



Earnings Management Behavior and the Stickiness of Income Tax Burden: Big Data Analysis Based on China A-share Listed Companies

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Abstract. This paper uses the panel data of China A-share listed companies from 2009 to 2019 to calculate the manipulable accruals and explore the impact of corporate earnings management on the stickiness of income tax burden. The empirical results show that for every 1% increase in corporate profit before tax, the current income tax will increase by 0.76%; for every 1% decrease in corporate profit before tax, the current income tax will decrease by 0.41%. There is a significant positive correlation between earnings management behavior and the stickiness of corporate income tax burden. The higher the degree of earnings management, the greater the stickiness of income tax burden. A sample regression of enterprises with different property rights shows that the positive correlation between earnings management and the stickiness of income tax burden in state-owned enterprises is more significant.

Keywords: Tax burden stickiness · earnings management · manipulable accruals · tax avoidance

1 Introduction

Stickiness mainly refers to the asymmetric changes between two related variables. Tax stickiness refers to the increase in income tax when the pre-tax profit of a company rises greater than the decrease in income tax when the pre-tax profit decreases. China currently has little research on tax stickiness, and it is in its infancy. Preliminary research found that when the nominal income tax rate of listed companies declines, the actual income tax rate declines significantly higher than the increase in the actual income tax rate when the nominal income tax rate rises, and it is named “tax rate stickiness” [1]. Subsequently, other scholars conducted further research on this phenomenon and discovered that accounting-taxation differences are the inherent factor in this phenomenon, and named it tax stickiness [2]. In addition, the market position, property right nature, tax avoidance behavior, growth, managers’ self-interest and other factors at the micro enterprise level and factors such as the degree of fiscal revenue decentralization and tax

collection efforts of local governments at the macro level will affect the stickiness of corporate tax burdens. The degree of stickiness is specifically manifested as the higher the market position, the lower the degree of tax avoidance, the growth of the state-owned enterprises, the higher the degree of managerial self-interest, the stronger the tax burden; the lower the degree of decentralization of local government fiscal revenue, the greater the taxation regions with higher tax efforts have stronger corporate tax burdens [3–5]. Higher tax payment stickiness will have a negative impact on the company's future operations at the micro-enterprise level, manifested as a decline in profitability and lower market value [6]; at the macro-level, it will inhibit the process of upgrading and optimizing the regional industrial structure [5].

Studies have pointed out that the difference between accounting profits and the tax base is the inherent reason for the stickiness of corporate income tax burdens. The difference between the accounting system and the tax system and the earnings management behavior will affect the difference between the accounting profit and the tax base. The differences have an impact, which affects the stickiness of income tax burden, but this view is only at the stage of theoretical analysis.

The contribution of this article lies in: from a research perspective, from an empirical point of view, to test the view that corporate earnings management has an impact on the stickiness of income tax burdens, and to promote the research process in this field; in terms of empirical identification, a modified cross-section is adopted. The Jones model calculates the absolute value of manipulable accrued profits to measure the degree of earnings management of the enterprise, and conducts a robustness test to improve the credibility of the conclusion; in terms of content, this paper further examines whether there is heterogeneity in the impact of earnings management behavior on the stickiness of income tax burden among enterprises with different property rights. This research aims to show that in addition to negative effects, the stickiness of income tax burden also has a certain positive effect, and provides a reference for the formulation of national taxation policies.

2 Materials and Methods

2.1 Theoretical Analysis and Research Hypothesis

1) Earnings management and the stickiness of income tax

Accounting profit is a very important financial indicator. It not only affects the tax burden of a company, but also measures management performance and corporate image. In addition, for listed companies, accounting profit will also have a direct impact on listing and delisting. For various purposes, the managers of the enterprise adjust the accounting profit of the enterprise by independently selecting accounting policies and accounting estimates within a reasonable range, but the tax base cannot be adjusted accordingly, which will lead to the difference between the accounting profit and the tax base of enterprises, resulting in the stickiness of income tax burden.

