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# *Research on the Influence of Corporate Income Tax Preferential Policy on Financial Performance: Based on Software and Information Technology Services*

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***Abstract:*** This paper mainly focuses on the domestic listed software and information technology service industry as the main research object, using literature analysis and empirical analysis, using the financial data of listed companies in the software and information technology service industry from 2016 to 2020 as samples, establishing regression models to test the impact of corporate income tax preferences on financial performance and giving corresponding policy recommendations. The empirical results show that corporate income tax incentives have a facilitating effect on the financial performance of the software and information technology service industry; revenue-to-asset ratio and Cost-to-asset ratio are positively and negatively correlated with financial performance, respectively; and asset-to-liability ratio is negatively correlated with financial performance.

## 1. Introduction

In recent years, the great power game has become increasingly fierce. Moreover, due to the impact of COVID-19, the economic development of major economies in China has been severely impacted, and economic recovery is urgent. Software and information technology services are fundamental, strategic and pioneering related to the overall situation of the country and society. The 14th Five-Year Plan is an important stage in the implementation of the digital economy strategy. However, there is still a big gap between China's software and information service industry and the advanced level of the world. There are many ways and means for China to support and encourage software and information technology service enterprises, among which the corporate income tax as the most effective preferential policy is still continuing to improve and optimize. As representatives of high-tech industries, there is an urgent need to address whether software and IT service companies fully enjoy the tax benefits from the government and whether the income tax benefits have an enhancing effect on financial performance and contribute to the healthy development of the company. The discussion and research on the above issues will help our government to formulate relevant preferential policies, improve the competitiveness of Chinese software and information technology service enterprises, narrow the gap with internationally renowned enterprises, and help the industry

play an important role in stabilizing employment and promoting development.

Currently, from foreign studies on firm performance, firm performance has been studied as an explanatory variable. Mercedes Garcia-Cabrera [1] selected financial data of 175 high-technology firms for an empirical study, and the results showed that firm performance is affected by the strategy as well as the resources of that firm. Nufazil Altaf [2] collected financial data from more than 400 non-financial firms and confirmed the inverted U-shaped relationship between working financial capital and firm performance through a two-step generalized moment technique. Jaroslav Sedlacek [3] collected eight years of data related to financial burden using DuPont analysis to study the differences in the performance of ordinary firms in the banking and industrial sectors. The tax burden expressed through tax deductions on interest and corporate EBITDA, found a strong correlation between actual payments and changes in interest rates and tax rates. Li-ZhenK [4] et al. found through empirical studies that improved performance of high-tech firms is associated with tax incentives and there is a facilitative effect between the two.

Domestic research on firm performance is mainly based on empirical studies, mostly studying different types of firms as well as exploring the effects of some external factors on firm performance. Hu Chenguang [5] found through an empirical test on large and medium-sized industries in China that different types of firms have different effects on firm performance, and that R&D has an incentive effect on capital and technology-intensive firms and an inhibitory effect on labor-intensive firms. Yin Meiqun [6] used listed companies from 2009-2015 as a sample to empirically analyze the relationship between firm technological innovation and firm. The results of the empirical analysis show that the technological innovation of enterprises will have a certain impact on the corporate performance of both the current period and the previous period, and will inhibit the current period and promote the previous period's corporate performance. Tang Hongxiang [7]et al. analyzed the relationship between tax incentives and firm performance and found that there is a significant incentive effect between the two, in addition to the local tax business environment also has an impact on firm performance, and the better the business environment, the greater the incentive effect. Yao Weibao [8] et al. conducted a study on relevant data of listed pharmaceutical companies and found that the preferential policy of R&D cost addition and deduction in corporate income tax has a significant incentive effect on innovation performance and corporate performance.

It has been found from existing studies that although domestic and foreign scholars have many research results on the impact of corporate income tax preferential policies on enterprise performance, few of them involve software and information technology services, and they are specific to the financial performance of enterprise performance. Therefore, based on the existing literature, there is a lack of research on the impact of corporate income tax incentives on the software and information technology service industry, and this industry is a science and technology service industry vigorously supported by China, which has great research significance. Therefore, this paper makes an empirical analysis of the mechanism of corporate income tax preferential policies affecting financial performance, and finally puts forward countermeasures to improve the tax preferential policy system based on the empirical analysis results.

