

# POSTGRADUATE SEMINAR SERIES

## Research Findings Seminar

**Topic Title** : **Does Taxpayer Integrity Improve Firm Performance? Evidence from China**

**Presenter** : **Ms Weijia ZHANG**  
MPhil Student of Accountancy

**Abstract** : In this study, I investigate the effect of taxpayer integrity, as measured by the tax credit ratings, on firm performance. I examine firm performance from two perspectives: market performance (denoted by one-year buy-and-hold stock returns) and financial performance (denoted by ROA). Tax integrity is an important element of business integrity, yet its role in firm performance has been overlooked in the existing literature. From 2014, the State Taxation Administration (STA) of China began to assess firms' tax credit ratings based on various sources of information. Exploiting a unique data set that contains the credit ratings for a sample of 7,062 firm-year observations from 2015 to 2018, I find that high-integrity firms outperform low-integrity firms in terms of stock returns and ROA. Examining the mechanisms that explain the outperformance of high-integrity firms, I find that these firms exhibit higher sales growth, experience lower CEO turnover, and have preferential access to government subsidies and bank loans. I apply propensity score matching (PSM) and instrumental variable (IV) to address endogeneity concerns due to omitted variable and selection bias. I also use a policy change in 2016, which exogenously enhanced the benefits of obtaining an "A" rating, and apply a difference-in-differences (DID) design. If tax integrity creates firm value, its economic effect should be stronger in the period when being honest is more valuable. I find, indeed, this is the case. My paper contributes to the literature that examines the economic effects of business integrity in general and tax integrity in particular. This study also provides a research enhancement in measuring a rather abstract concept – integrity – by relying on tax authorities' private information about a firm's level of tax history integrity. My results have implications for policy and practice.

**Date** : **31 March 2021, Wednesday**

**Time** : **15:00 – 16:30**

**Venue** : **Zoom meeting**  **link: <https://lingnan.zoom.us/j/7968614271>**

**Language** : **English**



**\*\*\* All are Welcome \*\*\***