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A Case Study on the Impact of VAT Deduction on the Enterprise Performance of Integrated Circuit Enterprises

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Abstract: *With the development of the times, China's economic development has shifted from the past stage of high-speed growth to the current stage of high-quality development. To continuously inject momentum into economic development, the value-added tax system is undergoing continuous development and reform. On April 1, 2019, a notice was issued proposing an additional deduction policy to reduce the tax burden on enterprises. Three years later, in order to promote the high-quality development of high-tech advanced manufacturing enterprises such as integrated circuits, a special additional deduction policy will be introduced: from January 1, 2023 to December 31, 2027, integrated circuit and other enterprises are allowed to deduct an additional 15% of the deductible input tax for the current period to offset the payable value-added tax. Now, the additional deduction policy for integrated circuit and other enterprises has been implemented for two years. Compared with the past, it is worth analyzing and researching whether the impact of this policy on enterprises is still significant, in order to provide reference for subsequent policy adjustments. This article selects three listed integrated circuit companies that comply with the policy of adding credit as examples, analyzes the impact of the policy on high-tech enterprises from the perspective of corporate performance, and draws inspiration and provides suggestions for subsequent policy reform.*

Keywords: *Value-Added Tax Reform, Additional Deduction, Enterprise Performance, Taxation*

1. Introduction

The Additional Deduction Policy is a significant tax incentive measure in China’s Value-Added Tax Reform.Simply put, this policy permits eligible taxpayers to additionally calculate a certain proportion of deductible tax amount beyond the statutory input tax credit limit, based on a prescribed calculation method. Following the reduction of VAT rates in 2018, to further stimulate economic vitality, the 2019 Government Work Report proposed that China would implement a more extensive tax and fee reduction reform within the year. In March of the same year, the policy related to the deepening of the Value-Added Tax Reform (Caishui [2019] No. 39)was promulgated. The Additional Deduction Policy was first introduced in this announcement, allowing taxpayers in the manufacturing and life service industries to deduct an additional 10% of the current deductible input tax from their tax payable from April 1, 2019, to December 31, 2022.After three years of policy implementation, benefiting from its positive effects, the policy’s validity period was further extended to December 31, 2023, offering longer-term tax support to the relevant industries.

As the Chinese Economy transitions towards high-quality development, national policies have gradually shifted from broad-based tax reductions to structural tax cuts, with an increasing emphasis on supporting Technological Innovation and advanced manufacturing. To implement the new directives from the Central Economic Work Conference and the Government Work Report—specifically to support Technological Innovation and manufacturing development through structural tax and fee reduction policies—in April 2023, the Ministry of Finance and the State Taxation Administration issued the Notice on the Value-Added Tax Additional Deduction Policy for Integrated Circuit Enterprises (Cai Shui [2023] No. 17). This notice stipulates that integrated circuit design, production, packaging and testing, equipment, and materials enterprises may apply an additional 15% deduction on the Deductible Input Tax against their payable Value-Added Tax based on the current period’s Deductible Input Tax. The policy remains effective until December 31, 2027. In the more than one year since the policy's implementation, the domestic integrated circuit industry has demonstrated a favorable development

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trend. Benefiting from the 15% additional deduction on input VAT provided by this policy, the financial pressure resulting from the industry's historically high investment has theoretically been alleviated. In other words, the changes in tax burden and enterprise performance experienced by enterprises after benefiting from the additional deduction policy still require empirical validation.

However, existing research has paid limited attention to the VAT additional deduction policy, leading to relatively few studies on its impact on enterprise performance. This paper aims to analyze the impact of the Additional Deduction Policy on the integrated circuit industry, a representative sector, through a case study approach, thereby enriching research in this field. From a practical standpoint, the findings of this study will provide a theoretical basis for the continued implementation of the Additional Deduction Policy for enterprises such as those in the integrated circuit sector, enabling both government and enterprises to more accurately evaluate the effectiveness of existing policies, optimize the scope and intensity of preferential measures, and thereby further enhance the policy's role in promoting industrial development.

