

Interpretation of the key messages delivered at the National Tax Work Conference on the Administration on Large Business Groups

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In brief

Tax administration on large business groups (LBGs) has been a hot area in the tax authorities' work over the past few years. Since 2015, with the release of the <Plan on Deepening the Reform of Tax Collection and Administration System of State Tax Bureaus and Local Tax Bureaus> (the Plan) and the <"Internet+ Taxation" Program>, the State Administration of Taxation (SAT) has extended the scope of tax administration on LBGs from 45 groups to thousand groups and has adjusted their working approach accordingly. In Issue 31 of *China Tax/Business News Flash* released in November 2016, we have shared our detailed observation on the data collection of the "Thousand Groups Project"¹.

On 8 December and 9 December 2016, the SAT held the National Tax Work Conference on the Tax Administration on Large Business Groups (work conference)², which looked back at the tax administration on LBGs in 2016 and discussed the work plan for 2017. Meanwhile, a couple of key messages on the tax administration on LBGs for the next stage were also delivered at the work conference. The "Thousand Groups Project", which has been launched for more than one year, has become standardized and normalized. The working approach on the tax administration on LBGs is also becoming more organized, which will have a great impact on LBGs. In this issue of *China Tax/Business News Flash*, we will look back at the tax administration work on LBGs in 2016 in general, look forward to its development in 2017 and share our observations and perspectives on the opportunities and challenges for the relevant taxpayers.

In detail

Great Achievements in Risk-based Tax Administration

The SAT recognised the tax administration work on LBGs in 2016 as 'a great achievement'³. On the aspect of risk-based tax administration, 1,062 enterprises were selected as targets of the "Thousand Groups Project" over the whole year. A professional team comprised of tax officials mainly from the fifth branch

directly under by the Beijing State Tax Bureau is established to perform tax risk analysis on 1,354 member companies of 547 Groups and they finished 1,356 analysis reports in total, covering 2,880 tax risk areas under 11 tax categories. All of these analysis results were passed to the relevant provincial tax authorities in six batches for tackling tax risks identified, and the underpaid taxes were assessed to be around RMB 20.19 billion.

The above-mentioned data indicates that the risk analysis performed by the Large Enterprise Administration Department of the SAT (LEAD) can help to identify taxpayers'

tax risks and then further actions can be taken to counteract those risks. On top of that, it can be seen from the work plan on the tax administration on LBGs discussed in the work conference that the tax authorities will continue strengthening their capability in risk analysis, summarising the results of counteracting risks and turning those risks into risk indicator, so as to achieve automatic data processing and analysis through the risk analysis platform. LBGs should pay close attention to these developments to improve their internal tax risk control systems and enhance their capability of tax compliance.

Economic Situation Reflected by Macro-economic analysis

Apart from the tax risk analysis aimed at LGBs, the big data analysis of the “Thousand Groups Project” also successfully reflected the overall economic situation. According to the latest public report, during the first three quarters of this year, the tax data of the 1,062 LGBs that were administrated by the SAT indicated that the operating costs of enterprises in real economy are declining and their net profits increase by 2.4%. In the context of “lowering cost” proposed by the supply-side structural reform, the effect is evidenced by the reduction of cost in real economy⁴. This echoes the call proposed in the Plan to reflect the economic situation from a tax perspective, monitor the results of implementation and provide references to facilitate decision making in macro-economy. In view of that, the data collected from the “Thousands Groups Project” may also influence further economic and tax policies to a certain extent.

A New Stage for Data Mining

In this work conference, relevant tax officials of the SAT emphasised that ‘data was the cornerstone in tax risk analysis on LGBs’. The work of data mining under the “Thousand Groups Project” was launched at the end of 2015 and is being standardised and normalised gradually. 95% of data collection has been completed in 2016. In addition, the SAT has been expanding the resources of data mining by collecting information from the third parties proactively, such as the establishment of the information sharing mechanism with the Ministry of Finance and the State-Owned Supervision and Administration, and has piloted using public data obtained from the internet in its tax administration. At the same time, the launch of China’s Golden Tax III Project has significantly improved the digitalisation of tax data. Therefore, it is expected that more tax information from various sources will be collected by the tax authorities to strengthen their tax administration on LGBs.

