

# Research on Analysis and Countermeasure for Tax Risks of Small and Medium-sized Enterprises Based on Golden Tax Phase IV

Niyan Wu

*Economics and Management School, Sichuan Minzu College, Guzan Town, Kangding City, Ganzi Tibetan Autonomous Prefecture, Sichuan Province, 62001, China*

**Abstract:** China is transitioning from "tax management based on invoices" to "tax management based on numbers", and tax work will enter a new stage. Compared with Golden Tax Phase III, Golden Tax Phase IV not only covers tax aspects, but also includes "non tax" businesses, with greater and more comprehensive monitoring efforts. Starting with the analysis of the current situation of tax-related risks of small and medium-sized enterprises, this paper points out the risks existing in the use of tax accounts, invoice management, income and expense processing through literature research and case analysis, and suggests that small and medium-sized enterprises should establish a tax risk early warning system, strengthen the communication and exchange of tax-related information, and improve the financial and tax literacy of financial personnel, so as to prevent risks and improve the level of tax risk management of Smes.

**Keywords:** Golden Tax Phase IV; Small and Medium-Sized Enterprises; Tax Risks; Tax Management Based on Numbers

## 1. Introduction

The Golden Tax Project is the general term for the national tax management information system engineering. Founded in 1994, after nearly 30 years of evolution and improvement, the final Golden Tax Phase IV (Hereafter referred to as GTP IV) was officially launched in 2021. From GTP I to GTP IV, the level of informatization and comprehensiveness for national tax collection and management has been continuously improved. In the current context of digital intelligence, GTP IV can not only monitor tax business, but also monitor the daily operation of enterprises, achieving more comprehensive monitoring of business and urging enterprises to shift from paying taxes in

accordance with the law to operating in accordance with the law. Based on GTP IV, small and medium-sized enterprises (Hereafter referred to as Smes) should study the changes in national policies, closely integrate industry, finance, and taxation, establish a tax risk warning mechanism, so that their accounting is completely based on the actual situation, in order to reduce the tax burden of enterprises, avoid tax risks, and enhance their core competitiveness in the context of "tax management based on numbers".

## 2. The Impact on Smes

After the implementation of GTP IV, Smes are faced with more severe tax risks and challenges, and their information is completely exposed to the data systems of tax authorities, while China has been moving from the era of "tax management based on invoices" to a new era of "tax management based on numbers".[1] For example, In early April 2020, when the tax and public security departments in Chongqing used big data to conduct risk scanning and judgment on false invoices, they discovered a clue to a gang of false invoices, and immediately collaborated with the Special Office of the State Administration of Taxation in Chongqing to carry out investigation and punishment work.[2] In May 2020, Chongqing Municipal Public Security Bureau, Chongqing Municipal Taxation Bureau and the Special Office of the State Administration of Taxation in Chongqing jointly implemented a unified network closing operation on the cross provincial false invoicing case of 7 false invoicing gangs involved in the "April 01" project, cracked down 12 dens, captured 63 suspect, and seized a number of crime tools. After investigation, the gang registered several shell enterprises and falsely issued special invoices and ordinary invoices of value-added tax amounting to 7.18 billion yuan. With the gradual improvement of GTP IV, the tax

collection and management system will become more powerful, the powerful data analysis function puts higher requirements on the ability of enterprises to identify tax risks and prevent tax risks. The more intelligent enterprises will be in tax handling, the greater the tax risks enterprises will face, especially for Smes with weak risk resistance. It is the key to high-quality development of enterprises, how to improve tax management level, avoid tax risks, and enjoy the convenience and efficiency brought by smart taxation better based on GTP IV.

### 3. Main Tax Risks of Smes based on GTP IV

#### 3.1 Violation of Tax Account Usage

GTP IV mainly utilizes internet data channels, artificial intelligence, and other means, relying on advanced technological means to achieve internet intelligent tax handling and "tax management based on numbers", which can more comprehensively supervise the violations for accounts of enterprises in the business process. According to the Provisional Regulations on the Standards for Small and Medium sized Enterprises, the definition of Smes generally refer to industrial and construction enterprises with fewer than 3000 employees, sales revenue of less than 300 million yuan, or total assets of less than 400 million yuan; Wholesale and retail industries with fewer than 500 employees or sales revenue of less than 150 million yuan; Enterprises with less than 800 employees or sales revenue of less than 150 million yuan in other enterprises. In terms of the characteristics of Smes, such as small asset size, single activity content, simple organizational structure, low management level, and poor financial control, GTP IV can better detect their tax risks.

Due to the imperfect or even missing tax management systems, Smes are more prone to violations of fund account usage, such as intentional use of cash or personal cards to pay employee salaries, or attempts to transfer funds from public accounts to private accounts, especially through petty cash to corporate entities, in order to achieve the purpose of tax evasion and embezzlement.[3] Based on GTP IV, the sharing of financial, tax and banking information has been realized, and tax authorities can more comprehensively and

accurately monitor the flow scale and direction of enterprise funds. It is easy to detect changes in enterprise and personal bank accounts and combined with the actual business situation of the enterprise, precise monitoring and warning can be carried out. Enterprises should pay more attention to the reasonable and legitimate use of public and private accounts to reduce their own tax risks.