2. Literature Review

As the largest tax category in China, even small changes in value-added tax can have a huge impact. Guangren Zhou(2018)[1]'s research found that Value-Added Tax reform has consistently been a vital driving force in advancing the development of China's socialist market economy. Haifeng Nie,Yuping Yang,and Xiaoguang Chen(2025)[2]further confirmed this perspective by developing a model analyzing the impact of Value-Added Tax on total economic output within production networks.

The Additional Deduction Policy, introduced in 2019 as a new Value-Added Tax reform measure, exerts a positive influence on economic and social development from a macroeconomic standpoint. Following the implementation of the 2019 Value-Added Tax reduction policy, Lei Liu and Yongqiang Zhang(2019)[3]found that simulation analysis using the CGE model demonstrated that this policy effectively promoted improvements across multiple dimensions of the macroeconomy. It not only stimulated real GDP growth and enhanced residents' income levels and consumption capacity, but also positively impacted social welfare improvement, investment growth, and the expansion of import and export trade. Ying Wan and Heng Chen (2020)[4]subsequent research confirmed that the Additional Deduction Policy within the Value-Added Tax reform reduced corporate tax burden, stimulated economic growth and the expansion of aggregate social demand, and generated multiple benefits including narrowing the income gap between urban and rural residents and improving overall social welfare. These studies collectively demonstrate that the 2019 Value-Added Tax Reform offered crucial institutional support and policy momentum for the optimization of the Chinese economy's structure and the advancement of industrial transformation and upgrading.

From a micro-level perspective, all enterprises generally benefited from the 2019 value-added tax additional deduction policy. The positive impact of the additional deduction policy on enterprises is primarily reflected in the following three aspects:

(1) In terms of universality, the additional deduction policy exhibits broad policy dividends. Xi Rao et al. (2020)[5]proposed that the value-added tax input additional deduction influences corporate value. Subsequently, empirical research by Yi Rong, Haisheng Hu, and Dahao Zhu (2023)[6]demonstrates that this policy universally benefits various market entities, particularly playing a crucial supportive role in the development of small and medium-sized enterprises. Chao Wang's(2025)[7]research further confirms that tax incentives significantly improve the operational conditions of small and medium-sized enterprises, a finding that corroborates the conclusions of Pei Liu and Li Feng (2025)[8].It systematically demonstrates the mechanism by which tax incentive policies promote high-quality corporate development through four pathways: reducing corporate tax burden, encouraging technological innovation, facilitating industrial upgrading, and enhancing market competitiveness.

(2) In terms of innovation incentives, the additional deduction policy also demonstrates a distinctive role. Qiumei Gu and Haisheng Hu (2024)[9],their specialized study found that this policy increased the output levels of production and life service enterprises. For high-tech enterprises, this policy effect is even more pronounced. Sihan Liu's(2021)[10]research on integrated circuit enterprises indicates that the additional deduction policy effectively addresses the positive externality issue of R&D investment in this industry. Yong Zheng and Bin Chen's(2023)[11]performance evaluation further confirms that this policy significantly improves the innovation efficiency of integrated circuit enterprises.

ISSN 2616-5902 Vol. 7, Issue 7: 113-121, DOI: 10.25236/AJBM.2025.070715

(3) Regarding industrial upgrading, Jinxin Lin's(2023)[12]research reveals a positive correlation between tax incentives and industrial innovation. This finding, together with the aforementioned studies, forms a comprehensive chain of evidence, collectively demonstrating that the additional deduction policy not only alleviates the burden on enterprises in the short term but also enhances their long-term competitiveness through innovation incentive mechanisms. Extensive research evidence demonstrates that the 2019 value-added tax reform, particularly the additional deduction policy, has exerted profound and multifaceted effects on enterprises.

According to the literature, it is evident that the value-added tax reform policy implemented in 2019 (mainly through additional deductions) has fully demonstrated its effectiveness in daily life and production enterprises from 2019 to 2023. With the phased adjustment of policy implementation, the previously common additional deduction policy has gradually been abolished, and tax incentives for high-tech industries such as integrated circuits will be introduced in 2023. This policy shift raises important questions worth exploring in depth: during the critical period of economic transformation and industrial upgrading, can the additional deduction policy for high-tech enterprises maintain the same policy effect as that for production enterprises? Has the impact of this policy on enterprise performance changed? Exploring these issues has important theoretical value and can provide reference for optimizing future tax policies.

