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Tax Risk Management Guidelines for Large Enterprises (Trial)
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1. General Provisions

1.1 These guidelines seek to provide guidance to large enterprises in controlling tax risks rationally, preventing any tax violations, fulfilling tax obligations in accordance with the laws, avoiding any potential legal sanctions, financial loss or reputational damage resulting from the non-compliance of tax laws and regulations.

1.2 The main objectives of tax risk management include:

- Tax planning with reasonable business purposes that is in line with tax laws and regulations;
- Business decisions and day-to-day business activities are in line with tax laws and regulations by considering the effects of tax factors;
- Accounting treatments for tax issues are in line with relevant accounting systems or standards, as well as relevant laws and regulations;
- Tax filings and tax payments are in line with relevant tax laws and regulations; and
- Tax registration, accounting books management and tax records management, as well as tax information preparation and reporting and other tax related items are in line with tax laws and regulations.

1.3 Enterprises can refer to these guidelines and combine with their own operating situations, tax risk characteristics and existing internal risk control system in establishing the corresponding tax risk management system. The main tax risk management system includes:

- Tax risk management organization structure, position and responsibility;
- Mechanism and methodology of tax risk identification and evaluation;
- Mechanism and measures for tax risk control and response;
- Tax information management system and communication mechanism; and
- Supervision and improvement mechanism of tax risk management.

1.4 Tax authorities may refer to these guidelines in evaluating the effectiveness of the establishment and implementation of tax risk management for enterprises so as to determine the appropriate tax management measures.

1.5 Enterprises should advocate tax risk management concepts of honest law-abiding taxpayers, and reinforce staff awareness in tax risk management as all of these are important elements in establishing an enterprise's corporate culture.

1.6 An enterprise's board of directors is responsible for overseeing and participating in the decision-making of tax risk management. Board of directors and management should regard tax risk prevention and control as an important content of an enterprise's business, and to promote the effective interactions of internal management and external supervision.

1.7 Enterprises should set up effective incentive and restraint mechanism, and combine the work effectiveness of tax risk management with the performance evaluation of the relevant personnel.

1.8 Enterprises should establish comprehensive and effective internal risk management system by combining the tax risk management system with other internal risk control and management systems.

2. Tax Risk Management Organizations

2.1 Enterprise may set up the tax management organizations and positions by integrating with the requirements of production and management characteristics and internal tax risk management, clearly define each position's duties and authorities.

2.2 An enterprise with complex organization structure may set up tax management departments or positions based on its requirements:

- **Enterprises which operate cross-regionally with branches are to set up tax departments or tax management positions at branches;**
- **Group-type enterprises are to set up tax departments or tax management positions at regional headquarters, product divisions or affiliated enterprises respectively.**

2.3 Enterprise's tax management organization mainly performs the following duties:

- **To develop and improve the enterprise's tax risk management systems and other tax related rules and regulations;**
- **To participate in the enterprise's tax impact analysis of strategic planning and major business decision-makings and provide recommendations on tax risk management;**
- **To organise and implement enterprise tax risk identification and evaluation, to monitor day-to-day tax risks, as well as to implement appropriate counter-measures;**
- **To guide and supervise relevant functional department, each business units and wholly owned and holding enterprises in carrying out tax risk management tasks;**
- **To set up the tax risk management information and communication mechanism;**

- **To organize tax trainings, and to provide tax advices to other departments of the enterprise;**

- **To undertake the responsibility and to assist related functional departments with tax filings, tax payments, and the preparation and safekeeping tasks of accounting books and other tax related information; and**

- **Other tax risk management duties.**

2.4 Enterprise should establish scientific and effective segregation of duties as well as checks and balances mechanism, to ensure the mutual separation, control and supervision of the incompatible positions in tax management. The incompatible duties in tax management include:

- **The drafting and approval of tax planning;**

- **Preparation and review of the tax information;**

- **Preparation and approval of tax returns;**

- **Preparation and approval of the tax payment order;**

- **Purchase and safekeeping of the invoices, safekeeping of the financial seal;**

- **The handling and subsequent examination of tax risk matters; and**

- **Other tax management duties that should be segregated.**

2.5 The personnel responsible for tax related matters should have the requisite professional qualifications, sound knowledge of business and professional conducts and legal compliance.

2.6 Enterprise should conduct periodic trainings to the personnel responsible for tax related matters, so as to continuously improve their professional quality and ethical standards.

3. Identification and Evaluation of Tax Risks

3.1 Enterprises should collect both internal and external information comprehensively, systemically and constantly. According to practical situation, in the search of the enterprise's tax risk in business operations and business processes through the steps of risk identification, risk analysis and risk assessment, to analyze and describe the possibility and conditions of the risk occurrence and to assess the impact of risk on the accomplishment of an enterprise's tax management objectives. As such, the enterprise can determine the priority order and the strategy of the risk management. By combining own tax risk management mechanism and the actual operating conditions, an enterprise is to identify the following key tax risk factors:

- **Tax compliance awareness and tax risk attitudes of the board of directors, supervision board and other enterprise governance and management levels;**

- Tax staff's professional conducts and professional competence;
- Organizational structure, business model or operating procedures;
- Technology inputs and the application of information technology;
- Financial status, operating result and cash flow conditions;
- Design and implementation of related internal control systems;
- Economic conditions, industrial policies, market competitions and trade practices;
- Applicable laws and regulations, and regulatory requirements; and
- Other relevant risk factors.

