Does Business Income Tax Have an Effect on the Holding Behaviour of Institutional Investors? — Based on Experience Research of the Reform of Business Income Tax

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Abstract

The impact of business income tax policy on the institutional investors in the capital market has not been paid extensive attention.This paper studies the problem under the situation of the implementation of new tax law in 2008. The analysis found that after the cancel of the deductible limit provisions of the equity investment, the institutional investor's holdings of stocks increased significantly. Moreover, different types of institutional investors will have different shareholding behaviors under the background of new tax law.

Keywords:business income tax, institutional investors, stock holding behaviors

1. Introduction

Before and after the implementation of the new tax law in 2008, there is a big difference in the two tax deductions of equity investment losses of Chinese enterprises. After the merger of the two taxes, the new enterprise income tax law and its supporting regulations, corporate investment for loss of tax deduction has no special provisions. At the same time, due to the state of the Securities Investment Fund temporarily exempt from enterprise income tax, the stock market funds institutional investors and other types of institutional investors. The effect of the implementation of the new tax law forms the conditions of a “natural experiment”.

2. Research design

2.1Selection of indexes

This paper mainly studies the influence of the new tax law on the institutional investors in 2008. In this paper, the proportion of institutional investors in the various quarters of the shareholding ratio as a reflection of changes in shareholding behavior indicators. When institutional investors in the previous quarter, when the overweight, the indicator is positive, when the reduction occurs, the index is negative. In the specific application, this paper carries on the logarithm processing after the addition of 1, so that the estimation results of the double difference model can be directly interpreted as the percentage of the policy implementation to the shareholding changes.

2.2Source and processing of data

The sample selected in this paper for the new tax law is from the first quarter of 2006 to the fourth quarter of 2007 for the event before the window period and the first quarter of 2008 to the fourth quarter of 2010 as the event window period. Institutional investors holding the data obtained from the Juling financial platform, Shanghai and Shenzhen 300 index data obtained from CSMAR database of Guotai Junan.

3. Empirical results and analysis

3.1Analysis of overall influence

Table 1 shows the regression results of the annual population samples obtained by using the double difference model. From the double difference statistics can be seen in the control of the other factors of institutional investors and behavior after the implementation of the new tax law to other types of institutional investors holding funds other than the behavior change. In the overall sample, under the condition of two types of holdings, the double difference statistics are significant.

Table 1 Testing results of double difference of an overall annual sample

Variable's name	Random effect		Stable effect
	Full sample	Increased sample	Decreased sample
Time dummy variable	-0.011 (1.58)	0.005 (0.57)	0.001 (0.98)
Group dummy variable	-0.040 (4.70)***	-0.047 (3.98)***	
Double difference statistics	0.047 (6.06)***	0.057 (5.47)***	0.001 (1.45)
Number of present stock holding	0.033 (6.70)***	0.042 (5.86)***	0.001 (4.17)***
Number of stock holding in the previous period	-0.032 (6.24)***	-0.047 (6.54)***	-0.001 (3.14)***
Market value of present stock holding	0.008 (1.70)*	0.021 (3.02)***	0.000 (0.12)
Market value of stock holding in the previous period	-0.011 (2.17)**	-0.016 (2.26)**	0.001 (1.24)
CSI 300	0.000 (1.34)	0.000 (0.73)	-0.000 (0.37)
Return rate of CSI 300	-0.004 (0.83)	-0.005 (0.80)	0.000 (0.79)
Constant	0.018 (0.93)	-0.064 (2.21)**	-0.010 (5.30)***
Fit goodness			0.26
Number of observations	2,848	2,004	736

Notes: The data in the brackets are the T statistics of every coefficient. *, ** and *** respectively represent the significance under 10%, 5% and 1% confident level.

Table 2 shows the regression results obtained by using the double difference model. It can be observed that different environmental samples in all four quarter, double difference statistics showed a greater difference, with quarterly changes, there are significant differences between symbol directions dual difference statistics, the implementation of the new income tax law that rules, brings institutional investors holding behavior point selection.