From the available studies, it is found that although there are many research results on the impact of corporate income tax incentives on enterprise performance by domestic and foreign scholars, few of them involve software and information technology service industry, and they are specific to financial performance in enterprise performance. Therefore, based on the lack of research on the impact of corporate income tax preferences on software and information technology service industry in the existing literature, and the fact that this industry is a science and technology service industry vigorously supported by China, it has great research significance. Therefore, this paper empirically analyzes the mechanism of the effect of corporate income tax preferential policies on financial performance, and finally will propose countermeasures to improve the tax preferential policy system

by combining the results of the empirical analysis.

## 2. Theoretical Assumptions

The collection of taxes directly reduces the financial resources available to taxpayers and brings about corresponding behavioral choices. Therefore, taxation affects the investment and production decisions of economic agents; from a micro perspective, under a specific tax structure, the state formulates various tax incentives for economic agents, which will reduce their actual tax burden and thus reduce their tax burden. After the actual tax burden is reduced, economic agents with sufficient cash flow will actively adjust their production and operation behaviors, such as increasing investment and expanding production scale; in short, tax incentives will reduce the actual tax burden of taxpayers, enhance economic vitality and help improve financial performance. Based on the above-mentioned principle of the role of tax incentives and the actual situation of production and operation of software and information technology service industry in China, the following research hypotheses are proposed.

**H1:** Corporate income tax incentives have a catalytic effect on the financial performance of the software and IT service industry.

**H2:** The degree of impact of corporate income tax incentives on the financial performance of software and IT service firms varies across regions.

## 3. Empirical Analysis

### 3.1. Variable Definition

In this paper, Return on Assets (ROA) is set as the dependent variable, corporate income tax credit (TAX) is set as the independent variable, and other related factors are set as control variables, and a multiple regression model is constructed accordingly.

#### 3.1.1. Explained Variables

Since the samples selected in this paper are all listed companies, so as to avoid improper means of whitewashing financial statements and the reliability of data, this paper chooses the indicator ROA to measure financial performance. The calculation formula is as follows.

$$\text{Return on Assets}(ROA) = \text{current net income} \div \text{average total assets} \times 100\% \quad (1)$$

#### 3.1.2. Explanatory Variables

The corporate income tax benefit (TAX) is then measured by the difference between the nominal tax rate of 25% under the tax law and the effective tax rate of the sample companies. The calculation formula is as follows.

$$\text{Corporate income tax benefit}(TAX) = 0.25 - (\text{current income tax expense} \div \text{total current profit}) \quad (2)$$

#### 3.1.3. Control Variables

The following three main indicators were selected as control variables, Income-to-asset ratio (IAR), Cost-to-asset ratio (CAR), and Gearing Ratio (GR). Income-to-asset ratio (IAR) eliminates the influence of asset size on financial performance and can reflect the profitability of the company from the side. Cost-to-asset ratio (CAR) reflects the level of cost management of a company. The Gearing Ratio (GR) is the ratio of the total liabilities at the end of the enterprise period to the total assets at the end of the enterprise period (in Table1). A high indicator represents that the possibility of the

enterprise encountering financial risks will increase, and a low indicator indicates that the enterprise can adjust its operation structure appropriately, which mainly reflects the financing structure of the enterprise. The calculation formula is as follows.

$$Income\ to\ asset\ ratio = Current\ operating\ income \div Average\ total\ assets \times 100\% \quad (3)$$

$$Cost\ to\ asset\ ratio = Current\ operating\ costs \div Average\ total\ assets \times 100\% \quad (4)$$

$$Gearing\ Ratio = total\ liabilities\ for\ the\ period \div total\ assets\ for\ the\ period \times 100\% \quad (5)$$