3. Research Design

3.1 Research Subjects

This study analyzes enterprise performance data from 2022 to 2024, aiming to investigate the impact of the additional deduction policy targeted at specific enterprises on high-tech enterprises (taking integrated circuit enterprises as an example), and to evaluate whether the policy can maintain its intended effectiveness as it did previously for Life Production Enterprises. The selection of enterprise performance as the core research indicator is based on the following two considerations:

(1) Enterprise performance can reflect a company's operational capability, profitability, and other related information. Using enterprise performance as a comprehensive indicator to measure business results and future development capabilities can fully reflect its recent development changes.

(2) According to Haituo Qie,Fang Wang et al. (2025)[13],their research indicates that there is a relationship between enterprise performance and R&D investment. For integrated circuit and other high-tech enterprises, sustained R&D investment is a core factor in maintaining competitive advantage, and the additional deduction policy can theoretically influence enterprise performance, thereby affecting the intensity of R&D investment.

3.2 Indicator Selection

Enterprise performance is a comprehensive reflection of a company's operational efficiency and managerial achievements within a given business cycle, typically evaluated through multiple indicators. For example:Min Feng's(2022)[14]empirical analysis of tax incentives on corporate operational performance demonstrates that tax incentive policies can enhance operational capability by reducing tax costs and alleviating the tax burden. Shiye Yuan's (2019)[15]research also indicates that tax policies can promote enterprise innovation, thereby improving development capability and overall performance. Therefore, according to Xiaocheng Liu(2025)[16],research on the performance evaluation system of manufacturing enterprises can systematically categorize performance evaluation into four core dimensions: operational efficiency, economic efficiency, development efficiency, and debt repayment efficiency. The specific evaluation indicators are shown in Table 1:

Table 1. Specific performance evaluation indicators for enterprises

Primary indicators	Secondary indicators
Operational efficiency	Current asset turnover, inventory turnover, fixed asset turnover
Economic efficiency	Sales profit margin, return on net assets, overall labor productivity
Development efficiency	Net profit growth rate, total (fixed) asset growth rate, operating revenue growth rate, R&D expenditure intensity
Debt repayment efficiency	Current ratio, quick ratio, debt-to-asset ratio

ISSN 2616-5902 Vol. 7, Issue 7: 113-121, DOI: 10.25236/AJBM.2025.070715

3.3 Case Selection

This study primarily employs the case study method, selecting three integrated circuit enterprises eligible for the additional deduction policy from 2023 to 2027, and uses their data from 2022 to 2024 for comparative analysis. The three A-share listed companies selected in this paper—Ingenic, Shanghai Belling, and OmniVision Group—all operate in the integrated circuit design sector and benefited from the tax incentives under the additional deduction policy between 2023 and 2024. The following parts provides a brief introduction to the operational status in 2023 and previous years:

3.3.1 Ingenic

Ingenic, established in 2005, is a high-tech enterprise specializing in the design and sales of integrated circuit chips. The company was listed on the Shenzhen Stock Exchange in 2011. Its primary products include computing chips, memory chips, analog chips, and interconnect chips, which are widely used in automotive electronics, industrial and medical sectors, communication equipment, and consumer electronics. Ingenic adopts a Fabless business model, concentrating on research and design, outsourcing manufacturing to specialized firms, and expanding its market through a combination of direct sales and distribution channels. According to the financial data of Ingenic from 2021 to 2023, in 2021, the company's operating revenue reached 5.274 billion yuan, and the net profit attributable to shareholders of the listed company was 926 million yuan. In 2022, operating revenue slightly increased to 5.412 billion yuan, while net profit declined to 789 million yuan, representing a year-on-year decrease of 14.79%. In 2023, the company's operating revenue decreased to 4.531 billion yuan, a year-on-year reduction of 16.28%, and net profit was 537 million yuan, down 31.93% year-on-year.

