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An analysis of the impact of tax and fee reduction policies on financial management of small and medium-sized enterprises

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Abstract. Small and Medium-sized Enterprises (SMEs) serve as a cornerstone of the real economy. They make remarkable contributions to employment expansion, market vitality and industrial innovation. Nevertheless, constrained by limited scale, these enterprises are vulnerable to market risks. They are plagued by high operating costs, tight capital turnover and narrow financing channels, which keep them under persistent financial pressure. To support stable operations of SMEs, the state has rolled out a raft of tax and fee reduction measures, including value-added tax relief, preferential income tax policies and deferred social insurance payments, to ease their burdens. Based on the prevailing fiscal and taxation policies, this paper examines the positive impacts of tax and fee cuts on corporate finance from four dimensions: cost control, profitability, cash flow, as well as investment and financing. It further sorts out financial obstacles encountered by enterprises in policy implementation, analyzes internal and external contributing factors, and puts forward practical solutions. The findings are intended to help enterprises fully capture policy dividends, standardize financial management and strengthen long-term operating capacity.

Keywords: tax and fee reduction, small and medium-sized enterprises, financial management, cash flow

1. Introduction

Domestic Small and Medium-sized Enterprises (SMEs) are large in number and cover a wide range of sectors, serving as a major pillar for stabilizing employment and fostering innovation. Characterized by flexible operation modes, such enterprises are built on relatively weak foundations and are highly susceptible to market volatility, rising costs and capital shortages. Faced with a complicated external economic landscape, the state has successively rolled out tax and fee reduction policies to lighten corporate burdens and improve the survival conditions of SMEs.

Tax and fee adjustments change corporate tax outlays, and meanwhile exert influence on bookkeeping, capital allocation, profit gains as well as investment and financing arrangements. Existing studies reveal that tax and fee cuts can lower tax liabilities, ease capital strain and expand profit margins. Even so, many SMEs suffer from weak financial foundations and limited familiarity with relevant policies. The actual outcomes of policy dividends vary greatly, and a number of enterprises fail to obtain preferential benefits smoothly.

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Centering on the financial management of SMEs, this paper adopts literature review and theoretical analysis to sort out the implementation effects of tax and fee reduction policies, identify existing financial deficiencies of enterprises, and put forward improvement proposals from both enterprise and government perspectives. It aims to help SMEs adapt to new fiscal and tax rules and refine their financial management systems [1].

2. Overview of relevant concepts and current situation

2.1. Core content of tax and fee reduction policies

Tax and fee reduction acts as a vital fiscal and taxation tool for national macro-control, which generally falls into two categories: tax relief and administrative charge reduction. On the tax front, the state has long introduced value-added tax relief and low tax rate schemes for small-scale taxpayers, and set progressive income tax incentives for small low-profit enterprises, so as to substantially cut the tax burden of micro and small businesses. In terms of fees, measures including phased reduction, deferred payment of social insurance contributions and exemption of certain administrative charges are adopted to bring down labor costs and auxiliary operating expenses of enterprises.

In recent years, these policies have kept expanding in coverage with stronger preferential intensity and more targeted implementation, and resources are mainly directed toward micro, small and medium-sized enterprises and the real economy. By continuously cutting rigid corporate expenditures, these policies deliver solid support for SMEs to tide over difficulties and achieve steady growth (government announcement).

2.2. Financial management status of SMEs before policy implementation

Before the large-scale rollout of tax and fee reduction policies, numerous SMEs encountered a host of difficulties in financial operations. For one thing, their overall operating costs stayed at a high level. The combination of taxes, raw material costs and labor expenses continuously squeezed profit margins. For another, cash flow control was inadequate. Unstable payment collection cycles and insufficient reserve funds, coupled with mandatory tax payments, further intensified capital pressure. Thirdly, financing remained difficult. Due to a lack of qualified collateral and weak credit records, SMEs faced strict bank loan thresholds and high financing costs. Finally, enterprises had limited funds available for investment and modest retained earnings, leaving little capital for long-term projects such as equipment renewal and technological upgrading.