Table 1: Model variable definition table

| Variable Type | Metrics | Symbols | Calculation formula |
|---|---|---|---|
| Explained variables | Return on Assets | ROA | $current\ net\ income \div average\ total\ assets \times 100\%$ |
| Explanatory variables | Income tax benefits | TAX | $0.25 - (current\ income\ tax\ expense \div total\ current\ profit)$ |
| Control variables | Income-to-asset ratio | IAR | $Current\ operating\ income \div Average\ total\ assets \times 100\%$ |
| | Cost-to-asset ratio | CAR | $Current\ operating\ costs \div Average\ total\ assets \times 100\%$ |
| | Gearing Ratio | GR | $total\ liabilities\ for\ the\ period \div total\ assets\ for\ the\ period \times 100\%$ |

### 3.2. Model Definition

To test the two hypotheses of this paper, the following multiple linear regression model was developed.

$$ROA_{it} = \alpha_0 + \alpha_1 TAX_{it} + \alpha_2 IAR_{it} + \alpha_3 CAR_{it} + \alpha_4 GR_{it} + \mu_{it} + \gamma_i + \varepsilon_t \quad (6)$$

Over the Hausman test, Prob>chi2=0.0033 is less than 5%, indicating that model (6) applies fixed effects. In model (6), *i* means individual firm, *t* means time, while *ROA* is the measure of financial performance, Return on Assets, *TAX* is the core explanatory variable, and *IAR*, *CAR*, and *GR* are the control variables. $\mu_{it}$ is the random disturbance term, $\gamma_i$ is the individual firm fixed effect, and $\varepsilon_t$ is the time fixed effect. Model (6) focuses on verifying the relationship between corporate income tax incentives on financial performance of software and IT services.

### 3.3. Sample Description

In this paper, the financial data of software and IT service companies for the years 2016-2020 are used as a sample for empirical analysis. In order to avoid the extremes and residuals of the data from negatively affecting the research results, the sample is processed in this paper according to the following principles: i) exclude the sample of all ST and *ST companies in 2016-2020; ii) exclude the sample of companies with a large amount of missing relevant data. After sample screening, 227 software and information technology service industry companies were selected as the sample. The data in this paper was mainly obtained from the RESSET database, and the data was analyzed by using SPSS and Stata software.

### 3.4. Descriptive Analysis

The software and information technology service industry listing was selected for the study, and

firstly, descriptive statistics were conducted for a total of five variables: Return on Assets (ROA), corporate income tax benefit (TAX), Income-to-asset ratio (IAR), Cost-to-asset ratio (CAR) and Gearing Ratio (GR) for the sample companies from 2016 to 2020, and the statistics are shown in Table 2:

Table 2: Descriptive statistics

| | N | Average value | Standard deviation | Minimum value | Maximum value |
|---|---|---|---|---|---|
| ROA | 1, 135 | 0.0457 | 0.105 | -1.240 | 0.398 |
| TAX | 1, 135 | 0.159 | 0.439 | -3.648 | 12.48 |
| IAR | 1, 135 | 0.552 | 0.298 | 0.0724 | 2.531 |
| CAR | 1, 135 | 0.503 | 0.290 | 0.0618 | 2.300 |
| GR | 1, 135 | 0.341 | 0.166 | 0.0360 | 0.887 |

As can be seen from Table 2, the mean value of operating performance (ROA) of listed software and information technology service enterprises arrives 4.57% during 2016-2020, and the performance level needs to be improved on average. The large Standard deviation indicates that the Return on Assets varies widely among software and information technology service enterprises and the profitability varies greatly; the average corporate income tax benefit (TAX) was 15.9%, and the Standard deviation is the largest among all indicators, indicating that the income tax benefits of each enterprise fluctuate greatly and the difference in benefits received is wide; the mean values of Income-to-asset ratio (IAR) and cost asset ratio (CAR) were 55.2% and 50.3%, respectively, and the Standard deviations of both are also large and fluctuating; the mean value of asset liability ratio (GR) was 34.1%, which is a reasonable ratio and the enterprises have better solvency.

