

Study on the Mechanism of the Role of Environmental Tax Incentives on Corporate Social Responsibility—from the Perspective of Tax Incentive Theory

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Abstract: From the perspective of tax incentive theory, this paper investigates the mechanism of the role of environmental protection tax incentives on corporate social responsibilities. By analyzing the role of cost advantage, profit motivation and reputation effect, it reveals how environmental protection tax incentives can alleviate the cost of environmental protection, motivate enterprises to provide environmental protection products and services, and enhance corporate image and reputation to promote the fulfillment of social responsibilities. On this basis, the importance of tax incentives theory needs to be emphasized in playing a significant role in understanding its internal mechanism and providing a theoretical reference and practical insights for policy makers and enterprise managers to make decisions.

1. Introduction

In 2016, the Chinese government enacted the Environmental Protection Tax Law of the People's Republic of China, this means government would be given the obligations of subsidizing environment protection, encouraging enterprises to switch to reverse reinforcement, and collecting environment protection taxes from enterprises. Especially in today's business environment, environmental sustainability and corporate social responsibilities (CSR) have become crucial aspects. Governments around the world are also recognizing the urgency for companies to actively participate in environmental protection and contribute to sustainable development.

Environmental tax incentives are widely used as an effective policy tool to encourage corporate social responsibilities and promote a green economy[1]. By providing tax breaks, incentives, or other economic incentives, these policies aim to motivate enterprises to take environmentally friendly actions to reduce pollution emissions, reduce energy consumption, and promote resource recycling[2]. However, despite the widespread implementation of environmental tax incentives, we have not yet had a full understanding of the mechanisms of how these policies affect the socially responsible behavior of firms. Specifically, we need to further explore the specific mechanisms and pathways by which these policies affect CSR behavior. Research in this area will not only deepen the understanding of tax incentives, but also help provide policy makers with more targeted policy recommendations to promote more active corporate social responsibilities and environmental

sustainability.

This paper aims to study in deepening the mechanism of environmental protection tax incentives on corporate social responsibilities from the perspective of tax incentive theory. Through a comprehensive review of relevant theoretical frameworks, research literature and empirical research results, the mechanism of environmental protection tax incentives on CSR behavior is studied and an in-depth theoretical analysis is provided. At the theoretical level, this paper explores the impact of environmental tax incentives on CSR behavior based on tax incentive theory. Tax incentives theory provides an economic framework to explain corporate behavior, covering key elements such as cost advantage, profit motive and reputation effect. By applying tax incentive theory, we can deeply analyze how environmental tax incentives affect CSR behavior through incentive mechanisms.

2. Analysis of the Current State of Research

2.1. Environmental Tax Incentives

Environmental protection tax incentives policy refers to the government's taxation means which can grant exemptions, concessions or impose tax incentives to enterprises so as to meet environmental protection requirements, encourage and guide enterprises to actively fulfill their responsibilities for environmental protection and reduce environmental pollution and resource consumption as well. This policy aims to mobilize enterprises' environmental protection awareness and action, promote sustainable development and build ecological civilization. The types of environmental protection tax incentives in the context of China's actual situation mainly include: First, Tax Relief Policy, the government gives certain tax exemptions or waivers in income tax, value-added tax, and resource tax for enterprises that meet environmental protection standards. Some scholars have found that such policies can reduce the operating costs of enterprises, improve the return on environmental protection investment, and motivate enterprises to increase their environmental protection investment. Second, Tax Credit Policy, the government gives tax credits to enterprises for making environmental protection investments, energy saving and emission reduction, and other environmental protection behaviors. Enterprises can offset part of the tax payable through environmental protection investment to reduce operating costs, while encouraging them to actively adopt environmental protection measures. Third, Environmental Standards Incentive policy, the government set a series of environmental standards and give incentives to enterprises that meet or exceed these standards. The rewards can take the form of tax incentives, subsidized funds or other forms of incentives to encourage enterprises to continuously improve their environmental management and technological innovation capabilities.

Some scholars[3] argued that the objectives of environmental tax incentives mainly lie in stimulating environmental protection investment, accelerating the construction of environment-friendly economy, promoting energy conservation and emission reduction, guiding enterprises to fulfill their social responsibilities, and optimizing environmental management and supervision in several aspects. From the previous analysis, the environmental protection tax incentives policy is an efficient way that can play a positive role in motivating enterprises to shoulder their environmental responsibilities, promoting the transformation of green economy and facilitating sustainable development simultaneously. However, the specific operating system and effects of this policy still need to be studied and explored in future.

