growth near cutoff
Investment tax incidence	Cao et al. [15]	Firm-level data 2007-2015; DID	Higher employment, wages and profits; benefits shared by owners and employees

4.2. Overall Investment Effect

Across the strongest firm-level studies, the central result is that tax incentives can raise corporate investment when they create a sufficiently large change in the tax cost of capital or cash flow. Liu and Mao report a 38.4 percent investment increase following China's capital-tax reform [4], while Chen et al. estimate a 36 percent increase associated with the 2009 VAT reform [5]. The consistency of the direction across two distinct datasets and identification strategies provides substantial evidence for H1. The magnitude, however, should not be interpreted as a universal elasticity: the estimates refer to specific policy designs, treatment definitions and samples.

The evidence also indicates that investment responses can occur at the extensive margin of timing. Chen et al. show that the 2009 reform shifted investment toward spikes rather than producing a smooth proportional response over time [5]. This pattern is economically intuitive: when a tax change reduces the effective price of capital, firms with lumpy or partially irreversible investment may postpone or accelerate large

purchases to exploit the changed tax environment. Tax policy therefore affects both whether firms invest and when they invest.

4.3. Financing Constraints as a Transmission Channel

The financing channel is one of the most robust themes in the China evidence. Liu and Mao find that the positive investment effect of capital-tax reform is stronger for financially constrained firms [4]. Wang et al. find that VAT reform improved external financing capacity by lowering borrowing costs and increasing commercial credit [8]. Bai and Wu likewise report stronger investment-efficiency effects among firms with lower liquidity and greater reliance on external financing [9]. Together, these findings imply that tax incentives can matter even when the direct user-cost channel is not the only or dominant mechanism.

This channel also clarifies why tax incentives may have heterogeneous effects across firm ownership and size. Smaller private firms frequently face greater information asymmetry and collateral constraints, so an incremental cash-flow improvement can have a relatively large effect on their feasible investment set. At the same time, the effectiveness of an incentive depends on whether the firm has taxable income or eligible expenditure against which the relief can be used. A tax credit that cannot be used immediately may have a much smaller short-run effect on a loss-making firm.

4.4. Evidence on Investment Efficiency

The effect on investment efficiency is more nuanced than the effect on investment quantity. Bai and Wu find that China's business-tax-to-VAT reform improved investment efficiency, with stronger effects for underinvesting firms [9]. This is consistent with the idea that tax relief is especially useful when profitable firms face liquidity constraints that prevent them from undertaking otherwise valuable projects. The policy can therefore move firms closer to the investment level implied by fundamentals rather than simply increasing spending indiscriminately.

However, Hu, Jiang and Holmes show that government subsidies in China can simultaneously alleviate underinvestment and be positively associated with overinvestment [14]. While tax incentives differ from direct subsidies, the result warns against interpreting additional investment as an unconditional success metric. An effective tax incentive should induce projects whose expected social or private return exceeds the opportunity cost of capital. For this reason, an empirical evaluation should report both investment levels and efficiency measures.

4.5. Take-Up and Policy Design

A particularly important qualification comes from evidence on accelerated depreciation. Chen et al. find that the 2014 and 2015 accelerated-depreciation policies did not elicit additional investment on average, and firms failed to claim the incentive on more than 80 percent of eligible investment in their setting [10]. Losses, tax sophistication and access to tax administrators influenced take-up. This result demonstrates that a statutory incentive can be economically strong on paper while producing weak behavioral effects if firms cannot or do not claim it.

Cui et al. reveal another design problem in small-firm tax preferences. Newly qualified firms increased investment and productivity, but the size-based threshold generated bunching and encouraged firms near the threshold to slow fixed-asset growth [11]. The policy therefore created both positive treatment effects and a behavioral distortion. This suggests that eligibility rules should be sufficiently broad and smooth to avoid creating sharp incentives to remain just below a cutoff.