### 3.5. Correlation Test

A preliminary test of the correlation between ROA and TAX was conducted before conducting the regression analysis, and the following results were obtained, as shown in Table 3.

zccording to the Pearson correlation coefficient matrix in Table 3, ROA and TAX are significantly positive at the 5% level, and it can be tentatively judged that there is a significant positive association between corporate income tax benefit (TAX) and total corporate net asset margin (ROA). Since the correlation coefficient is only the relationship between the two variables, it can only make a preliminary determination of the two, while the paper uses panel data, and the relationship must be accurately analyzed through an econometric regression model.

Table 3: Pearson correlation coefficient matrix

| | ROA | TAX | IAR | CAR | GR |
|---|---|---|---|---|---|
| ROA | 1 | | | | |
| TAX | 0.052* | 1 | | | |
| IAR | 0.233*** | -0.055* | 1 | | |
| CAR | -0.140*** | -0.0330 | 0.929*** | 1 | |
| GR | -0.270*** | -0.0390 | 0.258*** | 0.365*** | 1 |

Note: **. At the 0.01 level (two-tailed), the correlation is significant, *. At the 0.05 level (two-tailed), the correlation is significant

### 3.6. Regression Analysis

Regression analysis was conducted using a fixed utility model with Return on Assets (ROA) as

the explanatory variable, corporate income tax benefit (TAX) as the explanatory variable, and Income-to-asset ratio (IAR), Cost-to-asset ratio (CAR), and Gearing Ratio (GR) as control variables, while controlling for time. The specific regression results are shown in Table 4.

Table 4: Regression results of the effect of corporate income tax benefits on financial performance

| Variables | Coefficient | t-value | P-value |
|---|---|---|---|
| TAX | 0.001* | 1.77 | 0.078 |
| IAR | 0.935*** | 79.62 | 0.000 |
| CAR | -0.942*** | -72.87 | 0.000 |
| GR | -0.013* | -1.38 | 0.069 |
| 2017.YEAR | -0.011*** | -7.77 | 0.000 |
| 2018.YEAR | -0.011*** | -7.41 | 0.000 |
| 2019.YEAR | -0.011*** | -7.63 | 0.000 |
| 2020.YEAR | -0.011*** | -6.34 | 0.000 |
| Constant | 0.016*** | 4.61 | 0.000 |
| Observations | 1, 135 | | |
| Number of id | 227 | | |
| R-squared | 0.977 | | |
| Company FE | YES | | |
| Year FE | YES | | |
| F test | 0 | | |
| r2_a | 0.977 | | |
| F | 1471 | | |

Note: ***p<0.01, **p<0.05, *p<0.1

According to the regression results in Table 4, it can be seen that:

First, corporate income tax benefits have a promoting effect on financial performance. Corporate income tax benefits pass the significance test of 10%, and the coefficient is significantly positive; That is, the financial performance will increase by 0.1% for every 1 increase in corporate income tax preference. ROA refers to the ratio of net income to total assets of an enterprise. Although this ratio is very low from the perspective of coefficient, in reality, it has a great impact on the business performance of an enterprise.

Second, the ratio of income to assets is positively correlated with financial performance. The Income-to-asset ratio (IAR) passed the significance test of 1%, and the regression coefficient was significant, indicating that the Income-to-asset ratio had a promoting effect on financial performance. In other words, for an enterprise, every 1 increase in the Income-to-asset ratio will lead to a 0.935 increase in financial performance. However, there is a negative correlation between Cost-to-asset ratio and financial performance. For every 1 increase in Cost-to-asset ratio (CAR), financial performance will decrease by 0.942. In other words, after excluding the scale effect, measures such as increasing operating revenue and reducing operating expenses can be taken to improve the financial performance of the company.

Third, asset-liability ratio is negatively correlated with financial performance. After the significance test, the regression coefficient reaches the significant level, indicating that the asset-liability ratio will inhibit the company's business performance to some extent. That is to say, for an enterprise, every time the asset-liability ratio decreases by 1, the operating performance will increase by 0.013. The asset-liability ratio is too high, the financial risk is too high, and the capital chain is easy to break, which is not conducive to the normal growth of financial performance. Enterprises need to make use of the principle of financial leverage and the tax shield effect to adjust the capital structure reasonably.

