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Circular of the State Administration of Taxation on Printing and Issuing the Guidelines on the Tax Risk Management over Large Enterprises (for Trial Implementation)

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The Offices of the State Administration Taxation and local taxation bureaus in all provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in the state plan.

For the purpose of strengthening the taxation management over and taxpaying services for large enterprise and guiding large enterprise to carry out tax risk management, guard against illegal taxation activities and fulfill taxation obligations in accordance with the law, we hereby print and issue the Guidelines on the Tax Risk Management over Large Enterprises (for Trial Implementation) for you to organize propaganda activities, assist enterprise in referring to and implementing it and report promptly to the State Administration of Taxation the problems and suggestions encountered during the implementation.

Guidelines on the Tax Risk Management over Large Enterprises (for Trial Implementation)

Chapter 1 General Provisions

Article 1.1 These Guidelines aim at guiding large enterprise to appropriately control taxation risks, guard against illegal taxation activities, fulfill taxation obligations in accordance with the law, and avoid possible legal sanctions, financial losses or reputation damage due to non-compliance with the taxation laws.

Article 1.2 The main purposes of tax risk management shall include:

- Making large enterprises' commercial purpose of the taxation planning appropriate and comply with provisions of the taxation laws;
- Making large enterprises consider the taxation influence and comply with the provisions of the taxation laws in their business decisions and daily operating activities;
- Making large enterprises' accounting treatment over taxation affairs comply with relevant accounting system or standard and relevant laws and regulations;
- Making large enterprises' taxation declaration and tax payment comply with the provisions of the taxation laws; and
- Making large enterprises' taxation-concerned items such as taxation registration,

account book and credential management, taxation file management and preparation as well as application for archival filing of the taxation documents comply with the provisions of the taxation laws.

Article 1.3 An enterprise may establish the relevant tax risk management system by referring to these Guidelines and considering its own business circumstance, taxation risk features and existing internal risk control system. The tax risk management system mainly includes:

- Tax risk management organization, post and responsibility;
- Mechanism and method to identify and assess taxation risks;
- Mechanism and measure to control and cope with taxation risks;
- Taxation information management system and communication mechanism; and
- Mechanism of supervising and improving tax risk management.

Article 1.4 Tax authorities shall evaluate, by referring to these Guidelines, the effectiveness of enterprise's establishment and implementation of tax risk management, and determine, the relevant taxation management measures accordingly.

Article 1.5 An enterprise shall advocate the tax risk management philosophy of observing disciplines and obeying laws as well as paying tax with honesty, improve the tax risk management awareness of the staff and make it an essential part of the enterprise culture construction.

Article 1.6 The board of directors of an enterprise shall supervise the tax risk management and participate in the decision-making. The board of directors and management shall make it an important part of the enterprise operation to guard against and control taxation risks, and enhance the effective interaction between the internal management and external supervision of the enterprise.

Article 1.7 An enterprise shall establish effective incentive and restraint mechanisms and link the tax risk management result with the performance assessment of the relevant staff.

Article 1.8 An enterprise shall combine together the tax risk management system and other internal risk control and management systems, forming a comprehensive and effective internal risk management system.

Chapter 2 Tax Risk Management Organization

Article 2.1 An enterprise may establish taxation management organizations and posts and define the responsibility and authority of each post in consideration of its own characteristics of production and operation as well as the requirements of the internal tax risk management.

Article 2.2 An enterprise with complex organizational structure may establish taxation management department or post as required:

- An organization with head office and branches may set up taxation departments or

taxation management posts in its branches; or

- A business conglomerate may separately set up taxation departments or taxation management posts in its regional head offices, product divisions or subordinate enterprises.
- Article 2.3 Administration authorities of enterprise taxation shall mainly perform the following responsibilities:
 - Formulating and completing the enterprise tax risk management system and other relevant taxation rules and regulations;
 - Participating in analyzing the taxation influence upon the strategic planning and critical business decision-making and providing suggestions on tax risk management;
 - Organizing and implementing enterprise taxation risk identification and assessment, monitoring daily taxation risks and adopting corresponding measures;
 - Guiding relevant functional departments, all business units and exclusively-invested as well as holding enterprises in carrying out tax risk management and supervising their work;
 - Establishing information and communication mechanisms on tax risk management;
 - Organizing taxation training and providing taxation counseling for other departments of the enterprise;
 - Assuming the work of preparing and safekeeping the tax declaration documents, tax payment documents, account book credentials and other taxation-related documents, or assisting relevant functional departments in carrying out such work; and
 - Other tax risk management responsibilities.