3.3.2 Shanghai Belling

Shanghai Belling Co., Ltd. was established in 1988 and is one of China's earliest integrated circuit design enterprises. It was listed on the Shanghai Stock Exchange in 1998. The company specializes in the design and sales of analog and mixed-signal integrated circuits. Shanghai Belling, like Ingenic, adopts the Fabless business model. According to Shanghai Belling's financial data from 2021 to 2023, the company's performance has exhibited volatility. In 2021, the company's operating revenue reached 2.024 billion yuan, and the net profit attributable to shareholders of the listed company was 729 million yuan. In 2022, operating revenue increased to 2.044 billion yuan, but net profit declined to 399 million yuan, representing a year-on-year decrease of 45.27%. In 2023, impacted by the downturn in the semiconductor industry cycle, the company's operating revenue increased by 4.54% year-on-year to 2.137 billion yuan; however, net profit recorded a loss for the first time, with net profit attributable to shareholders of the listed company at -60.2198 million yuan, representing a year-on-year decline of 115.09%. Moreover, due to increased R&D investment and a decline in gross profit margin, after excluding non-recurring gains and losses, the company achieved a net profit of 170 million yuan, representing a year-on-year decrease of 48.51%.

3.3.3 OmniVision Group

OmniVision Group, established in 2007, is a leading Chinese image sensor chip design enterprise and was listed on the Shanghai Stock Exchange in 2017. The company specializes in the research and design of CMOS image sensors, touch and display driver chips. Based on the financial data of OmniVision Group from 2021 to 2023, the company's performance demonstrated an initial increase followed by a decline. In 2021, the company's operating revenue reached 24.104 billion yuan, with net profit attributable to shareholders of the listed company amounting to 4.477 billion yuan. In 2022, due to weakened demand in consumer electronics, operating revenue slightly decreased to 20.078 billion yuan, and net profit declined to 990 million yuan, representing a year-on-year decrease of 77.88%. In 2023, the company's operating revenue rebounded to 21.021 billion yuan, representing a year-on-year increase of 4.69%. However, net profit further declined to 556 million yuan, a year-on-year decrease of 43.89%, primarily due to pressure on product gross margins and increased R&D investment (with the R&D expense ratio reaching 12.8% in 2023).

This study selects Shanghai Belling, Ingenic, and OmniVision Group—three integrated circuit design enterprises—as case study subjects for the following three main reasons: (1) all three companies adopt the Fabless business model (referring to companies focused on chip design without manufacturing), concentrating on chip design which entails a high R&D investment intensity; (2) the primary businesses of these three companies belong to key integrated circuit sectors encouraged by the state and meet the eligibility criteria for the additional deduction policy; (3) during the 2023–2024 policy implementation period, all three companies faced varying degrees of market pressure and

ISSN 2616-5902 Vol. 7, Issue 7: 113-121, DOI: 10.25236/AJBM.2025.070715

operational challenges. A comparative analysis of these three representative integrated circuit design enterprises enables a more precise evaluation of the implementation effects of the additional deduction policy in industrial practice.

4. Case Study

4.1 Overall Tax and Fee Situation of the Companies

Based on the financial statements of three companies from 2022 to 2024, the following content has been compiled and organized. Taxes and fees payable, VAT payable, and the input VAT additional deduction amount relevant to this study were selected as disclosure items and are presented respectively in Tables 2, 3, and 4.

Table 2. Summary of Taxes and Fees Payable for Shanghai Belling, Ingenic, and OmniVision Group from 2022 to 2024

Item	Year 2022	Year 2023	Year 2024
Shanghai Belling	17,059,779.29	15,963,695.69	30,032,306.59
Ingenic	11,014,878.57	24,874,943.71	12,895,499.02
OmniVision Group	145,308,825.92	228,976,052.54	229,093,833.77

*Compiled based on the 2022–2024 annual reports of Shanghai Belling, Ingenic, and OmniVision Group

Table 3. Summary of VAT payable for Shanghai Belling, Ingenic, and OmniVision Group from 2022 to 2024

Item	Year 2022	Year 2023	Year 2024
Shanghai Belling	6,811,082.33	11,550,433.72	13,833,837.89
Ingenic	640,380.84	741,825.58	748,898.48
OmniVision Group	23,708,334.26	27,178,160.01	13,892,806.24