4.6. Labor and Incidence Effects

Tax incentives can affect corporate investment without the full benefit being captured by capital owners. Cao et al. find that the 2009 investment tax incentive increased employment and average wages while also increasing total profits, and their incidence analysis estimates that a substantial portion of the tax cut accrued to employees as well as owners [15]. This is relevant to corporate investment because productive investment can complement labor, increase demand for skilled workers and change the distribution of the policy's gains. A complete evaluation should therefore consider investment, employment, wages and productivity jointly.

4.7. Heterogeneity by Firm Type

Table 3. Heterogeneity by Firm Type

Firm condition	Expected response	Evidence/interpretation
Financially constrained firms	Often stronger positive response	Lower internal/external finance capacity makes tax-induced cash flow more valuable [4, 8, 9]
Small firms	Positive but threshold-sensitive	Income-tax cuts raise investment, but eligibility thresholds can induce bunching [7, 11]
Non-state-owned firms	Often stronger in some reforms	Greater sensitivity to financing conditions is documented in VAT and depreciation studies [6, 9]
Growth-oriented firms	Potentially stronger	Tax relief may unlock projects with higher marginal returns [6]
Loss-making firms	Potentially weaker	Current tax capacity limits immediate realization of income-tax benefits [10, 11]
Firms with sophisticated tax administration	Higher take-up	Administrative capacity affects the ability to claim incentives [10]

5. Discussion

5.1. Why Tax Incentives Work

The evidence suggests three complementary mechanisms. The first is the price mechanism: lower tax cost reduces the user cost of capital and increases the net return to investment [1, 4, 5]. The second is the cash-flow mechanism: tax savings increase internal liquidity and can relax financing constraints [8]. The third is the expectation and organizational mechanism: predictable incentives can change the timing of capital purchases and support productivity-enhancing investment when firms anticipate persistent policy conditions [5, 6].

These mechanisms imply that the effect of an incentive should depend on its form. A VAT deduction on capital

equipment directly reduces the acquisition cost and is therefore closely tied to the user-cost channel. An income-tax reduction may work more strongly through cash flow, especially for profitable small firms. Accelerated depreciation changes the timing of deductions and therefore has a stronger present-value effect when firms have enough taxable income to use the deduction. The same nominal amount of tax relief can therefore generate very different investment effects across firms.

5.2. Why Some Tax Incentives Have Weak Effects

Weak effects can arise from at least four sources. First, firms may not be able to claim the incentive because they have losses or insufficient taxable income [10]. Second, administrative complexity can reduce take-up, especially among smaller firms with limited tax expertise [10]. Third, a temporary or uncertain policy may change timing rather than the long-run capital stock, producing a short-run spike without sustained additional investment [5]. Fourth, eligibility thresholds can create strategic responses and distort firm growth [11].

These considerations imply that the correct policy question is not simply whether tax incentives are effective, but under what conditions they are effective and whether the induced investment is additional. A tax incentive that merely rewards investments that firms would have undertaken anyway generates less additionality than one that unlocks constrained, high-return projects. Similarly, a policy that shifts investment from one year to another may have limited effects on long-run capital accumulation even when short-run regressions show a positive coefficient.

5.3. Relationship with Productivity

Investment is valuable partly because it changes productivity. Liu and Mao find a productivity increase alongside higher investment after capital-tax reform [4]. Liu et al. find that accelerated depreciation improved total factor productivity through fixed-asset investment, R&D and financing channels [6]. Chen et al. find that real R&D rose in response to an R&D tax incentive, although part of the reported increase reflected relabeling, and they estimate productivity gains when real R&D increases [16]. These results suggest that the quality and composition of investment matter. A tax incentive can have larger long-run effects when it directs capital toward productive equipment, innovation and complementary capabilities rather than purely financial assets.

6. Policy Implications

6.1. Move from Broad Relief toward Measurable Additionality

Policy evaluation should distinguish between tax revenue forgone and incremental investment. Evaluation systems should report additional capital expenditure, productivity, employment and investment efficiency relative to an appropriate counterfactual. This approach is consistent with the Chinese evidence showing that some reforms generate large investment effects while other incentives produce weak responses because of low take-up or design constraints [4, 10].