#### 3.2 Inappropriate Management for Invoice

As a carrier of reflecting real economic activities, invoices are an important tool for national tax control.[1] Their importance is not only reflected in the actual situation of real business restoration, but also an important basis for the tax risk assessment of enterprises in GTP IV. However, it is common for Smes to have lax invoice control and loopholes in the setting and implementation of control systems [3].

GTP IV utilizes big data mining analysis methods to analyze and compare financial data related to Smes. If an enterprise issues invoices not matching its business projects or actual operations [4], or frequently and extensively invalidates invoices, offsets, and other unconventional behaviors, it will cause tax supervision alerts, and thus attract the attention of tax authorities. The authenticity and rationality of the enterprise's value-added tax invoice issuance can be judged based on specific business operations, for example, Hunan government investigated and dealt with the case of false issuance of value-added tax invoices on January 23. In January 2021, during daily inspections, the tax department in Loudi, Hunan Province discovered that three automobile sales companies were suspected of issuing significant false value-added tax invoices. They quickly established a joint task force with the public security department to file and investigate the case. After investigation, the criminal gang led by Zhang has established 22 shell companies in Loudi since the end of 2020 to falsely issue invoices, involving over 500 invoices and an amount of over 600 million yuan. At the end of January 2021, the joint project was successfully closed, three crime dens were dismantled, and five suspects were arrested.

### 3.3 Risks in Handling Income, Costs, and Expenses

#### 3.3.1 Inaccurate Revenue Recognition

On the one hand, based on the latest income criteria, there are significant differences in financial and tax recognition.[5] For example, in the installment sales method, value-added tax is recognized at the time of receipt as stipulated in the contract, regardless of whether the customer has acquired control over the goods - the key to determining revenue in financial accounting. When a value-added tax obligation arises, if the goods have not yet been shipped, the financial accounting of the enterprise does not recognize the income, and the tax obligation for corporate income tax has not occurred; If the delivery time is always delayed, there will be a long-term mismatch between financial and tax revenue. The financial personnel of Smes have relatively weak financial and tax awareness, insufficient tax handling ability, and may not make corresponding tax adjustments or unreasonable tax adjustments. Through big data comparison, GTP IV system can easily identify long-term data mismatches, assess the motivation and risks of the enterprise, and take corresponding measures to address the problems that arise in the enterprise.

On the other hand, if enterprises adopt non-compliant methods such as underreporting and concealing income to reduce their tax burden[3,4,6], big data can quickly and comprehensively analyze and alert abnormal situations by vertically comparing financial and operational indicators such as company revenue and cost expenses, and horizontally comparing financial indicators of enterprises in the same industry, instead of requiring a lot of labor and time to confirm abnormalities as before.

#### 3.3.2 Inaccurate Cost Collection

Some production oriented Smes attach high importance to intangible assets, and when funds are sufficient, they will increase research and development investment [4]. As for the preferential policy of deducting R&D expenses, some companies will include some operating expenses in their R&D expenses. The GTP IV system can evaluate the authenticity, accuracy [6], and completeness of enterprise R&D expenditure collection and accounting through comprehensive comparison and analysis.

The advertising and business entertainment expenses of a company have a direct impact on income tax. In practice, Smes may mistakenly classify advertising expenses and business entertainment expenses, which do not comply with the principle of pretax deduction - some deductions that should not be deducted, such as 200 thousand yuan for business entertainment expenses incurred this year and 20 million yuan for sales revenue. According to 60% of the incurred amount, the maximum limit should not exceed 5 % of the current year's sales revenue. Therefore, pretax intelligent deduction of 100 thousand yuan and tax increase of 50 thousand yuan. Failure to make the aforementioned tax adjustments will inevitably result in the book value of expenses being higher than the actual value. Once the GTP IV system discovers a significant difference between the invoice amount of promotional and entertainment expenses and the actual payment amount of the enterprise, the tax system will trigger an alert to assess the tax risk of the enterprise.

### 4. Measures for Smes to Cope with Tax Risks Based on GTP IV

#### 4.1 Strengthen Communication and Exchange of Tax-Related Information

Firstly, as Smes, they should strengthen internal management and communication of tax-related businesses [3], investigate potential risks, such as whether there is undisclosed income in their accounts, whether there are false invoices, tax omissions, etc., and propose feasible countermeasures for the identified problems, forming a closed-loop processing model of identifying problems, proposing solutions, and solving problems. In the process of solving problems, communication in business management is crucial and an effective measure to avoid tax risks. In order to better communicate and provide feedback on internal tax-related information, regular internal communication activities can be held with relevant personnel. Senior employees or outstanding employees can provide guidance on how to avoid tax risks for newly hired or inexperienced employees regarding the latest tax policies and business changes involved. Secondly, Smes should also strengthen external communication on tax-related information. To actively establish a good

communication mechanism with the tax bureau, in addition to paying taxes on time and legally as required, it is also necessary to communicate with the tax bureau as soon as possible about major changes or new tax management systems in the enterprise, and under the guidance of the tax bureau, try to improve the enterprise data management platform as much as possible and optimize financial and tax management. For example, establishing an enterprise tax big data information disclosure platform can improve the efficiency of information disclosure in accordance with the requirements of tax authorities, improve the quality of tax handling, and enable staff to comprehensively and accurately grasp the pace of tax affairs processing, make timely work arrangements, and respond to the needs of intelligent tax handling. In addition, it is also necessary to communicate with the tax bureau about the latest tax preferential policies, understand the conditions and requirements required for the implementation of tax preferential policies, and, while ensuring legal tax payment, reasonably save taxes to reduce tax burden, reduce costs, and increase the sustainable development ability of enterprises.