According to the adjustment direction of accounting profits, earnings management can be divided into upward earnings management and downward earnings management [7]. Combining the two different situations in the period of economic upswing and the period of economic downturning, the purpose of corporate earnings management can be

roughly divided into four categories except for tax avoidance purposes. The purpose of upward earnings management during the economic upward period is to create a good corporate image to increase the value of stocks; during the economic downward period, upward earnings management is aimed at turning losses into profits and preventing enterprises from being negatively affected by accounting profits for three consecutive years and delisting; the purpose of downward earnings management during the economic upward period is to stabilize the profit between fiscal years and to send a signal to the outside world that the business operation is very stable; the purpose of downward earnings management during the economic downward period is to a large one-time loss, with positive annual profits in the future, to avoid delisting, or to improve its performance when the management changes.

Regardless of whether the economy is up or down, when companies carry out upward earnings management and accounting profits increase, the tax base will inevitably increase, and corporate income tax will also increase. When the economy is on the rise, the country's tax revenue is sufficient and the earnings management of enterprises is relatively loose. When the economy is down, the reduction of national tax revenue will increase the intensity of supervision on corporate earnings management. Therefore, during the economic ups and downs, the changes in the tax base corresponding to the same amount of changes in accounting profits are different.

One of the most important reasons for enterprises to manage downward earnings, whether in an economic up or down period, is tax avoidance. To achieve the purpose of tax avoidance, in addition to adjusting the accounting profit, the tax base must be adjusted. However, China's tax system and tax supervision make the adjustment of the tax base of enterprises very limited. In order to achieve other purposes other than tax avoidance, companies can only adjust non-taxable profits. Therefore, the reduction in the tax base when the equivalent amount of accounting profit is reduced is less than the increase in the tax base when the equivalent amount of accounting profit is increased. This asymmetric change may lead to a greater stickiness of the corporate income tax burden.

In summary, the research hypothesis 1: corporate earnings management behavior and the stickiness of income tax burden have a positive correlation. The higher the degree of earnings management, the greater the stickiness of income tax burden.

2) Analysis of heterogeneity of enterprise characteristics

Although state-owned enterprises have enjoyed certain preferential policies, they have also assumed more social responsibilities. On the one hand, the industries involved in state-owned enterprises have a certain degree of particularity. They are responsible for the provision of public goods and other social tasks. Even during the economic downturn, they must ensure a stable supply of products. On the other hand, during the economic downturn, state-owned enterprises need to assist the government to meet tax collection and management requirements in order to maintain the level of government fiscal expenditure and social stability. These will aggravate the asymmetry between changes in state-owned enterprise profits and changes in tax burdens. Therefore, there are certain differences in the size of tax burden between companies with different property rights. Existing empirical studies have also shown that the tax burden stickiness of state-owned enterprises is stronger.

Compared with private enterprises, the entrusted agency problem of state-owned enterprises is more complicated, and the executives of state-owned enterprises tend to pay more attention to the social responsibilities undertaken by the enterprises instead of pursuing the increase of accounting profits [8]. And the existing research shows that compared with state-owned enterprises, private enterprises are more willing to avoid tax. Therefore, state-owned enterprises are unlikely to carry out earnings management for the purpose of increasing accounting profits or tax avoidance, and more carry out downward earnings management beyond tax avoidance purposes. For downward earnings management for purposes other than tax avoidance, non-taxable profits are adjusted. The reduction of tax base is less than the increase of tax base when the equivalent amount of accounting profit is reduced, and the impact of earnings management behavior on the stickiness of income tax burden is more significant.

In summary, the research hypothesis 2 is proposed: for companies with different property rights, the effect of earnings management behavior on the stickiness of income tax burden is heterogeneous, which is manifested in the fact that the effect of earnings management behavior of state-owned enterprises on the stickiness of income tax burden is more significant.