Based on the previous paper, the differences in the effects of corporate income tax incentives on the financial performance of software and IT service industry are then studied from a regional perspective. Based on the bifurcated distribution of enterprises in the software and IT service industry, the software and IT service enterprises are divided into two groups of eastern and non-eastern regions

for regression analysis, and the regression results are shown in Table 5.

As can be seen from Table 5 below.

Among the listed software and information technology service enterprises, there are 187 enterprises in the eastern region and 40 enterprises in the non-eastern region, which is a highly uneven distribution of enterprises. The effect of corporate income tax incentives on the financial performance of software and information technology service enterprises in the eastern region passes the significance test, while the non-eastern region does not. It indicates that the corporate income tax preference has little impact on the financial performance of software and information technology service enterprises in non-eastern regions, and the corporate income tax preference has a positive impact on the financial performance of software and information technology service enterprises in eastern regions.

In this section, the empirical study verifies the two hypotheses of this paper and draws the following conclusions: the EITC has a catalytic effect on the financial performance of software and IT services; the EITC has a greater catalytic effect on the financial performance of software and technology services in the eastern region than that of software and IT services in the non-eastern region.

Table 5: Regression results of regional heterogeneity

| Variables | Eastern Region | Non-Eastern Region |
|---|---|---|
| TAX | 0.001* | 0.004 |
| | (1.66) | (1.14) |
| IAR | 0.925*** | 0.973*** |
| | (68.24) | (63.23) |
| CAR | -0.933*** | -0.967*** |
| | (-61.92) | (-87.51) |
| GR | -0.011 | -0.023 |
| | (-0.95) | (-1.20) |
| 2017. YEAR | -0.011*** | -0.012*** |
| | (-6.63) | (-4.39) |
| 2018. YEAR | -0.012*** | -0.008*** |
| | (-6.94) | (-3.76) |
| 2019. YEAR | -0.013*** | -0.008*** |
| | (-7.13) | (-4.34) |
| 2020. YEAR | -0.013*** | -0.006 |
| | (-6.42) | (-1.50) |
| Constant | 0.018*** | 0.008* |
| | (4.25) | (1.73) |
| Observations | 935 | 200 |
| Number of id | 187 | 40 |
| R-squared | 0.973 | 0.989 |
| Company FE | YES | YES |
| Year FE | YES | YES |
| F test | 0 | 0 |
| r2_a | 0.973 | 0.988 |
| F | 1432 | 2312 |

Note: t-values in parentheses, ***p<0.01, **p<0.05, *p<0.1

## 4. Corporate Income Tax Incentives for Financial Performance Problems

### 4.1. Problems in Taxation

(1) Tax rate

From the results of the previous empirical analysis, it can be seen that the corporate income tax

preference has a significant role in promoting the financial performance of software and information technology service enterprises, but the tax rate of most software and information technology service enterprises is 25%, and the tax rate is too high, which is not conducive to the promotion of the corporate income tax preference on financial performance and the development of enterprises. Although China's current tax rate is medium in the international arena, compared with some surrounding countries, our enterprises still bear a heavy tax burden, and there is room for downward adjustment of our corporate income tax rate.

(2) Tax benefits

In terms of policy formulation, China's corporate income tax preferences for software and information technology service enterprises do not take into account the differences in the level of economic development between regions. There is an imbalance of resources between the east and west, and there is also a large difference in the capacity and operation of enterprises, but the existing tax policy does not play a role in regulating the differences, but allows enterprises in different regions to uniformly adopt the same preferences, which will lead to greater differences between regions. Most of the enterprises in the software and information technology service industry, the object of this paper, are distributed in the eastern region. From the empirical links in the previous paper, it is found that the corporate income tax preference has a positive impact on the financial performance of software and information technology service in the eastern region, and the impact on the financial performance of software and information technology service in the non-eastern region is smaller or even negligible, which does not play the role of taxation in resource allocation and economic regulating role, and failed to narrow the economic gap between eastern and western enterprises.

