



A Study on the Influence of Tax Incentives on the Construction of National Unified Market

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Abstract. As an important part of fiscal policy tool, tax incentive plays a key role in breaking down market segmentation, promoting factor flow, and optimizing resource allocation. This paper analyzes the mechanism of tax incentive in promoting fair competition in the market, stimulating innovation momentum and coordinating regional development, and puts forward some policy suggestions on perfecting tax incentive system, strengthening legal guarantee and constructing collaborative governance system in combination with current policy practice and challenges, so as to provide theoretical support and practical path for the deepening development of unified large market.

Keywords: tax incentives; unified market; institutional innovation; fair competition; resource allocation

1 Introduction

The construction of national unified large market is the only way to promote the market of our country from big to strong while realizing the high-quality development of economy, and provides strong support for the construction of a new development pattern in which domestic circulation plays a leading role while international economic cycle remains its extension and supplement. Since the 18th National Congress of the Communist Party of China, the Party Central Committee with Comrade Xi Jinping as the core, standing at the height of the overall development of the cause of the Party and the country, has placed the construction of the national unified market in an important position in economic work. The construction of the national unified market is the inherent requirement of constructing the high-level socialist market economic system, the basic support for constructing the new development pattern and the important guarantee for promoting the high-quality development. In April 2022, in the Opinions on Accelerating the Construction of National Unified Market, it was pointed out that it is necessary to speed up the establishment of a national unified market system, break down local protection and market segmentation, break through the key blocking points restricting economic circulation, promote the smooth flow of commodity factor resources in a wider range, and accelerate the construction of a standardized, fair competition and fully open national unified market for universities. In October 2022, the report of the

20th National Congress of the Communist Party of China further emphasized the construction of a unified national market, deepening the market-oriented reform of factors and building a high-standard market system. In July 2024, the Third Plenary Session of the 20th Central Committee of the Communist Party of China proposed that "a high-level socialist market economic system is an important guarantee for China's modernization drive," clearly defined "building a unified national market" as one of the tasks of building a high-level socialist market economic system, and further deployed major reform measures to build a unified national market.

However, at the same time, the unified national market has not yet been formed, and the situation of domestic market segmentation has existed for a long time. Local protectionism and "beggar-thy-neighbor" industrial policies are common in China. It is inevitable that there will be market segmentation in the construction of a unified market. For example, natural market segmentation caused by factors such as geographical environment and distance, and market segmentation caused by insufficient market competition, blocked resource flow, and high transaction costs caused by asymmetric information. The segmented domestic market restricts the exertion of the "big country advantage," and the scale effect of the domestic super-large consumption market and the scale economy effect of enterprise production are hindered. Especially in the face of the slowdown of economic growth and the severe external environment, the external circulation of industrial chain and supply chain is partially decoupled and broken. Promoting the construction of domestic market integration will help China to smoothly overcome the bottleneck period of economic growth and promote the transformation of high-speed economic growth to high-quality economic growth.

Tax revenue as an important part of government revenue, in order to promote a unified national market infrastructure to provide adequate financial security, thereby promoting the effective allocation of resources and free flow of factors. Tax can guide investment, consumption and industrial development direction, through differential tax rates and other tax policies, can encourage the development of certain industries, restrict or eliminate backward industries, thereby promoting market competition, survival of the fittest, optimize and adjust the industrial structure of a unified national market. The pillar function and important role of fiscal and taxation system are realized by adjusting the relationship between government and market, and then promote the construction of fair and unified market environment.

2 The Promoting Effect of Tax Incentives on the Construction of a Unified Large Market

2.1 Stimulate Innovation Kinetic Energy and Cultivate New Quality Productivity

Tax incentives can correct externalities. On the one hand, they can reduce the R & D cost of enterprises by increasing the expected return of investment and reducing the risk of technological innovation of enterprises [1]; on the other hand, tax incentives have the function of policy guidance, which can guide enterprises to put more energy into R

& D innovation and equipment renewal, improve the enthusiasm of technological achievements transformation of enterprises, and inject innovation vitality into the unified large market. For example, the increase in the deduction ratio of R & D expenses, such as the deduction ratio of manufacturing enterprises reaching 120%, directly improves the return rate of R & D investment of enterprises. Data show that in 2024, the sales revenue of China's high-tech industry increased by 13.6% year-on-year, and the trend of deep integration of digital technology and manufacturing industry is significant. In addition, preferential tax policies are accurately pushed through the mechanism of "policy search", which strengthens the directness of policies. For example, in 2024, preferential tax policies supporting scientific and technological innovation will cover 34.6 million times, effectively reducing the institutional transaction costs of enterprises.