2.2 Research Design and Sample Selection

1) Data source and sample selection

Since January 1, 2008, the general corporate income tax rate in China has been reduced to 25%. This major tax reform may have a greater impact on the income tax change variable in this study. Therefore, the research scope of this article is from 2008. And because changes in income tax and changes in pre-tax profits in this article require data from the previous year, the 2009–2019 Shanghai and Shenzhen A-share listed companies' financial observations of 27,486 companies-annual observations are selected as the initial sample data to ensure the comparability of the annual data. Exclude based on the data processing methods in the existing literature: (1) Companies in the financial industry. (2) Companies in ST. (3) Companies with current income tax and pre-tax profit less than or equal to 0 in the current or previous period. (4) A sample of newly listed companies in the last two years. The revised cross-sectional Jones model [9] chosen by this paper to measure earnings management needs to use the financial data of the previous two years, and also to eliminate the impact of earnings management for IPO motivation on the empirical results. (5) Companies with missing required variables. Through the above screening, 19629 company-annual observations were obtained. In order to avoid the influence of outliers, a double-sided 1% winsorise treatment was performed on all continuous variables. The data required for the study comes from the CSMAR database.

2) Variable selection

a) Explained variable

Income tax changes (lnit). $Lnit = \ln \left[\frac{it_{i,t}}{it_{i,t-1}} \right]$. Drawing on the measurement methods in existing corporate tax stickiness related research [4, 6], the current income tax obtained by subtracting deferred income tax from income tax expenses is used to measure the income tax expenditure of enterprises, and take the natural logarithm of the ratio of the

current income tax in year t to the current income tax in year $t-1$ to measure the degree of income tax variation.

b) Explanatory variables

Changes in profit before tax (lnebt). $Lnebt = \ln \left[\frac{ebt_{i,t}}{ebt_{i,t-1}} \right]$. The pre-tax profit obtained by adding the total profit plus the asset impairment loss is used as the pre-tax profit that has a direct correspondence with the current income tax of the enterprise. The ratio of the pre-tax profit in year t to the pre-tax profit in year $t-1$ is taken as a natural pair number to measure the degree of changes in corporate profits.

Decrease in pre-tax profit (d). A dummy variable that indicates whether the company's pre-tax profit has declined compared to the previous year. The decrease is 1, otherwise it is 0.

Earnings management level (da). Learn from the practices in the existing literature, use the absolute value da of manipulable accruals to measure the company's earnings management level, and use the modified cross-sectional Jones model [9] to estimate da. The greater the da, the greater the company's earnings management level.

c) Control variables

After consulting the existing literature, this paper selects 6 control variables: asset-liability ratio (lev), tangible capital intensity (tcd), proportion of intangible assets (itcd), profitability (roa), operating cost ratio (ocr) and the size of the company (size). In addition, the year and industry variables are added to control the effects of the year and industry to eliminate the impact of corporate income tax in different years and the differences in income tax expenditures of enterprises in different industries to enhance the stability of the results.

3) Model setting

a) Income tax stickiness

This paper is based on the classic ABJ stickiness model [10], based on the existing literature on the expense stickiness, cost stickiness and tax stickiness [6, 11, 12]. Construct model (1) to conduct empirical test on the tax stickiness of enterprises:

$$\begin{aligned} \ln \left[\frac{it_{i,t}}{it_{i,t-1}} \right] &= \beta_0 + \beta_1 * \ln \left[\frac{ebt_{i,t}}{ebt_{i,t-1}} \right] \\ &+ \beta_2 * d_{i,t} * \ln \left[\frac{ebt_{i,t}}{ebt_{i,t-1}} \right] \\ &+ control + ind + year + \varepsilon \end{aligned} \quad (1)$$

Among them, it is the current income tax of the enterprise, which is calculated by subtracting deferred income tax from income tax expenses; ebt is the pre-tax profit, which is equal to the total profit plus the asset impairment loss. Because the asset impairment loss is not included in the calculation of the tax base, the asset impairment loss is added to the total profit as the pre-tax profit; d is a dummy variable that indicates whether the company's pre-tax profit has declined. If the company's pre-tax profit has fallen compared to the previous year, d is set to 1, otherwise it is set to 0. When $ebt_{i,t} > ebt_{i,t-1}$,

d takes 0, the total profit increases by 1%, and the current income tax of the enterprise increases by $\beta_1\%$, when $ebt_{i,t} < ebt_{i,t-1}$, d takes 1, the total profit drops by 1%, and the current income tax of the enterprise drops by $(\beta_1 + \beta_2)\%$. If $\beta_2 < 0$, $\beta_1 > \beta_1 + \beta_2$, when the total profit increases by 1%, the increase in the current income tax of the enterprise is greater than the decrease in the current income tax when the total profit drops by 1%, that is to say, the tax burden stickiness of enterprises exists, and the greater the absolute value of β_2 , the greater the tax burden stickiness of enterprises.