Meanwhile, LGBs are also focusing on data management. At the 4th China International Tax Forum organized by PwC China in conjunction with the Tax Executives Institute in early December, representatives from LGBs believe that tax data analysis is a mega-trend and the relevant analysis results would largely impact financial

and business decisions⁵. Therefore it is particularly important for LGBs to improve their tax compliance and risk control by making use of technology to manage data.

2017 work plan for tax administration on LGBs

According to the key messages delivered in the work conference, tax administration work on LGBs will speed up in 2017, including: i) elevating the level and quality of tax risk analysis and achieving breakthrough in the research and development of index system; ii) enhancing technology capability, improving the tax risk analysis platform and the tax administrative system on LGBs and advancing the level of administration and utilisation of tax data; and iii) finishing certain fundamental work such as the improvement of the institutional structure, the deployment of human resources on a reasonable basis and refinement of working mechanism.

As mentioned by tax officials of the SAT at the work conference, tax revenue from the Thousand Groups accounts for more than 40% of China’s total tax revenue. They can be the significant minorities in terms of their large tax contribution and great impact. It can be seen that the “Thousand Group Project” has become the core and indicator of the tax administration on LGBs in China. LGBs are advised to be familiar with the trend and get well-prepared.

The takeaway

The work conference delivered a couple of key messages regarding tax administration on LGBs. After a series of explorations and experiments, China’s tax authorities will expedite their tax administration on LGBs in 2017. LGBs should keep a close eye on this important development and continue to improve their internal tax compliance management and prevent their tax risks, including:

- Establishing and improving the internal tax risk control system. LGBs should pay careful attention to the new changes and development in the tax administration on LGBs, set up and improve their internal rules for tax risk management, so as to prevent and control the potential tax risks at source and to improve tax compliance through scientific design and effective

implementation of the control system.

- Performing tax risk analysis. Headquarters of LGBs should perform tax review of their group regularly by referring to the approaches adopted by the tax authorities in risk analysis and taking their specific industry and operation features into consideration.
- Enhancing technology capability. It is very important for LGBs to improve the capability in data storage, data management and data reporting in dealing with massive electronic data. LGBs may also consider establishing an automatic platform for tax reporting and tax administration to improve efficiency and quality.
- Counteracting tax risks effectively. Risk-based tax administration of LGBs is different than traditional tax audit and inspection, it leaves a very limited time for taxpayers to react. Therefore, at the time of enhancing the capability of preventing tax risks, LGBs should also establish a quick response mechanism so as to improve the response capability.

Endnote

1. *Standardisation and Normalisation of “Thousand Groups Project”: A New Stage of Tax Administration on Large Business Groups*
http://www.pwccn.com/home/chi/c hinatax_news_nov2016_31_chi.html
2. *The SAT will Expedite its Reform of Tax Administration on Large Business Groups at Full Speed: reported in China Taxation News on 12 December 2016:*
<http://mp.weixin.qq.com/s/rxEUYYv H4GGbFbKYQarkLw>
3. *China Taxation News on 7 December 2016: Great Achievements Made in the National Tax Administration on Large Business Groups for 2016.*
<http://mp.weixin.qq.com/s/75ghU4L ZDGmuDBWgVN39sQ>
4. *SAT: The Overall Tax Burden of Thousand Groups is Steadily Reduced in China*
http://www.gov.cn/xinwen/2016-11/25/content_5137810.htm
5. *The Fourth China International Tax Forum ended up with a success.*
<https://mp.weixin.qq.com/s/JLMwxs E1RSFnbGC33R6mJg>

Let's talk

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