Research on the Role of Tax Planning in Preventing Corporate Tax Risks

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Abstract: Paying taxes according to laws and regulations in the process of business development is an obligation of companies. It is a vital task for companies to reduce tax burden by reasonably applying laws, regulations and policies, which requires tax planning. This article explores the relevant contents of corporate tax planning and tax risks. Firstly, it briefly expounds tax risks and tax planning, then analyzes the causes of tax risks. Finally, the measures are put forward to avoid tax risks in the business process affecting the development of companies.

Keywords: Tax Planning; Tax Risk; Cause of Tax Risks; Preventive Measures

1. Introduction

Tax planning can effectively reduce the probability of tax risks for companies, which is beneficial to the development of both companies and the whole industry. However, there are many problems in tax planning, mainly because it is difficult to predict tax risks, which will affect the formulation of risk prevention measures. Therefore, companies need to comprehensively understand the tax risks they face, so as to lay a solid foundation for tax planning and the formulation of preventive measures, thus improving companies’ risk prevention ability. Details are expounded as below.

2. Tax risks and tax planning

2.1 Tax risks

Tax risks are inevitable and easy to occur in the development of companies, whose manifestations mainly include: (1) companies do not pay taxes according to the requirements of the government, such as tax evasion. In this case, companies not only need to pay taxes in arrears, but also will be fined; (2) the management behaviors of companies are not in accordance with the laws and regulations, and do not make use of the preferential policies issued by the state, leading to more taxes. Usually, the tax risks of companies mainly refer to the first one. Tax risks vary in different types of companies. For large companies, tax risks present in a complex form. Due to the corporate managers’ misunderstanding of the tax concept, the development of taxation-related work is hindered, and the business environment and objectives of companies are also affected, thus having a negative impact on the development of companies[1]. In the development process, the probability of tax risks of large companies is quite high, because of its large scale, complicated business activities, and difficulty in management work.

2.2 Tax planning

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Tax planning mainly refers to the planning work carried out by companies to reduce tax expenditure based on laws and regulations. Tax planning can help companies’ taxation-related work become more reasonable and effectively reduce the occurrence of tax risks. However, many companies neither recognize the role of tax planning, nor attach enough importance to it in the actual development process, which greatly obstructs the development of tax planning and prevents it from playing its own value. Tax planning is very important for any company, and it is helpful for companies to better complete taxation-related work and can promote better development of companies. Therefore, it requires more attention from companies.

3. Causes of corporate tax risks

3.1 Management concept

Through the analysis, it can be seen that corporate managers usually pay more attention to exploring new markets or production technologies in the development process of companies, and often ignore the importance of tax risks. This also happens to some corporate leaders, indicating that leaders do not pay enough attention to tax risks in their management concepts[2]. Because of corporate leaders and managers’ ignorance of tax risks, no effective measures are taken to prevent tax risks. This greatly increases the probability of tax risks, seriously affecting the development of companies, causing companies to be very prone to tax risks during development, thus bringing economic losses to companies.

3.2 Quality of taxation-related personnel

Taxation-related work is usually handled by professional personnel in order to achieve better results, so the ability and quality of taxation-related personnel will affect the taxation-related work of companies. According to research and analysis, it has been found that many workers in companies fail to meet the job requirements in terms of technical level and professional quality, and do not understand the policies and regulations on corporate taxation in China. Especially because of lack of the cognition to tax laws related to corporate development, together with the poor communication with tax agencies due to various reasons, mistakes often occur in practical work, and even illegal operations. This greatly increases the tax risks of companies[3]. On the other hand, although some staff are of high professional ability and clearly know about tax policies and regulations, they do not make full use of their own advantages to better carry out taxation-related work for companies. Instead, they use the loopholes in the tax law to act illegally, which not only seriously damages the legitimacy of business operations, but also increases the probability of corporate tax risks.

4. Measures to prevent tax risks

4.1 Change the management concept

It is understandable for companies to focus on production and business activities. However, taxation should so be paid enough attention to. Ignoring taxation-related work will lead to tax risks, which is quite unfavorable for the development of companies. Therefore, it is necessary for corporate leaders and managers to change their wrong ideas and attach attention to taxation-related work[4]. The thoughts of corporate leaders determine the working concept of the whole company to a certain extent. To prevent the occurrence of tax risks, corporate leaders should start from changing their improper management concepts, attach importance to taxation-related work and implement them in the daily work. Following leaders, managers will also change their own ideas, pay more attention to taxation-related work, and continuously improve the quality of taxation-related work, thus avoiding tax risks.

4.2 Improve the skill level of taxation-related personnel

Tax planning of companies is usually formulated by taxation-related personnel, so their own ability and quality can directly affect the result of tax planning work. Companies should take effective measures to promote the relevant staffs’ ability and quality, in order to enable them to complete taxation-related work more efficiently and ensure the quality of work[5]. In practice, companies need to carry out centralized training for relevant personnel, so that they can
learn the knowledge and skills of tax planning and improve their professional skills. Moreover, companies should also guide them to effectively master tax-related laws and policies, and then on this basis carry out practical training, so as to upgrade their training programs, perfect staffs’ knowledge structure and improve their skill level. It can lay a solid foundation for companies to better carry out taxation-related work in the future, and effectively implement tax planning, thus greatly reducing tax risks of companies.

4.3 Build a sound pre-warning and reporting mechanism

While formulating tax planning, companies also need to build a matching tax risk pre-warning mechanism, through which companies can detect various risks in the business process, and then evaluate the tax trend regularly. On this basis, companies can reasonably formulate effective measures to control tax risks, so as to avoid financial risks and safeguard the healthy development of companies. In addition, taxation-related work should be reported regularly, so as to strengthen supervision and management, and to formulate a feasible tax plan in combination with the market environment for enhancing the ability of companies to prevent and control tax risks. Besides, once problems occur in the process of supervision, it is necessary to organize relevant staff to correct and improve it in time. It is of positive importance in controlling tax risks for companies.

4.4 Enhance communication with tax agencies

All taxation-related work of companies should be carried out within a reasonable and legal scope. Therefore, it is necessary to carry out taxation-related work scientifically, strengthen tax risk control, and enhance communication with tax agencies to understand the laws, regulations and policies related to tax in time. Then, companies can effectively complete taxation-related work based on this and combined with the actual situation of companies themselves. Taxation-related personnel should enhance communication with tax agencies, understand detail contents of tax, and share them with corporate leaders to ensure the correctness and smoothness of taxation-related work.

5. Conclusion

To sum up, to achieve better development in the future, companies need to strengthen the prevention of tax risks, effectively carry out tax planning, and reduce the probability of tax risks. This article discusses the measures to prevent tax risks of companies, including the following four aspects: changing management concepts, improving the skill level of taxation-related personnel, building a sound pre-warning and reporting mechanism, enhancing communication with tax agencies. By doing well in these four aspects, companies can better carry out taxation-related work, reduce tax risks, and avoid economic losses to companies as much as possible.

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