2.2. Overview of CSR Theory

Corporate Social responsibilities (CSR) refers to the social and environmental responsibilities that enterprises take the initiative to undertake in their business activities. It emphasizes that while

pursuing economic profits, enterprises should consider and balance the needs and interests of stakeholders[4] and actively fulfill their social, environmental and ethical obligations. The current mainstream related theories are: stakeholder theory which believes that CSR should consider and balance the needs and interests of different stakeholders and pursue benefit sharing and sustainable development; moral and ethical theory which emphasizes that enterprises should follow moral codes and values in their business decisions and behaviors; and the success of enterprises should be combined with social and environmental improvement by achieving social welfare in economic development increase and promote social justice, the benefit-sharing theory, and the resource dependence theory states that firms depend on external resources and the environment[5]. Although many scholars have explored the economic consequences which would be brought by these issues among CSR and long-term corporate value, researches on the factors that influence CSR and the interrelationship of these factors remains insufficient. Because of the potential risk, this paper needs to examine how environmental tax incentives affect CSR according to the correlation.

2.3. Perspective of Tax Incentive Theory

By analyzing the key concepts, assumptions and mechanisms of tax incentives, we can deeply explore the influence and regulation mechanism of environmental tax incentives on CSR behavior, and provide theoretical support and guidance for the formulation and implementation of related policies[6]. Tax incentive theory is an important theoretical framework in the field of economics, and tax incentives theory argues that the decisions and behaviors of economic agents are often driven by marginal effects. Changes in marginal tax rates affect economic agents' decisions about additional revenues or costs, which trigger behavioral adjustments. At the same time, economic agents will weigh the relationship between marginal tax costs and potential benefits in their decisions. When the marginal tax cost exceeds the potential benefit, economic agents may adjust their decisions to reduce the tax burden. In addition, economic agents may be affected by information asymmetry or incompleteness when facing tax policy changes, and thus there are limitations in their responses to tax incentives.

Combined with the actual analysis, tax incentives theory can be used to explain the mechanism of environmental tax incentives on corporate social responsibilities in the study of environmental tax incentives. By reducing the environmental tax burden of enterprises or providing tax incentives, the government can motivate enterprises to adopt environmental protection measures and fulfill their social responsibilities. From the perspective of tax incentives theory, enterprises will consider the change of marginal tax rate and tax incentive effect when facing environmental tax incentives. Lower environmental tax burden and corresponding tax incentives will reduce the marginal tax rate of enterprises, which will encourage them to increase environmental protection investment [7], improve environmental management and fulfill social responsibilities to adapt to the environmental changes brought by tax incentives. Therefore, tax incentive theory provides a powerful analytical framework for understanding the mechanism of the role of environmental tax incentives on corporate social responsibilities.

3. Analysis of the Mechanism of the Role of Environmental Tax Incentives on Corporate Social Responsibilities

3.1. Cost Advantage

Environmental tax incentives provide financial incentives for companies to pay more attention to social responsibilities by reducing their environmental protection costs. Such policy measures achieve cost advantages in several ways. First, the government grants preferential environmental tax breaks

to enterprises that adopt environmentally friendly technologies to reduce their environmental tax burden [8,9]. Such tax relief measures can reduce the economic pressures on enterprises and encourage them to take the initiative to adopt environmental protection measures. Second, the environmental protection subsidy policy adopted in China before 2016 encouraged enterprises to carry out environmental protection technological innovations and equipment renewal to reduce environmental pollution emissions. Some scholars [10] argued that such subsidies and support have led to a certain degree of relief in the investment costs of enterprises in environmental protection and enhanced their motivation to fulfill their social responsibilities.

Through tax incentives, the government can promote the adoption of environmental technologies such as clean energy and recycling of resources by enterprises to reduce energy consumption and emissions generation. Such technologies and measures not only reduce environmental pollution, but also alleviate the operating costs of enterprises, improve resource utilization efficiency, and enhance their competitiveness. Environmental tax incentives also drive companies to pay more attentions to social responsibilities through advantages in market competition and brand image. In modern society, environmental protection and sustainable development have become important considerations for consumers and investors when choosing products and partners. By adopting these measures and fulfilling social responsibilities, it's a good opportunity for enterprises to build a proper brand image and acquire consumers' and investors' recognition and trust. Environmental tax incentives provide an opportunity for companies to gain a competitive advantage in the marketplace and enhance their brand value through environmentally friendly behavior.