2.2 Optimize Resource Allocation and Break Market Segmentation

Tax incentives, on the one hand, improve capital allocation among enterprises by easing financing constraints and promoting capital deepening, and then influencing capital allocation and factor input decisions (Yan Huihui, 2023)[2], which can promote the flow of factor resources in a wider range [3], improve the efficiency of capital allocation, promote the effective operation of the market and improve the integration degree of the market. On the other hand, tax incentives reduce vicious competition among regions by standardizing local preferential policies and clearing up "tax depressions". For example, Hunan, Henan and other places abolished the illegal tax return policy, promoted the investment promotion from "preferential competition" to "competitive service", and promoted fair competition in the market. At the same time, the implementation of VAT legislation and the principle of tax neutrality reduced the distortion of the tax system on market prices. For example, the tax distribution reform of the principle of consumption weakened the motivation of local governments to "compete for tax sources" and promoted the cross-regional flow of factors.

2.3 Harmonize Regional Development and Enhance Market Unity

Ma Haitao et al.(2022) believe that the principle of tax legality can help to improve the unity of tax system, the principle of tax fairness can create a fair competition environment for all kinds of market entities, the principle of tax efficiency can reduce the interference on market resource allocation, and the function of tax regulation and control can cooperate with market mechanism to jointly promote the formation and development of a unified national market.[4] At the same time, our tax law enforcement actively serves the national development strategy and promotes regional tax cooperation in a wider range.(Hu Yijian and Gong Yinghua, 2024)[5]. Differentiated tax policies can provide preferential support to underdeveloped regions, such as preferential corporate income tax treatment for western regions, which helps to narrow regional development gaps. In addition, cross-regional tax cooperation mechanisms (such as the collection and management service cooperation system established by the four cities and prefectures of Sichuan and Yunnan) can reduce inter-provincial business barriers and

promote industrial chain coordination by unifying law enforcement standards and sharing tax-related information.

3 Challenges and Potential Risks Faced by Tax Incentives

3.1 Fragmentation of Tax Incentives

At present, there is a mismatch between tax incentives and strategic goals of independent innovation in tax incentive policies [6], which leads to fragmentation of tax incentive policies. First, it will affect the implementation efficiency of tax policies to a certain extent, making it difficult for enterprises to fully understand and apply them, and increasing the compliance costs of enterprises. Second, fragmented tax incentive policies may lead to unfair resource allocation, even lead to policy arbitrage behavior, and trigger tax competition among local governments. For example, excessive use of local tax incentives may lead to "pseudo-innovation" arbitrage and crowd out real innovation resources. For example, some enterprises obtain tax breaks through packaging projects, which in turn exacerbates market unfairness. Finally, fragmented tax incentives are difficult to form policy synergies. Policies of different departments and levels differ in implementation time, applicable objects and regulatory requirements. For example, innovative enterprises identified by science and technology departments and preferential objects recognized by tax departments have different standards, resulting in enterprises facing "multiple thresholds" when enjoying policies. This kind of contradiction and conflict between policies not only weakens the promotion effect of tax incentives on independent innovation, but also makes enterprises' innovation behavior deviate from strategic objectives and hinders China's industrial upgrading and high-quality economic development.

3.2 Regional Differences and Implementation Deviations

Local tax competition and abuse of preferential policies brought about by the principle of tax collection production place are the main factors hindering the formation of unified market.[7] On the one hand, in order to attract investment and promote local economic development, some places will introduce various regional preferential tax policies, forming "tax depression". This may lead to excessive concentration of enterprises in certain areas in order to enjoy preferential treatment, resulting in unreasonable allocation of resources, aggravating unbalanced development among regions, objectively forming invisible market barriers, leading to segmentation, division and dispersion of various markets, and hindering the establishment of a unified national market.[8] On the other hand, enterprises operating in different places face repeated taxation.(For example, the income tax distribution of branches), poor inter-provincial connection of invoices and other problems, increase institutional transaction costs. What is more serious is that local protectionism caused by the principle of taxation in the place of production has formed a vicious circle of market segmentation. In order to protect local tax sources, local governments tend to support local enterprises and restrict the entry of foreign products, resulting in difficulties in the free flow of commodities and factors.

For example, some provinces give local automobile brands support such as purchase tax reduction and government procurement preference, but set strict environmental protection testing standards for foreign brands. This "beggar-thy-neighbor" practice seriously destroys the fair competition environment of the market, weakens the efficiency of resource allocation, and makes the construction of a unified national large market face great challenges.

4 Policy Suggestions on Optimizing Tax Incentive System

4.1 Building A Differentiated and Precise Tax Incentive System

(1) Industry differences: Targeting strategic emerging industries (Such as artificial intelligence and quantum computing) Implement stepped tax incentives to strengthen the matching between policies and industrial cycles. The so-called stepped tax incentives are based on the characteristics of different development stages of strategic emerging industries and formulate differentiated tax incentive policies. In the R & D investment stage, the deduction ratio of enterprise R & D expenses can be increased from 75% to 150%, and even 100% deduction can be given to qualified basic research expenses. At the same time, accelerated depreciation policy will be given to purchased R & D equipment to reduce the pressure on enterprises in the early stage. At the stage of achievement transformation, value-added tax will be refunded immediately when enterprises sell new products independently researched and developed, and enterprise income tax will be levied at a low tax rate of 10% to help enterprises quickly open up the market; at the stage of industrial maturity, the tax preference will focus on encouraging technological innovation and industrial upgrading, giving a certain proportion of tax refund to enterprises reinvesting funds for new technology research and development, and giving tax incentives to enterprises participating in the formulation of international standards.