b) Earnings management and the stickiness of income tax

The absolute value of manipulable accrued profits (da) is used to measure the degree of earnings management of an enterprise. The greater the absolute value of manipulable accruals, the greater the degree of earnings management of the enterprise. In order to verify the impact of corporate earnings management on income tax stickiness, on the basis of model (1), a triple interaction model (2) was used to test hypothesis 1 [3]:

$$\begin{aligned} \ln\left[\frac{it_{i,t}}{it_{i,t-1}}\right] &= \beta_0 + \beta_1 * \ln\left[\frac{ebt_{i,t}}{ebt_{i,t-1}}\right] \\ &+ \beta_2 * d_{i,t} * \ln\left[\frac{ebt_{i,t}}{ebt_{i,t-1}}\right] \\ &+ \beta_3 * d_{i,t} * \ln\left[\frac{ebt_{i,t}}{ebt_{i,t-1}}\right] * da \\ &+ control + ind + year + \varepsilon \end{aligned} \tag{2}$$

In model (3), the coefficient β_3 of the triple interaction term $d*ln\text{ebt}*da$ represents the impact of corporate earnings management on income tax stickiness, when $\beta_3 < 0$, the higher the degree of corporate earnings management, the greater the tax stickiness, indicating that corporate earnings management is positively correlated with tax stickiness, on the contrary, when $> \beta_3 0$, it means corporate earnings management negatively correlated with income tax stickiness.

3 Results and Discussion

3.1 Descriptive Statistics

Table 1 shows the descriptive statistical results of all continuous variables after the two-sided 1% winsorise treatment, and provides the basic statistics of each variable. The average value of the change in income tax (lnit) is 0.103, and the average value of the change in profit before tax (lnebt) is 0.076. The average value of pre-tax profit decline (d) is 0.386, indicating that in all samples, 38.6% of the company-annual observations have experienced a decline in pre-tax profit, which provides a sufficient sample for the empirical test of this article.

Table 1. Simple descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
lnit	19629	0.103	0.866	-2.716	3.306
lnebt	19629	0.076	0.650	-2.134	2.331
d	19629	0.386	0.487	0	1
da	19629	0.151	0.141	0.002	0.798
lev	19629	0.427	0.202	0.054	0.866
tcd	19629	0.218	0.164	0.002	0.711
itcd	19629	0.046	0.049	0	0.311
roa	19629	0.050	0.043	-0.071	0.198
ocr	19629	0.701	0.170	0.176	0.970

3.2 Regression Analysis

1) Empirical test of tax stickiness

Table 2 shows the regression results of model (1). The first column is the regression result without controlling the industry and annual variables; the second column is the regression result with controlling the industry and annual variables. The regression results show that regardless of whether the annual and industry variables are controlled, the coefficient β_1 of the pre-tax profit change rate (lnebt) is significantly positive at the level of 1%, with values of 0.762 and 0.755. The coefficient β_2 of the cross-multiplication term (d*lnebt) of the pre-tax profit decline and changes in profit before tax is significantly negative at the level of 1%, with values of -0.353 and -0.347. The negative β_2 indicates that the decline of pre-tax profits has a deterrent effect on the reduction of income tax. Under the control of annual and industry variables, the pre-tax profit increased by 1%, the income tax increased by 0.755%, the pre-tax profit decreased by 1%, and the income tax decreased by 0.408%. When the pre-tax profit increases, the increase in income tax is greater than the income tax when the pre-tax profit decreases. It indicates that the phenomenon of income tax stickiness is widespread among listed companies in China.