6.2. Improve Accessibility and Take-Up

Tax incentives should be administratively simple enough for eligible firms to claim them. Digital pre-filling, standardized eligibility checks and transparent guidance can reduce non-take-up. This is especially important for smaller firms, where tax administration capacity can be limited. Recent evidence shows that access to tax administrators and tax sophistication can materially affect whether eligible firms claim a benefit [10].

6.3. Reduce Threshold Distortions

Where eligibility depends on firm size, taxable income or other discrete thresholds, policymakers should avoid sharp cliffs where possible. Gradual phase-outs can reduce incentives to bunch just below a cutoff. Evidence from China's small-firm tax preferences shows that positive investment effects can coexist with slower fixed-asset growth near the eligibility threshold [11].

6.4. Target Financing-Constrained Productive Investment

The strongest case for tax incentives arises where firms face financing constraints but have credible investment opportunities. Targeting should therefore consider liquidity, external-finance dependence and investment opportunities rather than relying only on firm size. VAT reform evidence shows particularly strong effects among firms with lower liquidity and higher external-financing reliance [8, 9].

6.5. Coordinate Tax Policy with Innovation Policy

Capital investment, R&D and productivity are complements. Tax incentives should therefore be coordinated across capital expenditure and innovation expenditures, while guardrails are needed to limit relabeling or low-additionality claims. Evidence from China's R&D tax incentive shows that reported R&D can rise through both real spending and relabeling behavior, implying that monitoring and verification remain important [16].

7. Conclusions, Limitations and Future Research

7.1. Core Conclusions

The evidence reviewed in this article supports the view that tax incentives can influence corporate investment behavior in China through both user-cost and financing channels. Major VAT and capital-tax reforms have produced sizable positive investment responses in firm-level quasi-experimental studies [4, 5]. Tax incentives can also improve financing capacity and investment efficiency, particularly for firms with low liquidity or binding external-finance constraints [8, 9]. Targeted income-tax incentives can expand fixed-asset and labor investment, especially among qualifying small and low-profit firms [7, 11].

At the same time, effectiveness is not automatic. Accelerated depreciation provides a clear example of a policy with limited average investment impact when eligible firms do not claim the benefit or lack sufficient tax capacity [10]. Threshold-based incentives can create strategic behavior near eligibility cutoffs [11]. Therefore, the central conclusion is conditional: tax incentives are most effective when they create a meaningful reduction in the marginal cost of productive investment, can be readily claimed, and address firms' binding financing constraints without creating large distortions.

7.2. Theoretical Contributions

The study integrates three analytical perspectives. First, user-cost theory explains why taxes change the price of capital [1]. Second, financing-constraint theory explains why tax relief can have larger effects among firms with limited access to external finance [4, 8]. Third, investment-efficiency analysis explains why the quantity of investment should be evaluated jointly with the quality and allocation of investment [9, 14]. Together, these perspectives provide a more complete explanation of heterogeneous corporate responses to tax policy.

7.3. Research Limitations

The principal limitation is that the present manuscript does not contain an original micro-level dataset supplied by the author. Accordingly, the empirical findings reported in Section 4 are explicitly attributed to published studies, and the econometric equations in Section 3 describe a reproducible design rather than fabricated original coefficients. The next stage of research should implement the proposed model using a verified firm-year panel, with complete treatment definitions, raw observations and replication code. A second limitation is that tax incentive policies differ in legal form, treatment intensity and timing, which complicates direct comparison of effect sizes across studies. A third limitation is that long-run investment responses may differ from short-run timing responses.

7.4. Future Research Directions

Future work should construct a unified panel combining tax-policy eligibility, effective tax rates, capital expenditure, R&D, financing conditions and productivity. Multi-policy designs could then identify whether VAT deductions and enterprise income-tax incentives are complements or substitutes. More attention should also be given to treatment take-up, tax sophistication and local implementation differences. Finally, firm-level event studies should distinguish genuine increases in the capital stock from temporary investment timing effects.

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