Secondly, the strength and link of tax incentives for R&D needs to be improved, and tax incentives should focus more on encouraging the R&D process. Through the software and information technology service industry policy combing found that the current enterprise income tax preferential policy for research and development expenses plus deduction ratio of 75%, there is room for upward adjustment. The preferences for R&D are only for the deduction of successful research expenses, and lack of preferences for the R&D process and repeated experimental links. The research object of this paper is the software and information technology service industry and other high-tech industries, whose main characteristics are rapid technological progress, short product life cycle and frequent product upgrades. Therefore, new trends in technology, products and markets will emerge continuously, which requires enterprises to grasp the development trend of industrial technology and applications and constantly innovate to meet the needs of the market.

However, in the process of technological innovation, it is inevitable that the innovation is misdirected, and then certain tax incentives are needed to mitigate the loss of enterprises. Tax incentives that emphasize results over process discourage enterprises from conducting R&D activities and are not conducive to improving financial performance. Considering the long-term development of enterprises, innovation is important, which requires that corporate income tax incentives must be improved in terms of research and development.

(3) Tax rate form aspect

The development level of China's coastal cities is much higher than the central and western regions. In addition to the current number and scale of software and information technology services enterprises in China, the proportion of small and medium-sized enterprises is large, the number of small-scale, large enterprises are mostly monopolies, the number of small but large scale. The characteristics of proportional tax rate in the face of the above two problems does not play the function of taxation to regulate the differences.

The software and information technology service industry, the subject of this paper, has only 262 A-share listings as of April 2021, while there are 40, 020 software and information technology service enterprises nationwide. From the descriptive statistics results made in this paper 3.4, it can be seen

that the net profit margin of total assets among the listed software and information technology service enterprises varies greatly, and the corporate income tax incentives also vary greatly, which shows that there are certain disadvantages of using proportional tax rate for all enterprises in corporate income tax. To give full play to the promotion of financial performance by corporate income tax incentives, it is necessary to make adjustments to this form of tax rate.

From the descriptive statistics above, it can be seen that there are 187 software and IT service enterprises in the eastern region and 40 in the non-eastern region. The distribution of enterprises is extremely uneven and the geographical resources they enjoy are inconsistent, which in turn affects the financial performance among enterprises and varies greatly from region to region, and the corporate income tax adopts a proportional tax rate, which cannot reflect the fair principle of taxation.

### 4.2. Problems on the Part Of Enterprises

Lack of professional tax personnel. The enjoyment of the policy of R&D expense add-on deduction in the EITC and the work of high-tech enterprise recognition require professional tax personnel. If enterprises do not have highly qualified financial and tax personnel, they are likely to bear unnecessary tax burden, which leads to the reduction or even failure of the promotion effect of the EITC on financial performance. The empirical results show that the Standard deviation of corporate income tax incentives (TAX) is large, which indicates that there may be problems in this regard.

## 5. Measures to Improve the Impact of Corporate Income Tax Incentives on Financial Performance

### 5.1. Government Level

(1) Reduction of income tax rate in due course

As OECD member countries have cut the tax rate, the advantage of China's corporate income tax rate gradually disappeared; at the same time, China's enterprises bear a heavy tax burden. To enhance the number of China's software and information technology services exports, it is very necessary to reduce the tax rate.

(2) Adjustment of regional tax benefits

In terms of the current state of social development, there is still a gap between the overall economic development of the East and the Midwest, which is due to the differences in hardware facilities and innovation capabilities caused by the different levels of development in each region, thus making the overall level of the West is not as good as the East. And according to the Ministry of Industry and Information Technology disclosed that the revenue growth of software and information technology services enterprises in 2021, the eastern region to maintain rapid growth, the growth of the central and western regions stand out. This indicates that the software and information technology services in the central and western regions have a lot of room for demand. In such a situation, the state should make full use of the regulatory function of taxation, the introduction of targeted policies to enable the western region to make up for the shortcomings, improve the overall strength of enterprises and promote the balanced development of each region.