3.2. Profit Motive

From the perspective of profit maximization of enterprises, environmental protection tax incentives can improve the competitiveness and profits of enterprises by motivating them to provide environmental protection products and services through profit motive. The specific reasons are listed as follows: First, Environmental Protection Tax Incentives reflect the increasing concern of society about environmental protection, and how the implementations of environmental protection tax incentives can help increase sales and profits under these circumstances and enterprises can gain more consumer recognition and support by providing environmentally friendly products and services to meet market demand, which increases the competitiveness of enterprises in the market [11]. Second, environmental protection tax incentives can increase the competitiveness and profits of enterprises by enhancing their brand value and image. Companies will shape a symbolic corporate image, win the recognition and trust of consumers, strengthen their brand competitiveness by actively fulfilling their social responsibilities and taking environmental actions[12]. Consumers are also more inclined to buy products and gain services from companies with a good socially responsible image, which brings business opportunities and economic rewards for companies[13].

3.3. Reputation Effect

Enterprises with a good reputation can gain more trust, customer attractiveness, competitive advantage and higher crisis response ability, and environmental protection tax incentives can be used to promote enterprises to actively fulfill their social responsibilities. First of all, the implementation of environmental tax incentives reflects the government's emphasis on environmental protection and highlights the society's expectation of corporate social responsibilities. By responding positively to this policy and fulfilling social responsibilities, enterprises will gain public recognition and positive evaluation from society. The public and stakeholders would have a positive attitude toward the social responsibilities behavior of enterprises, which helps to gain reputation of enterprises. After fulfilling social responsibilities, focusing on environmental protection and meeting stakeholders' expectations

and needs, companies are able to build good stakeholder relationships. The establishment of this relationship helps build a solid corporate foundation, and through the promotion of environmental tax incentives, such great changes would occur on various fields. Secondly, nowadays, consumers and investors will put much more emphasis on the social responsibilities performance of enterprises and are more inclined to choose the products and services of those enterprises with good social reputation. Through environment tax incentives policy coming into effect, enterprises are able to take actions to build a positive corporate image and win the favor of consumers and investors. This will lead companies to gain more market shares and get advantages over other rivals, further enhancing their reputation and brand value.

In summary, with all effective measures done, companies can strengthen their connection and interaction with society, build a good social image, and lay a solid foundation for their sustainable development and business success.

4. Limitations of the Study and Future Research Directions

4.1. Limitations of the Study

Although this study has thoroughly explored the mechanism of environmental protection tax incentives on CSR, there are still some limitations. Firstly, this study has theoretically analyzed the mechanism of environmental protection tax incentives on CSR, but there may be some specific operations and implementations problems in the practical application. Secondly, this study only analyzes the mechanism of environmental tax incentives on CSR from the perspective of tax incentives theory, without considering other potential influencing factors and mechanisms. Future research can combine other theoretical models and perspectives to explore the complex relationship between environmental tax incentives and CSR.

4.2. Future Research Directions

First, the research perspective can be expanded to combine other related theories and models, such as institutional theory and stakeholder theory, to explore the complex relationship between environmental tax incentives policy and corporate social responsibilities. The analysis can be conducted from a multi-dimensional perspective to reveal the underlying mechanisms and causal relationships. In addition, the issues underlying the specific implementation of the policy can be further explored under different industries and enterprise scales, such as their applicability and implementation strategies. Factors, like enterprises' resource allocation, management practices and stakeholder participation, can be considered to explore how to optimize and improve the design and implementation of environmental protection tax incentives. Finally, attention can be paid to the relationship between environmental tax incentives and sustainable development goals. The role which environment tax incentives play deserves further studies in achieving the dual goals of environment protection and economic development. Meanwhile how to find more effective and efficient sustainable policy tools would become the key of the related researches. In the near future, we would denote ourselves on providing more instructive suggestions and precise decisions to those policy makers and business managers.

5. Conclusion

Through a review of relevant literature and theory, this paper concludes as the followings: First, environmental tax incentives policy is an important tool through which the government can motivate enterprises to fulfill their social responsibilities and focus on environmental protection. It provides

economic incentives and mechanisms to mitigate the costs of enterprises in order to drive them to take environmental protection actions and maximize the company's profits at the same time. Second, tax incentive theory is significant in understanding the mechanism of environmental protection tax incentives on corporate social responsibilities. The theory emphasizes the impact of tax policies on corporate behavior by leveraging the cost advantage, profit motive and reputation effect of enterprises to guide them toward social responsibilities fulfillment, which in turn leads to the goal of enhancing corporate value and improving ecological and environmental conditions. Besides, future research could also cultivate more fundamental connections between tax incentives and other factors affecting CSR, as well as the specific issues of policy implementation. This will help to study further researches in developing the effectiveness and sustainability of environmental tax incentives and provide more insights and guidance for the progress and practice of CSR.

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