*Compiled based on the 2022–2024 annual reports of Shanghai Belling, Ingenic, and OmniVision Group

Table 4. Summary of input VAT additional deduction amounts for Shanghai Belling, Ingenic, and OmniVision Group from 2022 to 2024

Item	Year 2022	Year 2023	Year 2024
Shanghai Belling	-	3,189,543.40	37,057,769.82
Ingenic	-	2,016,800.19	2,042,670.84
OmniVision Group	500,154.01	4,978,495.04	6,292,537.45

*Compiled based on the 2022–2024 annual reports of Shanghai Belling, Ingenic, and OmniVision Group

The total taxes and fees payable by Shanghai Belling are generally consistent with its operational performance. Due to the downturn cycle in the semiconductor industry, a certain degree of loss was incurred in 2023 compared to 2022. In 2024, as enterprises underwent inventory destocking of semiconductor products and downstream demand recovered, driven by artificial intelligence and consumer electronics, their operational performance improved. This is reflected in the increase in their taxable amount. At the same time, the additional deduction policy had a significant impact on Shanghai Belling. Since the implementation of the additional deduction policy in 2023, the additional deductions on input tax have reached approximately 3.2 million and 3.7 million, respectively. This policy was particularly pronounced in 2024; despite taxes and fees payable nearly doubling compared to 2023, the VAT payable remained relatively stable relative to 2023.

The changes in taxes and fees payable for Ingenic are primarily driven by industry cycles. In 2023, due to market downturns and asset amortization, taxes and fees payable surged abnormally, increasing by approximately 125% at the end of the period compared to the beginning. In 2024, with industry recovery and policy support, the situation gradually normalized. Regarding the input VAT additional deduction amount, there was no significant increase within the first two years following the policy implementation, remaining essentially stable at around two million. VAT payable exhibited only a slight increase of 0.9%. The proportion of the amount of additional deduction to VAT payable remained stable.

For OmniVision Group, the changes in taxes and fees payable and value-added tax are relatively

ISSN 2616-5902 Vol. 7, Issue 7: 113-121, DOI: 10.25236/AJBM.2025.070715

different. During the downturn in the integrated circuit market in 2023, the enterprise's taxes and fees payable still increased by 57%, while VAT increased by only 15%. In 2024, with the market recovering, the enterprise maintained a slight increase in taxes and fees payable, while VAT payable decreased by nearly 49%. The reduction in VAT payable is closely related to the input VAT amount, with the amount of additional deduction accounting for part of this decrease. Following the implementation of the special 15% deduction in 2023, the amount of additional deduction increased annually by 895% and 26%, respectively. This increase significantly reduced the proportion of VAT payable within the total taxes and fees payable.

In summary, considering the overall taxes and fees payable, VAT payable, and the amount of additional deduction, after the implementation of the additional deduction policy for integrated circuit enterprises in 2023, the three listed companies received a certain degree of tax support during the industry's downturn in 2023 and further benefited from the policy's effects following the market recovery in 2024. The amount of additional deduction for the three companies has steadily increased, while the proportion of VAT payable to total taxes and fees payable has decreased year by year.

4.2 Impact of Additional Deduction on Performance

4.2.1 Impact on Operational Capability

Table 5. Operational Capability Performance Indicators of Three Listed Companies from 2022 to 2024

Key Indicators	Company	Year 2022	Year 2023	Year 2024
Total Asset Turnover (times)	Shanghai Belling	0.42	0.43	0.56
	Ingenic	0.45	0.36	0.33
	OmniVision Group	0.59	0.58	0.67

*This table is compiled based on data from Juchao Network

According to Table 5,from the perspective of operational capability, Shanghai Belling and OmniVision Group exhibited an upward trend in total asset turnover from 2022 to 2024, increasing by 33% and 13% respectively compared to the end of 2022. The steady growth in total asset turnover reflects an enhancement in the enterprise's sales capability and an improvement in the efficiency of asset investment. However, Ingenic's total asset turnover has declined, which correlates with the annual decrease in its operating revenue over the past three years.Overall, Ingenic's operational capability is unaffected by the additional deduction policy, whereas Shanghai Belling and OmniVision Group have exhibited improvements in operational capability attributable to the additional deduction policy.