Besides, many SMEs operated under imperfect financial systems. Their accounting staff possessed average professional competence, bookkeeping work was rough, and modern financial practices including budget management, risk prevention and tax planning were barely carried out. The prevailing financial management standard failed to match the practical development needs of enterprises (compiled government documents).

2.3. Core dimensions of SME financial management

In line with the operational features of SMEs, this paper divides the evaluation dimensions of financial management into four parts, namely cost management, profit management, cash flow management and investment and financing management. Cost management focuses on controlling rigid operating expenditures, profit management reflects the overall earnings quality of enterprises, cash flow management safeguards the security of capital chains, investment and financing management determines enterprises' capacity for development and expansion. Tax and fee reduction policies directly act on these four dimensions and have systematic impacts on the overall financial operation of enterprises.

3. Impacts of tax and fee reduction on financial management of SMEs

3.1. Positive impacts on corporate cost control

Taxes and fees constitute unavoidable rigid expenditures in business operations. Following the enforcement of tax and fee reduction policies, exemptions on value-added tax, corporate income tax and social insurance fees directly cut fixed corporate outlays and bring down overall operating costs. For SMEs with thin profit margins and weak risk resistance, lower rigid costs ease operational burdens and leave more room for enterprises to carry out cost control.

Nevertheless, from the perspective of the whole industrial chain, many SMEs hold weak bargaining power while upstream suppliers dominate pricing. The benefits brought by tax relief are often offset by price hikes of raw materials and services. Under such circumstances, enterprises see only a modest drop in actual costs, and policy dividends cannot be fully retained within themselves.

3.2. Improvement effects on corporate profit and cash flow

Tax and fee reduction can effectively lift earnings and capital circulation of enterprises. Income tax incentives directly raise enterprises' after-tax net profits and boost operating returns, value-added tax exemptions reduce capital occupation and relieve funding pressure during operation. Lower tax and fee payments cut monthly and quarterly cash outflows, effectively easing cash flow crunches and strengthening the stability of corporate capital chains. Still, policy benefits are distributed unevenly. Loss-making SMEs are not subject to income tax, so income tax incentives hardly work for them. Policy dividends mainly accrue to steadily profitable micro, small and medium-sized enterprises [2].

3.3. Impacts on corporate financing and investment

In respect of financing, reduced tax burdens, higher profits and improved cash flow optimize corporate financial statements and lift credit standing. To some extent, this streamlines bank credit review standards and mitigates the financing difficulties and high financing costs confronting SMEs. However, inherent drawbacks including small business scale, operational risks and insufficient credit accumulation cannot be readily changed. Tax reduction policies are unable to resolve the core financing challenges of SMEs fundamentally.

When it comes to investment, funds saved from tax payments can be used for equipment renovation, technical transformation or modest production expansion. Tax incentives for research and development also guide enterprises to scale up innovation input. Even so, most SMEs adopt conservative business strategies. Given the uncertainty of market conditions, enterprises tend to retain spare funds as a contingency reserve. As a result, the actual stimulating effect of the policies on corporate investment is limited.

4. Existing financial problems of SMEs and their causes under the background of tax and fee reduction

4.1. Prevailing financial problems of enterprises

First, inadequate policy awareness leads to insufficient access to policy dividends. Fiscal and tax policies are updated rapidly with elaborate clauses. Some financial staff fail to keep pace with updates, causing the phenomenon that enterprises are eligible for incentives yet fail to claim them.

Second, financial accounting is non-standard. Certain micro and small enterprises have messy accounts, incomplete vouchers and irregular books, which disqualify them from preferential application and make them

miss out on policy benefits.

Third, dividends are unevenly distributed. Enterprises in a disadvantaged position within industrial chains lack bargaining power, and tax reduction gains are shared by upstream and downstream participants, resulting in low actual benefits for these enterprises.

Fourth, outdated financial management models persist. Finance departments of most enterprises only focus on bookkeeping and tax declaration, without budget arrangement, capital planning or tax planning capabilities, which drags down capital use efficiency.