3.2 Enterprise should conduct tax risk assessment periodically. Tax risk assessment should be implemented by the enterprise's tax department in collaboration with other related functional departments. It can also be implemented with the assistance from the intermediary agency with relevant qualifications and professional competence.

3.3 Enterprise should manage tax risk dynamically so as to promptly identify and assess the changing situation of the existing and newly created risks.

4. Tax Risk Strategies and Internal Control

4.1 Based on the outcome of the tax risk assessment, enterprise should consider the costs and benefits of risk management within the overall management control system and formulate counter-measures dealing with tax risks and set up effective internal control mechanism as well as rationally design tax management processes along with its control methods so as to control the tax risk holistically.

4.2 Enterprise should establish tax risk control points based on the causes and conditions of risk from the perspectives of organizational structure, allocation of authorities, business processes, information communications, examination and supervision by taking the appropriate manual control mechanism or automatic control mechanism based on different risk characteristics, setting up preventive and discovery control mechanisms based on the regularity and materiality level of the risk occurred.

4.3 Enterprises should be involved in significant tax risk management functions and business processes covering all aspects of the development of the entire process control measures and set key control links rationally with appropriate control measures to deal with other risks involved in business processes.

4.4 Enterprises facing with significant tax risks due to significant changes in internal organizational structure, business model or external environments as well as the trade practices and regulatory constraints may promptly report to tax authorities so as to seek guidance and assistance from the tax authorities.

4.5 An enterprise's tax department should participate in the formulation of the enterprise's strategic planning and major business decision-making so as to track and monitor the related tax risks.

4.5.1 Enterprise's strategic planning includes overall organizational structure planning, products and market strategic planning, competition and development strategic planning and etc.

4.5.2 Enterprise's major business decision-making include significant foreign investments, major mergers and acquisitions or restructuring, changes in business models and signing of major contracts and agreements and etc.

4.6 An enterprise's tax department should participate in enterprise' important business activities so as to track and monitor the related tax risks.

4.6.1 Participate in the formulation of pricing between related parties and track the implementation status of the pricing principles.

4.6.2 Participate in the formulation and implementation of strategies related to cross-border businesses so as to ensure the compliance with the provisions of tax laws.

4.7 An enterprise's tax department should manage the tax risk of the day-to-day business activities in collaboration with the relevant functional departments:

4.7.1 Participate in the formulation or review of tax related policies and standards in enterprise's day-to-day business;

4.7.2 Formulate the accounting treatments for tax related processes and define respective duties and authorities so as to ensure that the accounting treatments for tax matters are in compliance with the relevant laws and regulations.

4.7.3 Improve the preparation, review and approval of tax returns as well as the procedures for tax payments and define the relevant duties and authorities so as to ensure that the tax returns and tax payments are in compliance with the tax laws and regulations.

4.7.4 Tax related business information should be truly, completely and accurately prepared and maintained and be reported based on the relevant laws and regulations.

4.8 Enterprises should establish control mechanism to assess the cumulative effects of higher frequency tax risks and take appropriate counter-measures.

5. Information and Communication

5.1 Enterprises should set up tax risk management information and communication systems, clearly define the collection, processing and transmission procedures for tax related information so as to ensure the communication and feedback among the enterprise's internal tax department, enterprise tax department and other departments, enterprise tax department and board of directors, supervisory board and etc., enterprise corporate governance and management levels, and to report timely and take appropriate counter-measures when problems are identified.

5.2 Enterprises should maintain effective communication with the tax authorities and other relevant units so as to collect and provide timely feedback on relevant information.

5.2.1 To establish and improve the collections and updates of tax laws and regulations, timely compilation and regular updates of applicable tax laws and regulations;

5.2.2 To establish and improve the collection and updates of other related rules and regulations, to ensure the setting and modification of enterprise's financial and accounting systems are synchronised with the requirements of laws and regulations, to rationally ensure that the output of accounting information reflects the latest changes in laws and regulations.

5.3 Enterprises should apply information technology to all aspects of tax risk management tasks so as to set up risk information management system which covers the basic flow of risk management and internal control system based on operational characteristics and cost-benefit principle.

5.3.1 To make use of computer systems and internet technology to automatically control those tax matters that are recurring and routine in nature;

5.3.2 To incorporate tax filing into computer management system, to improve the accuracy of tax returns with the use of related reporting software;

5.3.3 To set up an annual tax calendar to automatically remind the responsible person to complete the tax related matters so as to track and monitor the completion progress of the work.

5.3.4 To set up tax documents management database, to adopt appropriate procedures and reliable technology in storing tax related information safely.

5.3.5 To utilise information management system in improving the efficiency and effectiveness of collecting, processing and transmitting laws and regulations, as well as to monitor dynamically the implementation of the laws and regulations.

5.4 The record, collection, processing, transmission and storage of the enterprise's tax risk management information system data should comply with the tax laws and the requirements of tax risk control.

6. Supervision and Improvement

6.1 The enterprise tax department should periodically evaluate and audit the effectiveness of the tax risk management mechanism so as to make continuous improvement and optimization of tax risk management systems and procedures.

6.2 The internal control and evaluation organization should evaluate the effectiveness of the tax risk management mechanism based on the holistic control objective of the enterprise.

6.3 Enterprise may engage intermediary agency to evaluate the effectiveness of the internal control related to an enterprise's tax risk management according to these

guidelines and related professional standard requirements, and produce the evaluation report to the tax authorities.