Article 2.4 An enterprise shall establish an scientific and effective responsibility assignment and balancing mechanism and guarantee that the incompatible posts of taxation management isolate from, restrict and supervise one another. The incompatible responsibilities of taxation management include:

- Drafting and examination and approval of taxation planning;
- Preparation and examination of taxation documents;
- Filling-in/submission and examination and approval of tax declaration forms;
- Filling-in/submission and examination and approval of credential of tax payment and transfer;
- Purchasing and safekeeping of invoices and safekeeping of seals;
- Disposal of taxation risk items and the after-the-event examination; and
- Other taxation management responsibilities to be separated.

Article 2.5 Taxation-related staff of an enterprise shall not only have necessary professional qualifications, good business competence and professional ethics, but also observe laws and disciplines as well.

Article 2.6 An enterprise shall provide taxation-related staff with regular trainings so as to constantly improve their business competence and professional ethics.

Chapter 3 Identification and Assessment of Taxation Risks

Article 3.1 An enterprise shall comprehensively, systematically and constantly collect the relevant internal as well as external information and identify the taxation risks in the operating activities and operation flow, analyze and describe the possibility and conditions of the risks and evaluate the impact of the risks upon the realization of the enterprise's taxation management objectives in consideration of the actual situation and through such procedures as risk identification, analysis and evaluation, so as to determine the priority and strategies for the risk management. Moreover, an enterprise shall mainly identify the following taxation risk factors in consideration of its own tax risk management mechanism and actual business circumstance:

- Taxation compliance awareness of the management of the enterprise such as the board of directors and board of supervisors and their attitudes toward taxation risks;
- Business competence and professional ethics of the taxation-related staff;
- Organizations, mode of business operation and operation flow;
- Technical input and utilization of information technologies;
- Financial situation, operating results and situation of cash flow;
- Designing and implementation of the relevant internal control systems;
- Economic situation, industrial policies, market competition and common practices of the industry;
- Laws, regulations and regulatory requirements; and
- Other relevant risk factors.

Article 3.2 An enterprise shall assess taxation risks at regular intervals. The taxation department of an enterprise shall perform the taxation risk assessment in collaboration with the relevant functional departments, or engage intermediaries with relevant qualifications and professional competence to provide assistance.

Article 3.3 An enterprise shall manage the taxation risks in a dynamic manner, and promptly identify and assess the development of the original risks as well as the newly-emerging taxation risks.

Chapter 4 Coping Strategies and Internal Control of Taxation Risks

Article 4.1 An enterprise shall take into consideration, in accordance with the results of the taxation risk evaluation, the costs and benefits of the risk management, formulate coping strategies for taxation risks as well as establish an effective internal control system within the overall management control system, and rationally design taxation management flow and control methods so as to comprehensively control the taxation risks.

Article 4.2 An enterprise shall establish, in consideration of the reasons and conditions of the risks, taxation risk control stations in terms of organizations, responsibility assignment, operation flow, information communication, and examination as well as supervision, adopt corresponding manual or automatic control mechanisms by the different characteristics of the risks, and set up preventive and discoverable control mechanisms according to the occurrence law of the risks and the scale of

the risks.

Article 4.3 An enterprise shall formulate a whole-flow control measures covering all links for the management responsibilities and operation flow involved in the major taxation risks; the enterprise shall also rationally set the key control links and adopt corresponding control measures with respect to the operation flow involved in other risks.

Article 4.4 Where great taxation risks occur due to internal organizational structure and business mode of an enterprise or significant changes of the external environment or the restriction of the common practice as well as the regulation of the industry, the enterprise may report promptly to the taxation authorities for guidance and assistance.

Article 4.5 The taxation department of an enterprise shall participate in the formulation of the strategic planning and great business decision-making of the enterprise, track and monitor the relevant taxation risks.

Article 4.5.1 The strategic planning of an enterprise includes the overall planning on organizational structure, strategic planning on products and market and strategic planning on competition and development, etc.

Article 4.5.2 Great business decision-making of an enterprise includes great investment in foreign countries, significant merger or restructuring, change of business mode, signing of important contracts or agreements, etc.

