

## Analyse of Tax Risk for University-Owned Industry of China

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### Abstract

As a class of business risk, tax risk of university industry is always a significant risk factor can not be ignored. This paper introduces the concept of tax risk, analyzes the causes of university, and proposes the measures to manage and control the tax risk of university industry, for reference.

**Key words:** Tax risk; University industry; Reasons; Measures

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### INTRODUCTION

At the national University Scientific and Technological Industry Working Conference held in 2005, personnel attending the meeting established the college industry working guidelines "positive development, standardize management, reform and innovation". Positive development and standardize management are the dialectical unification relations: development needs standard, while standard is for better development. Whether it is positive development or standardize management, both demanded that university-owned industry fully understanding various industry risks they are facing and doing well the risk management. The risk is the uncertainty of the incident and the possibility to achieve a negative impact. Enterprise risk is refers to the enterprise production and management process, as a result

of all sorts of cannot expect beforehand the influence of uncertain factors, so that the actual financial results and status and expected to occur in certain deviations, which has suffered loss or gain extra income opportunity or possibility. The risks that enterprise faces are unable to completely avoid, but the risk is sure to be in control in the minimum range. Enterprise risk management is through the identification, risk assessment and the corresponding risk management strategy, at a reasonable cost as far as possible to reduce accident risk loss, amplification risk management methods of earnings. As a kind of business risks, the tax risk of university-owned industry is always important risk factors should not be neglected. Along with tax revenue legal system construction and the regulations of the tax collection and administration has become more strict, some hidden tax risk of delivering an increasingly, this bring lethal effect to the development of college industry. Therefore, pay attention to the tax risk management has very important practical significance for the actively development and standard management of college industry.

### 1. THE CONCEPTION OF TAX RISK

Tax risk is possibility subjected to legal sanctions, financial loss or reputation damage because the taxpayer's tax related behavior in tax administration, calculation and payment of taxes, for failing to properly comply with tax laws and regulations and other reasons or because the company did not correct grasp of the tax law spirit, the tax preferential policy oriented and not fully understood use, cause pay more tax possibility.

Tax risk influences the enterprise mainly through the two kinds of form. One is direct form. Because of the subjective and objective reasons, the enterprise produced deviation on the understanding of the tax law and executive, increasing extra outlay such as tax fine for delaying payment, fines and penalties. Or enterprise

management behavior is not accurate tax law, pay taxes. No foot or preferential tax policy, and direct economic benefits to the enterprise due to reduce, excessive bear tax cost. Another kind of form is indirect. Performance in if the tax inspection in performance that enterprise existing tax dodge, they will impose administrative penalty, the public financial information will give enterprise adverse social influence, makes the legality and legitimacy of enterprise business activities get public question, and, to some extent, cut enterprise value.

## 2. CAUSE OF COLLEGE INDUSTRY TAX RISK FORMATION

College industry tax risk formation has a variety of reasons, such as management mode and the awareness to pay tax internal reason, also have the tax environment external reason, specific analysis are as follows:

### 2.1 Internal Causes

#### 2.1.1 College Industry Management System Influence

University owned enterprise is a few left corners in the spring tide of reform of state-owned enterprises since reforming and opening. It has a state-owned enterprise widespread ills, and individual and private enterprises frequently occurring defects. Part of the college professor office, the enterprise as a subject group and the equity capital bank loans as don't repay research fund, follow one's inclinations spends. Some enterprise leadership is courtyard, is person in charge of, or academic leaders, a powerful, easy a person said to calculate, no scientific decision-making and restrictive mechanism. The purpose of some companies established is in order to avoid the school regulation, and take the "research" as its main business. The company is actually the faculties of the "small exchequer", and prone to corruption and illegal, and even illegal problem. After years of standard management, many colleges change a system of School-based enterprises one after another, established asset management companies, and the operating assets are transferred. But there are a lot of college industry did not finish change make the work, even if the completion of restructuring also has many just stay in form, did not do the thing look forward to, did not build the real corporate governance structure. College of management and enterprise management be quite different, excessive administrative intervention to make the industry will not far from the College of arms, not good to the environment, will naturally bring more risk. But this risk may be also more than the industry level, which will further affect college.

#### 2.1.2 College Industry Tax Consciousness Influence

The scientific consciousness of paying tax, tax risk concept is not strong. Although aware of the tax is the obligation of the enterprise, but most are in the

authority of the state mandatory to pay taxes, lacking of consciousness and initiative. Passive tax may make the enterprise did not grasp the overall business enterprise tax use regulations, which may lead to the corporate tax is not accurate, not to pay taxes in accordance with the law of obligations in accordance with the law or to enjoy the tax rights. As the consciousness of company pay taxes is not scientific and tax risk consciousness is not strong, make the enterprise lack of tax risk control in the organization establishment and overall consideration through every annual ring, not take the tax risk control throughout the enterprise production manages in whole process, lacking the integrity and rationality of the tax risk guard.

