
Standardization and Normalization of “Thousand Groups Project”: A New Stage of Tax Administration on Large Business Groups

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In brief

On 2 November 2016, the State Administration of Taxation (SAT) issued a Public Notice on Matters relating to Financial Accounting Statements that are submitted together with the CIT Returns Filed by the Thousand Groups and Enterprises within These Groups, (SAT Public Notice [2016] No. 67, hereinafter referred to as “PN67”) under the “Thousand Groups Project” to stipulate that key large business groups (“Thousand Groups”) selected by the SAT and enterprises within these groups shall submit their financial accounting statements during the CIT filing. The policy interpretation of PN67 released by the SAT at the same time provided a detailed explanation of the background, scope and requirements as well as the submission deadline.

It is the first time that the requirements for tax collection and administration on “Thousand Groups” is raised in a public document like PN67, which reflected the expansion of targets on the tax administration of large business groups and the importance of taxpayers’ data. This a crucial stage in the process of implementing tax administration on large business groups by the Chinese tax authorities. PN67 shall take effect from 1 December 2016. After the data submission of “Thousand Groups Project” becomes standardized and normalized, it will be the next move of the Chinese tax authorities to strengthen the collection, analysis and utilization of data, which would greatly impact the relevant taxpayers.

In this issue of *China Tax/Business News Flash*, we have briefly looked back at the course of tax administration on large business groups, summarized the specific regulations of the PN67, looked forward to the development of tax administration on large business groups and share our observations and views on the opportunities and challenges for taxpayers.

In detail

Development course of tax administration on large business groups

The Large Enterprise Administration Department of the SAT (hereinafter referred to as “LEAD”) was established in 2008 and specialized in the administration of taxpayers of certain scales based on the concept of territorial

administration. Since 2009, the LEAD has selected 45 large business groups as the target to lead a series of explorations in risk-based tax administration such as administration by tax matters and tax audit. 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* and the “Internet + Taxation” Program, the Chinese tax authorities have adjusted their thinking and strategy on the tax administration of large business

groups accordingly by expanding the scope of tax administration on the 45 selected large business groups, elevating the tax administrative levels on complicated tax matters, developing tax risks analysis of large business groups and gradually strengthening the tax administration on large business groups in order to prevent tax collection and administration risks. Meanwhile, the organizational structure and responsibilities of LEAD have also been adjusted as well¹.

Launch of Data Submission

From the end of 2015, we observed that continually a number of large business groups have received notifications from the in-charge tax bureaus that they had been selected as key large business groups and were requested to submit the relevant financial data for the past few years. It is our understanding that the large business groups selected are nationwide and cover different types of enterprises including state-owned enterprises, domestic private enterprises and foreign-invested enterprises. During the process of financial data submission, large business groups have communicated and coordinated with the tax authorities on different matters, such as, the submission deadline, submission methods, scope of data, confidentiality and security etc., through various channels, including some international trade organizations².

Clarified regulations on the data submission of “Thousand Groups”

PN67 and its policy interpretation for the first time clarified that the “Thousand Groups” are regarded as the target of tax administration on large business groups. It also contains relevant detailed provisions for data submission. With this, the data submission work which has lasted for almost one year has moved to standardization and normalization. Large business groups can comply with the requirements by following the clearer guidelines and instructions.

- Legal bases

PN67 stipulated that the legal bases for submitting the financial statements are the *Tax Collection and Administration Law of PRC* (hereinafter referred to as the “TCAL”) and the *Corporate Income Tax Law of PRC* as well as their implementation rules. The above mentioned laws and regulations have provisions which require taxpayers to submit financial accounting statements and other tax-related materials.

- Submission entity

The data submission entity is headquarters of the “Thousand Groups” and enterprises within these groups, which means that a “business group” is comprised of many individual taxpayers rather

than one single individual taxpayer. Considering the large number of enterprises within a large business group, the number of the enterprises involved will be extremely huge. It is worth noting that enterprises outside China are not required to submit the relevant data temporarily.

- Submission content

Headquarters of “Thousand Groups” and enterprises within these groups shall submit the financial accounting statements (including consolidated financial statements) according to the applicable accounting principles and accounting systems, including Balance Sheet, Income Statement, Cash Flow Statement as well as Statement of Owner’s Equity (Shareholder’s Equity) and notes, etc.

- Submission deadline

PN67 stipulated that the relevant data should be submitted during the provisional CIT filing and annual CIT filing. Annual consolidated financial statements prepared by the headquarters of “Thousand Groups” should also be submitted before 31 May of the following year. If enterprises fail to submit data on time, they can be penalized by the tax authorities pursuant to the relevant provisions in the TCAL.