(2) Regional coordination: The horizontal tax sharing mechanism (such as the principle of consumption place) balances regional interests and reduces the motivation of local governments to intervene in the market. The horizontal tax sharing mechanism takes the principle of "consumption place" as the core and aims to reconstruct the distribution pattern of tax revenue. This mechanism breaks the traditional mode of distributing tax revenue according to the production place and distributes part of the income of VAT, consumption tax and other taxes according to the actual consumption place of goods and services. In specific implementation, a unified national tax big data platform can be established by relying on the fourth phase of the Golden Tax Project. By collecting data such as consumer purchase behavior and electronic invoice flow, the final consumption area of goods can be accurately identified. For example, the VAT revenue of goods sold by an e-commerce platform will be attributed to the receiving address of consumers and divided into production place, sales place and consumption place according to a certain proportion. This distribution method enables major consumption provinces to share tax revenue and enhance the balance of financial capacity among regions.

4.2 Strengthening the Guarantee of Rule of Law and Unifying the Standards of Law Enforcement

(1) Speeding up the legal process of taxation and bringing regional preferential policies into the national unified review framework are inevitable requirements for eliminating local protectionism and promoting the free flow of factors. Strictly controlling the unauthorized issuance of tax preferences by local governments is an important guarantee for safeguarding the authority of taxation by law and ensuring market order. The local governments and relevant responsible persons who issue preferential tax policies without authorization shall be seriously investigated for responsibility according to laws and regulations, warning effect shall be formed through typical case notification, the phenomenon of local illegal interference in the implementation of tax policies shall be resolutely put an end to, and the foundation of rule of law shall be laid for the construction of a unified large national market.

(2) Promote the intelligent supervision system of "Golden Tax Phase IV", realize cross-regional tax-related information sharing through "tax control by number", and reduce law enforcement deviation. The promotion of the "Golden Tax Phase IV" intelligent supervision system is the core measure to promote the intelligent transformation of tax collection and management to "tax administration by numbers." Relying on cutting-edge technologies such as big data, artificial intelligence and cloud computing, it has built a comprehensive and three-dimensional tax collection and management system. It has built a unified tax-related data sharing platform nationwide, realized real-time data interaction and coordination within the tax system and with other government departments, and built a standardized, Standardized tax law enforcement risk warning model has far-reaching significance for breaking regional information barriers and improving law enforcement accuracy.

4.3 Promoting Policy Synergy and Dynamic Assessment Mechanisms

(1) The integration of tax incentives, government procurement and investment fund tools to form a full-cycle support chain of "R & D-mass production-commercialization". The precise relay and synergy of policy tools in the whole cycle of industrial development can effectively solve the problems such as fund shortage and market development difficulties faced by enterprises in the process of innovation and development, promote collaborative innovation upstream and downstream of the industrial chain, enhance the overall competitiveness of the industry, and provide strong support for building a modern industrial system and promoting high-quality economic development.

(2) If the policy is solidified for a long time, it will easily lead to distortion of market signals and hinder the normal functioning of market mechanisms. Establishing a dynamic exit mechanism for policies and adjusting or canceling policy support in due course according to the actual development of industries and technologies are inevitable requirements for ensuring fair market competition and realizing effective allocation of resources. Establish policy dynamic exit mechanism, such as gradually eliminating subsidies after technology matures to avoid market signal distortion, which plays a key role

in promoting the cultivation of emerging industries and technological innovation breakthroughs at a certain stage.

4.4 Deepen cross-regional Tax Collaboration

(1) Set up regular communication platforms between cross-regional tax departments, such as holding joint meetings on regional tax cooperation to jointly discuss important issues such as the implementation of tax policies in the region, collection and management cooperation matters, tax revenue distribution, etc., and timely coordinate and solve contradictions and differences in cross-regional tax collection and management.

(2) Formulate cross-regional unified standards for tax enforcement discretion, standardize the punishment standards and circumstances of tax violations, and avoid unfair law enforcement caused by regional differences. At the same time, strengthen the training of tax law enforcement personnel to ensure accurate understanding and strict implementation of law enforcement standards.

5 Conclusion

Tax incentives have become the core driving force for the construction of a unified large market by stimulating innovation, optimizing resource allocation, and coordinating regional development. However, their effectiveness depends on the design of a legal, precise, and coordinated system. In the future, we need to further strengthen the principles of tax neutrality and fair competition, and provide sustainable impetus for the high-quality development of a unified large market nationwide through the dual drive of "policy tool combination innovation + digital governance upgrading".

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