Several misunderstandings exist generally: The first is that only with the financial department can handle tax related problems. Although on the surface the financial department is responsible for tax treatment, but in fact is a business unit of generating revenue, the financial sector will be generated in the business department of tax accounting is reflected, and perform the corresponding procedure of tax payment. If in the business at the beginning did not consider tax factors, afterwards when financial problems found after a relatively passive, inappropriate treatment will produce tax risk. The second is the pure emphasize on correct understanding of tax law on the basis of a comprehensive tax adjustment, avoid or reduce the occurrence of local tax, which can fundamentally prevent taxation risks and control of tax cost. The third is the few people think that we can solve the tax-related issues through the relationship between enterprises, when in the thorny tax-related issues, the first is "trust relationship, find a way," so often leave a lot of unseen dangers in the sense of control.

#### 2.1.3 The Internal Management System of University Industry Infulence

University industry internal complete system is the base of enterprise to prevent taxation risks. Internal management system of enterprise financial system, including internal audit system, investment control and guarantee system, performance evaluation and incentive system, enterprise risk management system, personnel management system. The system of University industry whether perfect, establish of system whether reasonable, science, basically restrict the enterprise to guard against the degree of risk. If enterprise lack of complete system of internal management system, we cannot control and prevent tax risk from source.

#### 2.1.4 College Industry Tax Professional Influence

First is control system, organization, personnel construction to be strengthened, and the many college industry are not within the special tax management institutions, at best a person set position, and is often part-time role, the lack of a tax, internal control, financial aspects system knowledge training professionals. Second, the lack of perfect tax the risk management

system, the standard and the process, in tax related risk point discernment, prevent and control, main or rely on financial personnel individual ability of judgment, even edge dry edge to learn or trial and error, and the overall tax risk control capacity by the restriction of personal level. As a result of Imperfect institution-building and process system, in most cases the tax administration also limited to how to maximize the correct payment of tax in a timely manner, is actually a single after-tax only, not with planning, control, communication, etc. management functions. Again, all colleges and universities industries have not seriously study various functional departments related to tax risk in risk management responsibilities, as well as adjustments, to improve the program of tax-related business activities, the failure to establish full participation in, the operation of the mechanism.

## **2.2 External Causes**

### **2.2.1 The Effect of Tax Policy**

Tax revenue legislation is not perfect enough, weakened the tax predictability, increased tax risk. First of all, the provisions of the tax law in some places are not clear enough to businesses and tax bureau the understanding existence difference. Since a significant portion of applicable, mutatis mutandis the policy in an open state, the tax authorities for the policies and regulations of publicity, generally limited to the effective scope interpretation. The new tax policy, lack remind taxpayers pay attention, so it is easy to mislead taxpayers, tax so that it will fall into the trap. Secondly, because our country is in economic transition period, the tax policy as the important means of national macroeconomic regulation and control, always with the change of economic environment and constantly adjusted, with relatively short time. Tax laws and regulations change frequently, especially some "red head file" to a considerable extent on tax legislation to make recessive or dominant modifications, such as tax, deducted rate, the export tax rebate rate adjustment, directly affect the enterprise tax obligations have and how much. Furthermore, in the different stages of economic development, the government of different area, different industries have different tax policies. Tax policy often change, increase the amount of enterprises grasp the tax policy will bring difficulty, tax risk.

### **2.2.2 The Effect of Tax Law Enforcement**

Tax law enforcement is not standard, which increase the tax risk. This is mainly due to our current country tax revenue management is still not perfect, tax staff have too much discretion, different Taxation Bureau even different taxation management personnel in the same Taxation Bureau have inconsistent method for the same matter processing, so that enterprises can be difficult to determine how to handle is correct; at the same time as some places existence taxation index task led to many law enforcement non-standard phenomenon, such as receiving "head tax", fines.

### **2.2.3 The Effect of External Management Environment**

Objective management environment especially the tax order with respect to some social problems existing in the tax risk also formed certain effect. For example, transactions in the falsification, a value-added tax invoices, to the normal operation of enterprises' enormous tax risk. Also, during the merger process, due to the merged enterprise's tax situation fully investigation, therefore maybe liable for merger object previously exists in the management of tax law and tax revenue from fines loss. Because of the asymmetric information, this kind of risk is widespread.