4.2.2 Impact on Solvency

Table 6. Solvency performance indicators of the three listed companies from 2022 to 2024

Key Indicators	Company	Year 2022	Year 2023	Year 2024
Current ratio (Current assets / Current liabilities)	Shanghai Belling	4.75	4.13	4.73
	Ingenic	6.47	9.66	10.90
	OmniVision Group	1.89	2.23	2.87
Debt-to-asset ratio (Total liabilities / Total assets)	Shanghai Belling	0.15	0.17	0.17
	Ingenic	0.09	0.07	0.07
	OmniVision Group	0.49	0.43	0.38

*This table is compiled based on data from Juchao Network

According to Table 6, from the perspective of solvency, Shanghai Belling's current ratio declined significantly in 2023 due to the cyclical impact of the industry but returned to the same level as the previous period in 2024 owing to industry recovery and policy support. The debt-to-asset ratio also remained stable between 15% and 17%. The changes in the current ratios of Ingenic and OmniVision Group are relatively similar. Compared to Shanghai Belling, their current ratios have increased annually with a greater magnitude. The rise in current ratio reflects an improvement in the enterprises' short-term solvency. Additionally, regarding the debt-to-asset ratio, Ingenic and OmniVision Group exhibit a significant decline, with OmniVision Group showing the most pronounced decrease of 5 percentage points from 2023 to 2024. This change aligns with the variation in the amount of additional deduction for both companies, reflecting the positive impact of the additional deduction policy on

ISSN 2616-5902 Vol. 7, Issue 7: 113-121, DOI: 10.25236/AJBM.2025.070715

corporate solvency. Overall, the additional deduction has had a positive effect on the solvency of all three enterprises. Among them, due to the substantial increase in taxes and fees payable by Shanghai Belling, the effect is less evident.

4.2.3 Impact on Economic (Profitability) Capacity

Table 7. Economic Capacity (Profitability) Performance Indicators of Three Listed Companies from 2022 to 2024

Key Indicators	Company	Year 2022	Year 2023	Year 2024
Weighted return on net assets (%)	Shanghai Belling	9.88	-1.46	9.36
	Ingenic	7.33	4.67	3.08
	OmniVision Group	5.8	2.98	14.83
Operating profit margin (Operating profit/revenue)	Shanghai Belling	0.21	-0.05	0.14
	Ingenic	0.15	0.12	0.10
	OmniVision Group	0.06	0.03	0.13

*This table is compiled based on data from Juchao Network

According to Table 7,from the perspective of profitability, the three listed companies exhibited similar trends. Shanghai Belling demonstrated a more pronounced performance; in 2023, amid the industry's cyclical downturn, the company's weighted return on net assets and operating profit margin were both negative, indicating an absence of operating capability. Compared to 2022, this reflects the significant adverse impact of the cyclical downturn on the enterprise. Following the implementation of the additional deduction policy in 2023, the profitability of the enterprises improved by the end of 2024. Notably, the weighted return on net assets returned to levels observed in previous corresponding periods, and the operating profit margin increased by nearly 20 percentage points compared to 2023. OmniVision Group shows a trend similar to Shanghai Belling, with profitability exhibiting a pattern of decline followed by increase. In contrast, Ingenic displays a marked downward trend in both weighted return on net assets and operating profit margin, which is closely linked to the decline in operating revenue reflected in its operational capability. Overall, for enterprises able to maintain operating revenue, the additional deduction policy can significantly enhance profitability.

4.2.4 Impact on Development Capability

Table 8. Development capability performance indicators of three listed companies from 2022 to 2024

Key Indicators	Company	Year 2022	Year 2023	Year 2024
R&D Investment Intensity (Total R&D expenditure/total enterprise revenue)	Shanghai Belling	0.13	0.17	0.15
	Ingenic	0.12	0.16	0.16
	OmniVision Group	0.12	0.11	0.10

*This table is compiled based on data from Juchao Network

According to Table 8, the development capability of integrated circuit enterprises exhibits a significant positive correlation with R&D investment intensity. According to the data, in 2022, the R&D investment intensity of the three companies was comparable. Following the implementation of the additional deduction policy in 2023, both Shanghai Belling and Ingenic demonstrated a marked increase in R&D investment intensity. Regarding OmniVision Group, its profitability suggests that its related industries are relatively mature and highly profitable; consequently, changes in R&D investment intensity are minimal or even show a declining trend.Overall, the additional deduction policy has a positive effect on the development capability of most enterprises, while it has minimal impact on enterprises in certain industries that have already matured.