Articles 4.6 The taxation department of an enterprise shall participate in the significant operating activities, track and monitor relevant taxation risks.

Article 4.6.1 The taxation department of an enterprise shall participate in the formulation of the related transaction price and track the implementation of the pricing principle.

Article 4.6.2 The taxation departments of an enterprise shall participate in the strategy formulation and implementation of the multinational operations so as to guarantee its compliance with the provisions of the taxation laws.

Article 4.7 The taxation department of an enterprise shall collaborate with relevant functional departments in managing the taxation risks in the daily operating activities:

Article 4.7.1 The taxation department of an enterprise shall participate in formulating or examining and approving the policies and standards of the taxation-related items in the daily operating activities of the enterprise.

Article 4.7.2 The taxation department of an enterprise shall participate in formulating the flow for handling all taxation-related accounting items, define their responsibilities and authority, and guarantee that the accounting treatment of the taxation items complies with relevant laws and regulations.

Article 4.7.3 The taxation department of an enterprise shall complete the formulation, check and examination and approval of the tax declaration form, as well as the procedures for tax payment, define relevant responsibilities and authority, and guarantee that the tax declaration and tax payment comply with the provisions of the taxation laws.

Article 4.7.4 The taxation department of an enterprise shall prepare and preserve, in accordance with the taxation laws, the relevant documents on taxation with authenticity, accuracy and integrity, and report for archival filing in accordance with the relevant regulations.

Article 4.8 An enterprise shall establish a monitoring mechanism for the taxation risks with high frequency, evaluate their accumulative impact and adopt corresponding measures.

Chapter 5 Information and Communication

Article 5.1 An enterprise shall establish a information and communication mechanism on tax risk management, define the procedures for collecting, processing and sending the taxation-related information, guarantee the communication and feedback between the taxation department of the enterprise and other departments, between the taxation department of the enterprise and the management of the enterprise such as the board of directors and board of supervisors, and promptly adopt corresponding measures when discovering the problems.

Article 5.2 An enterprise shall maintain effective communication with taxation authorities and other relevant units so as to promptly collect as well as report relevant information.

Article 5.2.1 An enterprise shall establish and complete the collection of taxation laws, update the systems, and promptly compile the taxation laws applicable to the enterprise and update them regularly.

Article 5.2.2 An enterprise shall establish and complete the collection of other laws and regulations, update the systems, guarantee that the establishment and modification of its accounting and financial system complies with the requirements of the laws and regulations, and ensure reasonably that the output of the accounting information reflects the latest changes of the laws and regulations.

Article 5.3 An enterprise shall utilize the information technologies in all kinds of work on tax risk management, establish a risk management information system covering the basic flow of risk management and all links of the internal control system in accordance with the characteristics of the business and principle of cost and benefit.

Article 5.3.1 An enterprise shall utilize computer system and network technologies to automatically control those taxation-related items with repeatability and regularity.

Article 5.3.2 An enterprise shall manage the tax declaration via computer system and use relevant report software to improve the accuracy of the taxation declaration.

Article 5.3.3 An enterprise shall establish an annual taxation calendar so as to automatically remind relevant persons in charge to complete the taxation-related business, track and monitor the completion of the work.

Article 5.3.4 An enterprise shall establish a database for taxation document management and safe keep the taxation-related documents by adopting appropriate flow and reliable technologies.

Article 5.3.5 An enterprise shall use the information management system to enhance the efficiency and effectiveness in collecting, processing and sending of laws and regulations and monitor dynamically the implementation of the laws and regulations.

Article 5.4 The recording, collecting, processing, sending and preserving of the data in the tax risk management information system of an enterprise shall comply with the requirements of the taxation laws and taxation risk control.

Chapter 6 Supervision and Improvement

Article 6.1 The taxation department of an enterprise shall evaluate and examine the effectiveness of the enterprise tax risk management mechanism at regular intervals, and constantly improve and optimize the tax risk management system and flow.

Article 6.2 The internal evaluation organization of an enterprise shall evaluate the effectiveness of the tax risk management mechanism in accordance with the overall control objectives of the enterprise.

Article 6.3 An enterprise may commission qualified intermediaries to evaluate the effectiveness of the internal control relevant to enterprise tax risk management and issue an evaluation report to the taxation authorities in accordance with the requirements of these Guidelines and relevant codes of practice.