- Submission methods

PN67 and its policy interpretation stipulated that all the materials should be submitted in an electronic format in principle. If the format of the original financial accounting statements is different from the Collection and Administration System of the tax authorities, the EXCEL format of the original financial accounting statements should be submitted as an attachment. Under some special situations, enterprises can communicate with tax authorities on practical matters relating to the submission.

Outlook of tax administration on large business groups

The release of PN67 shows that the SAT is determined to continue thoroughly exploring the tax administration on large business groups. Data collection is only the first stage in tax administration. How to assess potential tax risks in large

business groups through data analysis and utilization, and how to use risk profile to strengthen the tax administration on large business groups are both worthy of consideration.

- Analysing tax risk by the higher levels tax bureaus

At present, the SAT has established up a professional team to analyse the tax risk of large business groups, which is comprised of tax officials from the fifth branch directly under the Beijing State Tax Bureau and LEAD. The team will co-ordinate cross-regional tax risks analysis of large business groups and come up with a risk analysis report.

- Implementation of risk response

According to the risk analysis report, the SAT will uniformly assign the tasks to the local-level tax bureaus which will come up with differential responses based on the tasks received to form cases and comprehensive analysis reports. Large business groups with tax risks are likely to be handled accordingly.

- Utilisation of the response results

According to the results of risk response, the SAT will set certain specific indexes and reference values as well as setup and improve the feature database of tax risks based on business scales, industry, region and commencement time, etc. for future reference.

- Improvement of technological capability

After the launch of China’s Golden Tax III Project, the digitalization of tax data and the administration and utilization of tax data led by the tax authorities have been greatly improved. The continuous optimization of the risk analysis tool also makes the risk analysis more accurate and efficient.

The takeaway

Focus on the subsequent progress of data submission

Even though PN67 stipulated detailed regulations on data submission, some issues still need to be clarified. For instance, the prevailing accounting standards and accounting systems do not require all enterprises to prepare

the financial accounting statements on a monthly or quarterly basis; does it mean that enterprises have to specifically prepare financial statements to submit with the CIT filings so as to comply with the requirement in PN67? As the equity structure of large business groups is complicated, are there any uniform criteria defining business scale and scope of enterprises within the large business groups? Whether enterprises outside China will be included in the filing scope in the future? In addition, PN67 and its policy interpretation did not clarify the scope of “other tax related materials”, which meant the tax authorities may further request the enterprises to submit other financial data with the progress of the “Thousand Groups Project” or after analysing the financial accounting statements. Large business groups in the “Thousand Groups” should keep close eyes on the interpretation and implementation of the above mentioned issues.

Tackling the challenges actively

Standardization and normalization of the “Thousand Groups Project” signals a new stage of tax administration on large business groups by the Chinese tax authorities. Chinese tax authorities strive to improve tax services for large business groups while at the same time concentrate more administration

resources on the improvement of tax administration. The experience accumulated from industries and key tax matters may also be applicable to the administration on middle and small-sized enterprises. Therefore, no matter the taxpayers are large business groups in “Thousand Groups” or other taxpayers, they should keep an eye on this important development and to continuously improve their internal tax compliant management and prevent their tax risks, which include:

- Formulation and perfection of the internal tax risk control system, prevention and control of the potential tax risks from source and improvement of tax compliance through scientific system design and effective implementation.
- Headquarters of large business groups should perform tax risks check on enterprises within their large business groups regularly by referring to the thinking and methods used by the tax authorities in risk analysis and combining them with the industries that they are in and their own operation feature.
- Different from traditional tax audit and inspection, tax authorities can possibly quickly point out the tax risks of the large

business groups during the risk response, which provide very limited time for the enterprises to react. Therefore, at the same time of preventing tax risks, large business groups should also setup an effective and quick tax risk response mechanism and solutions.

- Coordination of tax risks with other risks. Negligence in business arrangements and operational strategies often leads to tax risks. Thus, for the existing tax risks, enterprises should focus on coordinating with other risks so that business performance can also be optimized on controlling the tax risks.

Endnote

1. *State Administration of Taxation effectively push forward reform of tax administration on large business*
<http://www.chinatax.gov.cn/n810219/n810724/c1993097/content.html>
2. *BIAC meets with China’s State Administration of Taxation*
<http://biac.org/wp-content/uploads/2016/08/BIAC-Meets-with-China-SAT-v2.pdf>

Let's talk

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* These results are based on an independent survey of 130 primary buyers of tax services in China, conducted by research agency Jigsaw Research (Q1-Q4 2015).

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