5. Conclusions and Recommendations

5.1 Conclusions

Through the analysis of three listed integrated circuit companies, it can be confirmed that the additional deduction policy introduced in 2023 for high-tech enterprises, such as integrated circuit enterprises, has indeed exerted a positive influence on their enterprise performance after two years of implementation. Using integrated circuit enterprises as an example, similar to production and livelihood enterprises, the additional deduction policy effectively alleviated tax liability pressure during periods of cyclical difficulties in the industry, thereby enhancing enterprise performance.

From the perspective of overall tax obligations, (1) the additional deduction policy significantly

ISSN 2616-5902 Vol. 7, Issue 7: 113-121, DOI: 10.25236/AJBM.2025.070715

reduces the proportion of value-added tax in the total taxable expenses. Although its effectiveness varies by company, it can be certain that the policy is effective in reducing taxes. (2) The additional deduction amount within each enterprise is gradually increasing, reflecting a high level of acceptance and utilization of this policy. Effectively utilizing this policy to reduce tax obligations has become a consensus among enterprises.

Regarding the impact on enterprise performance, (1) the additional deduction policy can enhance enterprise performance levels, but its effects differ across various enterprises. (2) For enterprises with assured operating revenue, the additional deduction policy can significantly enhance their operational capability and profitability. This policy reduces tax burdens for enterprises, thereby providing greater efficiency in fund utilization on one hand, and lowering operating costs to generate increased profits on the other. (3) For enterprises operating within a relatively mature industry, the additional deduction policy has a limited effect on their development capability. Conversely, for enterprises with insufficient research and development or less comprehensive industrial support, the additional deduction policy can effectively enhance their development capability. (4) The additional deduction policy exerts a widespread impact on the solvency of enterprises. The majority of enterprises benefit from the positive effects of the additional deduction policy on their solvency.

5.2 Policy Recommendations

As a supplementary policy implemented alongside the primary measure of tax rate reduction in China's 2019 value-added tax reform, the additional deduction policy played a significant positive role for production and living-related enterprises covered between 2019 and 2022. In 2023, to promote the development of China's high-tech industry, a special additional deduction policy covering enterprises such as those in the integrated circuit sector was introduced. At present, two years have elapsed, and this policy has fulfilled its intended function. The effectiveness of this policy in reducing tax liability and enhancing enterprise performance has been confirmed. The following recommendations are proposed to further refine the policy.

5.2.1 Recommendations for Enterprises

Firstly, enterprises should acquire a more thorough understanding of tax incentive policies. During the case selection process, it was observed that some enterprises eligible for the additional deduction policy either did not apply or, due to the application process, failed to fully benefit from the policy. To address these issues, it is recommended that enterprises deepen their understanding of the policy and application procedures, thereby reducing tax liability and promoting better business development. Besides, it is recommended that enterprises adopt diversified business models. For enterprises with subsidiaries, a diversified development approach can be adopted: while ensuring the core business, some subsidiaries may respond to policy initiatives by developing tax-incentivized industries, thereby benefiting from policies such as the additional deduction.

5.2.2 Recommendations for Government

(1) Given that the benefits of this policy have been confirmed, the government may consider extending it beyond its expiration in 2027. Meanwhile, although future developments remain uncertain, when demand emerges in a specific industry, the additional deduction policy can broaden the range of beneficiaries to foster the development of targeted industries.

(2) For enterprises with varying operational conditions, the government should expand the value-added tax reform and develop differentiated policy incentives tailored to enterprises of different scales. For instance, for enterprises experiencing inherent operational challenges, the current policy exerts limited influence on their operational capability and profitability. Therefore, preferential measures may be appropriately enhanced to foster improvements in their operational capability and profitability.

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