2) An empirical test of earnings management and taxation stickiness

Table 3 shows the regression results of model (2). The first column is the regression result without the control of industry and annual variables; the second column is the regression result with the control of industry and annual variables. The degree of earnings management is measured by the absolute value of manipulable accruals (da). In the regression results of model (2), we focus on the sign of the coefficient β_3 , the coefficient of the triple crossover term d*lnebt*da. The regression results show that regardless of whether the industry and annual variables are controlled, the coefficients of the triple cross-product d*lnebt*da are significantly negative at the 1% level, with values of -0.254 and -0.263, this shows that there is a significant positive correlation between corporate earnings management behavior and the stickiness of income tax burden. The higher the degree of corporate earnings management, the stronger the stickiness of income tax burden. Hypothesis 1 was proved.

Table 2. Regression results of corporate income tax burden stickiness

Variables	Init	
	(1)	(2)
lnebt	0.762*** (55.49)	0.755*** (54.28)
d*lnebt	-0.353*** (-16.14)	-0.347*** (-15.69)
lev	0.251*** (6.98)	0.273*** (6.91)
tcd	-0.004 (-0.12)	-0.084* (-1.87)
itcd	0.071 (0.64)	0.076 (0.60)
roa	1.643*** (10.46)	1.490*** (9.05)
ocr	-0.051 (-1.36)	-0.098** (-2.12)
size	-0.005 (-1.09)	-0.004*** (-0.64)
Constant	-0.050 (-0.47)	-0.143 (-0.98)
Obs	19629	19629
Adj R-squared	0.231	0.235
year	No	Yes
ind	No	Yes

Note: The numbers above each variable are estimated coefficients, and the numbers in parentheses are t statistics; *, **, *** represent the significance levels of 10%, 5%, and 1% respectively (the same as the Table 3)

3) Regression results of sub-sample heterogeneity

In order to explore whether the impact of earnings management behavior on the stickiness of income tax burden is heterogeneous among enterprises with different property rights, the sample is divided into two groups: state-owned enterprises and private enterprises according to the nature of actual controllers. The actual controllers are state-owned enterprises, administrative agencies or public institutions, central agencies, and local agencies are classified as state-owned enterprises, and the rest are classified as private enterprises. Model (2) is subjected to a sub-sample regression. The regression results are shown in Table 4. The regression results show that, under the control of industry and annual variables, the coefficient of the triple crossover term $d*lnebt*da$ in the sample of state-owned enterprises is significantly negative at the 1% level, with a value of -0.448; the coefficient of the triple crossover term $d*lnebt*da$ in the sample of private

Table 3. Regression results of earnings management behavior and corporate income tax burden stickiness

Variables	lnit	
	(1)	(2)
lnebt	0.762*** (55.50)	0.756*** 54.31
d*lnebt	-0.312*** (-12.22)	-0.305*** (-11.83)
d*lnebt*da	-0.254*** (-3.07)	-0.263*** (-3.16)
lev	0.247*** (6.85)	0.269*** (6.81)
tcd	-0.012 (-0.36)	-0.091** (-2.03)
itcd	0.081 (0.73)	0.083 (0.65)
roa	1.625*** (10.34)	1.466*** (8.90)
ocr	-0.049 (-1.32)	-0.098** (-2.11)
size	-0.004 (-0.89)	-0.002 (-0.41)
Constant	-0.069 (-0.65)	-0.165 (-1.13)
Obs	19629	19629
Adj R-squared	0.232	0.235
year	No	Yes
ind	No	Yes

enterprises is significantly negative at the 5% level, with a value of -0.215 . This shows that the impact of earnings management behavior on the stickiness of income tax burden is heterogeneous among enterprises with different property rights, and the positive correlation between earnings management behavior and the stickiness of income tax burden is more significant in state-owned enterprises. Hypothesis 2 was proved.