(3) Increase R&D tax incentives and adjust the scope of incentives

The deduction ratio of R&D expenses can be appropriately increased and the scope of deduction can be extended to R&D links and repeated experimental links, which can reduce the R&D expenses of the company and also reduce the financial pressure of the company. Take this opportunity to stimulate the innovation vitality of the company, improve the performance of the company and enhance the competitiveness of the company in the international arena.

(4) Improve the incentive of R&D personnel system

A group of high-quality research talents is an inexhaustible source of motivation for the company to carry out research work. Payments and rewards are proportional in order to more effectively stimulate scientific research motivation of scientific workers, thus promoting the company's innovative development. From the perspective of taxation, the government can reduce the personal income tax of R&D personnel and increase the deduction of income from technology transfer. Second, strengthen the training of technical personnel and increase the accrual of employee training costs. Through the government's policy support, the enthusiasm of scientific researchers will be improved, and the awareness of cultivating scientific and technological talents will be enhanced, so as to improve the overall quality of scientific and technological talents and promote the development of the company.

(5) Enhancement of tax information technology

China has a wide variety of tax incentives and numerous tax rate brackets, therefore, only by strengthening the construction of tax information system and simplifying business processes can enterprises more fully enjoy the national incentives. Using big data and cloud computing technology to make tax incentive policies more transparent. The current online business process is cumbersome and demanding for tax preparers, so it needs to be streamlined to meet taxpayers' demand for efficiency and speed. The process of applying for tax relief can also be popularized through the cloud platform so that more SMEs can benefit.

### 5.2. Enterprise Level

(1) Improve the professional capacity of tax and finance personnel

In recent years, China's tax policy has changed a lot and adjusted more and more frequently, which brings new challenges to the tax planning work of enterprises. Therefore, in information technology service enterprises, it is necessary to pay attention to the training of employees, set up special positions in the tax department and have an overall participation in the whole process of tax planning to ensure the implementation of the plan. At the same time, a sound incentive mechanism should be established to regularly organize employees of taxation authorities to participate in special studies and orientation assessment, so as to continuously improve their overall quality and equip the professional talent team for tax planning work. This will optimize the rational allocation of resources, improve financial performance and enhance the competitiveness of the enterprise.

(2) Conduct reasonable tax planning

Taxation has the function of regulating the economy, and the state has formulated a series of tax policies for the high-tech industry. On the basis of enjoying 15% tax rate, high-tech enterprises can also deduct expenses incurred in R&D activities at a rate of 175% or include them in the cost of intangible assets. Enterprises should make full use of the government's support for R&D activities in science and technology, understand the policies clearly, increase investment in R&D activities, correctly classify and account for R&D expenses, and formulate reasonable tax plans.

## 6. Conclusion

This paper selected the financial data of listed companies in China's software and information technology services industry for the years 2016-2020 as a sample and used a multiple linear regression model to empirically study the impact of tax incentives on corporate income tax on corporate performance, and concluded that.

(1) Corporate income tax incentives have a catalytic effect on the performance of software and information technology service enterprises.

(2) Corporate income tax incentives promote software and IT service enterprises in eastern regions better than those in non-eastern regions.

Finally, we analyzed the limitations of preferential corporate income tax policies in improving financial performance, and then put forward policy suggestions at both government and enterprise levels to address the shortcomings of preferential corporate income tax policies in improving financial performance, including: reducing income tax rates at an appropriate time, adjusting regional tax preferences, improving incentive policies for researchers, building a comprehensive tax information construction, improving the professional capacity of tax and finance personnel, and reasonably The recommendations include: reducing the income tax rate at an appropriate time, adjusting regional tax incentives, improving the incentive policy for researchers, building a comprehensive tax information technology construction, improving the professional capacity of tax and finance personnel, and conducting reasonable tax planning, etc. to help improve the performance of software and IT service enterprises in China.

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