## **3. MANAGEMENT AND CONTROL MEASURES OF TAX RISK FOR UNIVERSITY-OWNED INDUSTRY**

University industry tax risk in decision-making and daily management process, risk control should be placed in the daily management and operation work. No doubt, the largest corporate tax risks are often the source of the shortest piece. May 5, 2009, the State Administration of Taxation issued a "big enterprise tax risk management guidelines (Trial)"; this is the first guidance documents that our country enterprise's tax risk management formally issued. Although the majority of the industry does not belong to the category of large enterprises, we can use the "guidelines" to guide us to control the tax risk. Combining with the industry actual, the author thinks to should be from the following aspects of the efforts.

### **3.1 Improve the Corporate Governance Structure, Separate Institutions and Enterprises**

Institutions of higher learning are essentially an academic institution, University industry belongs to for-profit institutions, different nature, and management mode is also different. The industry should leave school administrative intervention, to establish the true understand business, good management, occupation of the management team, which is the corporate governance structure.

### **3.2 Set up the Right Consciousness, Pay Attention to Tax Risks**

Tax risk is objective, only to improve the tax risk awareness, can truly make the tax risk response and prevention. To the enterprise leadership to the general staff should pay attention to the enterprise tax risk, heavy big items prior to tax risk assessment, establish a "tax no matter" consciousness, formed to prevent tax risk conscious behavior.

Enterprise tax risk management, should not be negative, passive coping, but should be positive, active, advance planning, change from passive to active. On the taxation problems should follow the "early detection, early

treatment” principle, to make “trivial” not evolved into “big”, “do” big small, small matter of timely problems nipped in the bud.

### 3.3 Establish and Perfect the Internal Control System of University Industry Tax

The internal control of enterprise is the important aspect of risk management. Establishing and perfecting the internal control system of university industry taxation is conducive to the strengthening of tax risk management. The industry should be in accordance with the major tax involved in risk management functions and business processes developed covering the entire process control measures to make tax daily management procedure, standardization. In the following risk management cost benefit on the basis of the principle, the overall management control system to develop, make tax risk strategies, reasonable design of tax management processes and control method. In accordance with the major tax involved in risk management responsibilities and business flow, make each link of the whole process of coverage control measures; for other risks involved in business processes, a reasonable set of critical control point, take corresponding control measures; coordinate relevant functional departments, management of the daily activities of tax risk.

### 3.4 Establish a High-Quality Financial Personnel

Any measures and approaches are needed by people to carry out, build and cultivate a high-quality personnel, is to do a good job of tax distribution management key. Enterprises need to cultivate and enhance the quality of professional services team, create good team work style and efficient working condition. Attach importance to financial personnel training; update their knowledge system, ensuring its proper professional skills.

### 3.5 Strengthen and Tax Departments of Communication, Strengthen Tax Information Acquisition Ability

Industry of higher institutions should pay attention to the work of tax authorities program understanding, strengthen the contact and communication, to achieve with the tax authorities on tax law understanding consistent, especially in some ambiguity and novelty processing to get a tax authority approval. Only corporate tax planning scheme get approval from the local competent tax authority, we can avoid invalid plans, which is the key to avoid the tax risk. The enterprises should establish and external to the tax risk management communication mechanism, strengthening with external tax experts, accountant and audit expert cooperation, increase access to effective information on the response sensitivity and response capabilities.

### 3.6 Professional Tax Work of Internal Audit, Establish Regular Tax Reporting System

Internal audit takes a systematic, standardized approach to risk management, internal control and management procedures for evaluation, improve their efficiency, help to realize the goal of enterprise, pay attention to the tax revenue work on internal audit risk management application, can consider internal audit committee in at least one of taxation personnel, in the daily management of the tax personnel and internal auditors to complete certain work.

In the regular report, should include the enterprise tax affairs and structure analysis of tax regulations, and disputes, analysis of enterprise in various stages of the incurred tax risk and potential tax risks, enterprise take control measures and effect analysis of the contents.

## CONCLUSION

In conclusion, taxation risk is objective existence, tax risk management has the very strong comprehensive, need and the tax policy of the country, the enterprise development strategy and business coincide, not put things right once and for all programs, college industry must pay attention to tax policy changes and continuously adjust the risk control method, in order to ensure the effectiveness of the tax risk control. Tax risk internal control system is not a short duration of time of work, and all internal control system internal control system, tax risk control functions to provide reasonable assurance, not absolute assurance. The industry should save, as soon as possible to develop a plan of action, through the establishment and effective operation of perfect tax risk control mechanism, improve the tax risk control level, and promote the industry's long-term health development.

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