3.3 Robustness Test

The above uses the absolute value of the manipulated accruals (da) derived from the modified cross-sectional Jones model of Louis et al. (2008) to measure the degree of earnings management. In order to ensure the robustness of the research results, the measurement method is changed, and the degree of earnings management is measured according to

Table 4. Regression results of earnings management behavior and corporate income tax burden by sub-sample

Variables	Init			
	PanelA: State-owned enterprise		PanelB: Private enterprise	
	(1)	(2)	(3)	(4)
lnebt	0.742*** (33.41)	0.740*** (32.75)	0.771*** (44.42)	0.764*** (43.27)
d*lnebt	-0.349*** (-8.07)	-0.347*** (-7.93)	-0.275*** (-8.63)	-0.261*** (-8.13)
d*lnebt*da	-0.400** (-2.44)	-0.448*** (-2.70)	-0.198** (-2.14)	-0.215** (-2.30)
lev	0.292*** (5.11)	0.313*** (4.83)	0.216*** (4.58)	0.237*** (4.59)
tcd	0.073 (1.59)	0.081 (1.17)	-0.150*** (-2.80)	-0.268*** (-4.19)
itcd	-0.007 (-0.05)	-0.000 (-0.00)	0.322* (1.68)	0.331 (1.58)
roa	2.000*** (7.03)	1.839*** (6.06)	1.388*** (7.44)	1.194*** (6.10)
ocr	-0.050 (-0.77)	-0.139* (-1.67)	-0.033 (-0.71)	-0.083 (-1.44)
size	-0.011 (-1.52)	-0.011 (-1.31)	-0.002 (-0.22)	0.003 (0.32)
Constant	0.015 (0.09)	0.001 (0.00)	-0.095 (-0.58)	-0.262 (-1.20)
Obs	8189	8189	11440	11440
Adj R-squared	0.114	0.130	0.262	0.265
year	No	Yes	No	Yes
ind	No	Yes	No	Yes

the absolute value of manipulable accruals (da1) derived from the cross-sectional [13] model. Table 5 shows the regression results of the sample population and the sub-sample regression results of enterprises with different property rights after changing the measurement methods of earnings management. Under the control of industry and annual variables, the regression results are consistent with the previous results.

Table 5. Earnings management behavior and corporate income tax tax burden robustness test results

Variables	Init		
	Sample population	State-owned enterprise	Private enterprise
	(1)	(2)	(3)
lnebt	0.756*** (54.32)	0.740*** (32.76)	0.764*** (43.27)
d*lnebt	-0.296*** (-11.45)	-0.338*** (-7.71)	-0.257*** (-7.98)
d*lnebt*da1	-0.319*** (-3.77)	-0.500*** (-3.06)	-0.245** (-2.53)
lev	0.268*** (6.79)	0.310*** (4.79)	0.236*** (4.59)
tcd	-0.093** (-2.07)	0.078 (1.13)	-0.269*** (-4.20)
itcd	-0.084 (0.66)	-0.001 (-0.01)	0.334 (1.59)
roa	1.464*** (8.89)	1.831*** (6.03)	1.197*** (6.11)
ocr	-0.097** (-2.10)	-0.138* (-1.67)	-0.083 (-1.44)
size	-0.002 (-0.37)	-0.011 (-1.30)	0.003 (0.34)
Constant	-0.168 (-1.15)	0.001 (0.01)	-0.266 (-1.22)
Obs	19629	8189	11440
Adj R-squared	0.235	0.198	0.265
year	Yes	Yes	Yes
ind	Yes	Yes	Yes

4 Conclusions

This article uses the panel data of China A-share listed companies from 2009 to 2019 to verify the view that the earnings management behavior of China listed companies will affect the stickiness of income tax burden. Studies have shown that earnings management will increase the stickiness of income tax burdens, and the increasing effect is more significant in state-owned enterprises. Pre-tax profit increased by 1%, and current income tax increased by 0.76%; for every 1% decrease in corporate pre-tax profit, current income tax decreased by 0.41%. The increase in income tax when pre-tax profit increases is greater than the decrease in income tax when pre-tax profit decreases.

The fundamental reason for the stickiness of income tax burden lies in the certain difference between the accounting pre-tax profit and the tax base. Earnings management behaviors will have a greater impact on accounting pre-tax profits, but have a smaller impact on the tax base, which further increases the gap between accounting pre-tax profits and the tax base, thereby increasing the stickiness of the corporate income tax burden. Therefore, the existence of the stickiness of income tax burden will have a certain inhibitory effect on corporate earnings management behavior. While the stickiness of income tax burden will increase the tax burden of enterprises, it also has a positive effect. This conclusion has certain significance for the formulation of national taxation policies.

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