Table 2 Testing results of double difference of overall quarterly samples

Time point	Variable's name	Random effect		Stable effect
		Full sample	Increased sample	Decreased sample
First quarter	Time dummy variable	-0.120 (2.50)**	-0.057 (0.35)	0.002 (0.09)
	Group dummy variable	0.661 (11.04)***	0.315 (2.63)***	
	Double difference statistics	0.075 (1.36)	0.141 (0.86)	-0.068 (1.80)*
	Fit goodness			0.76
Second quarter	Time dummy variable	0.286 (6.93)***	0.170 (4.45)***	0.098 (0.63)
	Group dummy variable	-0.597 (11.71)***	-0.489 (10.11)***	
	Double difference statistics	0.171 (3.86)***	0.205 (4.44)***	0.199 (1.37)
	Fit goodness			0.47
Third quarter	Time dummy variable	-0.280 (6.89)***	-0.391 (2.62)***	-0.112 (4.75)***
	Group dummy variable	0.646 (13.54)***	0.286 (2.43)**	
	Double difference statistics	-0.013 (0.26)	0.071 (0.47)	-0.014 (0.39)
	Fit goodness			0.66
Fourth quarter	Time dummy variable	0.058 (1.90)*	0.028 (1.12)	0.016 (0.10)
	Group dummy variable	-0.694 (14.80)***	-0.472 (10.09)***	
	Double difference statistics	0.333 (7.82)***	0.275 (6.51)***	0.248 (1.40)
	Fit goodness			0.31

Notes: The data in the brackets are the T statistics of every coefficient. *, ** and *** respectively represent the significance under 10%, 5% and 1% confident level.

From the combination of the results of Table 1 and Table 2, we found that the implementation of the new rules of enterprise income tax, the influence of institutional investors and improve the overall change rate of the stock holdings, and reduced the percentage change in stock holdings. However, the impact of the new tax law presents different directions at different trading points.

3.2 Influence analysis of different types of institutional investors

Table 3 shows the results of the double difference test for each type of institution. It can be observed that under the influence of the new tax law, all six types of institutional investors have been significantly affected, but there are also differences in the direction and degree of change. In addition to the financial institutions and financial products, other institutional investors have appeared to increase the ratio of stock movements and the reduction of the ratio of stock movements decreased.

Table 3 Testing results of double difference of different types of institutional investors of an annual sample

Institution type	Variable's name	Full sample	Increased sample	Decreased sample
Broker	Time dummy variable	-0.015 (4.09)***	-0.008 (1.82)*	0.003 (0.51)
	Double difference statistics	0.021 (3.13)***	0.017 (2.39)**	0.001 (0.16)
	Fit goodness	0.48	0.54	0.34
Insurance	Time dummy variable	-0.020 (3.93)***	-0.010 (1.67)*	-0.035 (1.54)
	Group dummy variable			-0.070 (3.43)***
	Double difference statistics	0.116 (9.49)***	0.115 (9.12)***	0.087 (3.65)***
	Fit goodness	0.47	0.56	
Ordinary companies	Time dummy variable	-0.003 (0.41)	0.006 (0.72)	0.011 (0.37)
	Double difference statistics	0.062 (6.27)***	0.061 (5.53)***	0.064 (1.98)**
	Fit goodness	0.20	0.21	0.14
Trust	Time dummy variable	-0.018 (4.48)***	-0.005 (1.11)	-0.011 (0.90)
	Group dummy variable	-0.096 (7.90)***	-0.102 (8.52)***	-0.059 (3.60)***
	Double difference statistics	0.094 (7.14)***	0.107 (8.34)***	0.052 (3.30)***
	Fit goodness			
Finance companies	Time dummy variable	-0.015 (3.49)***	-0.001 (0.27)	-0.019 (1.16)
	Group dummy variable			0.068 (2.57)**
	Double difference statistics	-0.027 (1.33)	-0.018 (0.89)	-0.084 (2.98)***
	Fit goodness	0.50	0.61	
Wealth management companies	Time dummy variable	-0.015 (4.06)***	-0.003 (0.70)	-0.001 (1.16)
	Group dummy variable			0.001 (1.62)
	Double difference statistics	-0.001 (0.07)	-0.022 (2.56)**	0.002 (2.05)**
	Fit goodness	0.51	0.61	

Notes: The data in the brackets are the T statistics of every coefficient. *, ** and *** respectively represent the significance under 10%, 5% and 1% confident level.

4. Conclusion

Based on the double difference model, this paper studies the effect of the new tax law on the trading behaviour of institutional investors in China in 2008, which mainly includes the following three points.

(1) On the whole, the new tax law has a significant impact on the institutional investors' shareholding behaviour, which makes institutional investors tend to hold more stocks. They may increase or decrease the holdings of stocks.

(2) The new tax law on the whole promotes the increasing holdings behaviour of institutional investors and supresses the decreasing holdings behaviour of institutional investors. They would like to increaseholdings in the second quarter and the fourth quarter. The decreasing holdings behaviours may occurin the first quarter, second quarter and the fourth quarter. The impact of the new tax law of the holding behaviours in the third quarter is not significant.

(3) The new tax law has different effects on different types of institutional investors. Except the financial institutions and the wealth management companies, the impact of the majority of institutional investors of the new tax law is consistent with the overall impact. There are similar situations in the periods.

The empirical evidence of this paper shows that the government can change the institutional investors' ownership and transaction behaviour through the adjustment of corporate tax policy, but the response of different types of institutional investors should be fully considered.

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