

Thousand Groups project in progress - Further collaboration between the Chinese tax authorities and enterprises

In brief

After the release of the following two public notices in recent months, 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 (the Public Notice [2016] No.67, PN 67), and the Administrative Measures on the Thousand Groups List (the Public Notice [2017] No.7, PN 7), the State Administration of Taxation (SAT) is conducting specialised training for liaison personnel of the Thousand Groups in order to enhance the communications between the tax authorities and enterprises. According to the feedback from participants of the training, the training covered the main jobs of the tax administration and service for the Thousand Groups at the current stage, which includes background and general thinking, taxpayer services, Thousand Groups list administration and data submission requirements, as well as risk-based tax administration. According to the messages delivered in the training, strengthening tax administration and service for the Thousand Groups will remain to be at the top of the SAT's agenda in the near future.

In detail

Overview of the Thousand Groups Project

The Thousand Groups Project was launched two years ago and has gradually becoming more open to the public and standardised. PN 67 released at the end of 2016 clarified for the first time that the Thousand Groups were the target of the tax administration work of the large business groups (LBGs), and data submission work which has lasted for almost one year has become standardised and normalised. The release of PN 7 subsequently clarified the applicable scope, work procedure, major roles and responsibilities of tax authorities and enterprises in determining the Thousand Group list.

At the time of collecting data gradually, the SAT has also implemented a series of measures, including: studying the personalised services for LBGs, actively pushing forward risk-based tax administration on the Thousand Groups, conducting taxation economics analysis from a macro perspectives.

Main points of the training

According to the feedback from participants of the training, the training was delivered by the commissioner and the directors of the Large Enterprise Administration Department (LEAD) of the SAT, and the contents include background and general thinking, taxpayer services, Thousand Groups list administration and data submission requirements, as well as risk-based tax administration, etc., covering the current main tasks of tax administration and service for the Thousand Groups. Meanwhile, the in-charge tax officials have also responded to the hot issues concerning the implementation of the Thousand Groups Project, such as the selection criteria and geographical distribution of the Thousand Groups, legal basis and specific requirements of data collection, personalised taxpayer services as well as future development and direction, etc.

- Risk-based tax administration, which is closely related to enterprises in the tax administration and service for the Thousand Groups, also attracted a lot of attention. The training has particularly addressed the following matters to assist the Thousand Groups in understanding their work in this area:

- Risk-based tax administration for the Thousand Groups has developed into a circular administration model comprised of four stages, i.e., data collection, risk analysis, distribution and counter action, feedback and enhancement”. In particular, risk analysis is carried out through software selection and manual review on a comprehensive basis, which is jointly completed by the SAT and the provincial-level tax authorities. The analysis result will be distributed to the local-level tax authorities uniformly which will follow up on the result of the actions to counter the risks identified and provide feedback accordingly.
- Risk-based tax administration is different from tax audit. It is a combination of tax administration and service and the scope is limited to taxpayers with potential tax risks. Moreover, tax authorities will use differential types of risk counter action depending on the risk level identified, including: risk alert, tax assessment, tax audit, anti-avoidance investigation and tax investigation, etc.
- Introduce tax risks areas frequently came across in their work to LBGs with illustrated examples according to industry sectors, tax categories and tax matters.
- A brief introduction to the 2017 work plan for risk-based tax administration of the Thousand Groups.

The details of risk-based tax administration have been already mentioned in circulars and news reports released by the SAT in recent years. However, the training allowed the Thousand Groups to have a comprehensive understanding of the specific procedure and the work plan of risk-based tax administration, which sets forth a stronger foundation for the collaboration between tax authorities and enterprises in this regard.

Thousand Groups Project will be more transparent and standardised

The public training for the liaison personnel of the Thousand Groups is another measure of the SAT to enhance communication and will contribute to mutual understanding and trusts between the tax authorities and enterprises. The training was held in three batches to limit the number of participants for each batch so that all the liaison personnel could have a face-to-face communication with the officials from LEAD.

The tax administration and services for LBGs in China is still under the exploratory phase and has gradually developed into a mature work thinking and mechanism. With the further progress of the Thousand Groups Project, enhanced and constant interaction and communication allows LBGs to understand the tax authorities’ thinking and objective so as to avoid misunderstanding due to miscommunication. Meanwhile, tax authorities could also grasp the current tax compliance status of LBGs, listen to their opinions and suggestions for the implementation of the prevailing policies, which would help them to timely review their work efficiency and improve their thinking in tax administration. Going forward, we anticipate that the Thousand Groups Project would be continued to be implemented with an open and standardised approach. Taxpayers in the Thousands Groups Project can also actively communicate with the tax authorities and report any specific circumstances and difficulties encountered in practice through multiple channels.

The takeaway

After continued explorations and practices for more than one year, the SAT has released PN 67 and PN 7 successively and held three batches of training for the liaison personnel, which indicate that the Thousand Groups Project is entering the intense phase, and would be gradually standardised and normalised. For LBGs that are in compliance with the tax laws, tax authorities will provide personalised taxpayer service through bilateral tax compliance agreements and advance ruling, which would not only help to improve the quality of the LBGs’ internal tax management, reduce their tax compliance costs but also prevent tax risks by increasing the certainty of tax policy implementation. For LBGs with potential tax risks, tax authorities will implement risk-based tax administration by industries and tax matters to strengthen the administration effectiveness by using highly efficient technological measures and thorough work mechanism. LBGs should keep a close eye on this important development and improve tax compliance management and

prevent tax risks, including:

- Designate an in-charge liaison personnel to be responsible for Thousand Groups Project to accurately report the list of member enterprises and relevant information to the tax authorities in accordance with the circulars, follow the new development of tax administration and service on LBGs, and keep in contact with the tax authorities at different levels.
- Establishing an internal tax risk control system. Taxpayers shall formulate and improve their internal tax management rules to prevent and control the potential tax risks at the source level through a scientifically designed system and effective implementation.
- Analysing tax risk. Based on the classification of industry sectors, tax categories and tax matters mentioned in the training, taxpayers should perform tax review of their group regularly by referring to the thinking and approaches adopted by the tax authorities in risk analysis.
- Enhancing technology capability. It is very important for LBGs to improve the capability in data storage, data management and data reporting in dealing with massive electronic data. LBGs may also consider establishing an automatic platform for tax reporting and tax administration to improve efficiency and quality.

Furthermore, it is noteworthy that the experience accumulated from industries and key tax matters in the tax administration of LBGs will also be applicable to the administration of middle and small-sized enterprises. Therefore, taxpayers that are not within Thousand Groups Project should also keep an eye on this important development and to continuously improve their internal tax compliant management.

Endnote

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

<http://www.pwccn.com/zh/services/tax/publications/china-tax-business-news-flash-31nov2016.html>

Interpretation of the Key Messages Delivered at the National Tax Work Conference on the Administration on Large Business Groups <http://www.pwccn.com/zh/services/tax/publications/china-tax-business-news-dec2016-34.html>

Release of the Administrative Measures on the Thousand Groups List- clearer scope and more regulated work procedures

<http://www.pwccn.com/zh/services/tax/publications/chinatax-news-apr2017-11.html>

Let's talk

For a deeper discussion of how this issue might affect your business, please contact Kelvin Lee at +86 (10) 6533 3068 or via kelvin.lee@cn.pwc.com