4.2. Internal causes

From the internal perspective of enterprises, firstly, financial personnel lack professional competence. They have no systematic knowledge of taxation and financial management and cannot take the initiative to match preferential policies. Secondly, management teams prioritize business development over finance, neglecting the construction of financial rules and internal control. Thirdly, sound financial management systems are absent. Loose capital supervision makes it impossible to make rational use of funds obtained from policy dividends.

4.3. External causes

From the external environment, to begin with, the tax reduction policy system is updated frequently with complicated detailed rules, posing difficulties for micro and small enterprises to understand. Next, policy promotion lacks precision. Large enterprises can obtain special guidance, while micro, small and medium-sized enterprises gain information through limited channels. Last, some preferential application procedures are cumbersome and require extensive documents, setting barriers for financially weak enterprises. Grassroots support for policy implementation is insufficient [3].

5. Countermeasures for optimizing financial management of SMEs

5.1. Optimization measures at the enterprise level

To start with, upgrade the professional competence of financial staff. Enterprises should organize regular fiscal and tax training, keep track of the latest tax reduction policies, improve financial workers' capacity for policy interpretation and declaration practice, and foster awareness of compliant tax planning.

Furthermore, standardize accounting practices and internal control systems. Improve the management of account books and vouchers to guarantee authentic and compliant accounts that satisfy the criteria for preferential tax application. Set up practical capital budget systems to coordinate the use of funds saved from tax relief.

In addition, establish scientific financial management concepts. Management should recognize the value of financial management, integrate cash flow control, cost management and tax planning into daily business decisions, and lift the overall standard of corporate financial operation.

Finally, carry out proper tax planning. Enterprises shall apply suitable policies on the premise of legality and compliance to maximize tax and fee dividends, and raise profitability via financial optimization [4].

5.2. Suggestions for policy improvement at the government level

First of all, continuously simplify policy application procedures. Convenient models such as preferential treatment without extra application and automatic tax reduction can be promoted to cut required documents

and lower the threshold for micro and small enterprises to enjoy incentives.

Secondly, deliver targeted policy publicity. Interpret policies with plain cases via short videos, offline lectures and on-site tutoring to raise policy awareness among micro and small enterprises.

Thirdly, strengthen grassroots fiscal and tax support. Offer free professional guidance to financially weak micro and small enterprises to help them standardize accounting work. Meanwhile, improve the bank-tax interaction mechanism, and incorporate corporate tax credit and tax compliance records into credit evaluation to ease financing pressure [5].

6. Conclusion

On the whole, tax and fee reduction policies deliver prominent driving effects on the development of SMEs. Such policies can directly cut corporate tax burdens, ease cash flow shortages, expand profit space and improve financing conditions, offering strong backing for SMEs to overcome operational hardships. Nevertheless, many SMEs still face various internal constraints in practice: numerous operators have limited understanding of relevant tax incentives, internal financial systems remain non-standard, and capital management capacity needs further improvement. Besides, the complicated fiscal and tax policy system and inadequate practical tutoring for enterprises combine internal and external restraints, preventing SMEs from reaping the full benefits of tax and fee reduction.

For future development, SMEs need to follow up on the latest fiscal and tax policies actively, improve internal financial management systems, enhance the professional proficiency of financial staff, make scientific capital plans, and strengthen operational competitiveness with the support of policy dividends. The government should keep optimizing the implementation of tax and fee reduction, streamline application processes, provide targeted assistance tailored to enterprise conditions and refine supporting services to boost policy effectiveness. Joint efforts from enterprises and the government will steadily improve the financial and operational status of SMEs, stabilize small and micro market entities and promote high-quality development of the real economy.

This study admits several limitations. Quantitative empirical analysis on the financial indicators of SMEs is absent, and no econometric model is applied to quantify the magnitude of policy effects generated by tax and fee reduction. Moreover, this research does not conduct heterogeneous discussions across industries, geographical locations and enterprise scales.

Future research can be directed to the following aspects. Scholars may adopt empirical approaches and panel datasets to evaluate policy effects with higher precision. Comparative analysis can be performed to examine the heterogeneity of policy impacts on SMEs in varied sectors and regions. Furthermore, the long-term dynamic mechanisms through which tax and fee relief shapes corporate financial risks and sustainable growth of enterprises merit deeper investigation.

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