Thirdly, strengthen communication and exchange among Smes. Based on GTP IV, enterprises should strengthen communication and exchange with enterprises in the same industry, identify their own tax management loopholes by benchmarking top enterprises in the industry, actively improve their own tax management loopholes and the resulting risks, and then use information technology to improve the overall management level of tax work, improve the integration level of enterprise information technology and tax management, and promote the comprehensive management ability and risk identification and prevention ability of enterprises.

#### **4.2 Improve the Financial and Tax Literacy of the Financial Team**

GTP IV aims to achieve smart tax management, while Smes need strive for compliance in order to reduce tax risks and promote high-quality development. The so-called compliance includes both human compliance and concrete compliance.[7] Human compliance refers to the requirement that, within the framework of corporate

compliance, the financial team and even the entire company must comply with tax laws and regulations, rules and regulations, and professional ethics. Meanwhile, the financial team needs to strengthen business learning, enhance business capabilities, and maintain occupational sensitivity in order to act in accordance with the law, with laws to follow; And concrete compliance is achieved on the basis of human compliance in everything, always, and everywhere. The financial and tax literacy of the financial team is closely related to the quality of financial information and corporate tax management. In order to achieve compliance, financial personnel should learn and update tax knowledge in a timely manner, adjust and improve to meet the requirements of GTP IV, and strive to solve daily tax problems encountered by the enterprise [1,2,8]. The management of Smes should set an example, take the initiative to understand the relevant situation of GTP IV, truly realize the tax risks brought by it, regularly provide training on relevant knowledge and experience, and encourage and guide frontline personnel of the company to actively carry out academic education and professional skills education, enriching the knowledge reserve related to taxation. In order to effectively promote the improvement of financial and tax literacy, enterprises can establish a positive incentive mechanism - setting up ability enhancing salary and performance incentive plans, providing material incentives such as tuition reimbursement and ability bonuses for employees who obtained education and related skill certificates that year, transforming passive or purposeless learning into active learning, and then scientifically and steadily managing the tax risks of the enterprise, while reducing the tax burden of the enterprise while reducing tax risks, Assist tax authorities in regulating tax law enforcement.

#### **4.3 Establish an Effective Tax Risk Management System**

Institutional management is an effective means of controlling tax risks, and enterprises should establish a set of tax risk management systems based on their actual situation. [9,10] Although Smes have the disadvantage of low risk bearing capacity, their single business, relatively simple reports, and relatively single data make it easier to identify tax risk points.

However, due to limited funds, it is not practical to establish a comprehensive tax risk management system and the operation effect may not meet expectations. Therefore, establishing a tax risk warning mechanism for Smes is more convenient and effective. This requires enterprises to have a certain understanding of China's tax system, be able to timely grasp the tax policies, achieve timely declaration, truthful data, and reduce tax risks. At the same time, within the guidance of the tax authorities, it is more effective to establish their own tax risk warning mechanism, improve the recognition rate and reliability of tax risks, and compare relevant indicators with the tax burden rate and other relevant tax data of the enterprise, based on the normal fluctuation range, do a good job of warning tax risks, identify tax risks as soon as possible, and avoid risks.

### 5. Conclusions

Smes' awareness of tax risks is constantly improving, and measures such as strengthening communication and exchange of tax-related information, improving financial personnel's financial and tax literacy, and establishing tax risk early warning system are constantly being improved. However, in order to comprehensively improve the tax-related risk management level of Smes, it is still necessary to continuously improve the system and matching personnel, which is a long-term construction process.

### Acknowledgements

This work was supported by the Research on Intelligent Finance Based on Artificial Intelligence and Big Data, College-level academic innovation team building.

### References

- [1] Lin Fangzhi. Exploration of Enterprise Tax Risk Management Strategies Based on the Fourth Phase of the Golden Tax. *Enterprise Reform and Management*, 2023 (06): 106-108.
- [2] Wang Hongyan, Tang Min. Analysis of Enterprise Tax Risk Management under the Fourth Golden Tax Phase. *Economist*, 2022400 (06): 111-112.
- [3] Zeng Ziyi. Tax risk analysis and countermeasures of small and medium-sized enterprises under the Fourth Phase of the Golden Tax. *Finance and Accounting Learning*, 2022 (07):129-131.
- [4] Gi Haiyan. Research on Enterprise tax risk Management under the Fourth Phase of the Golden Tax. *Investment and Entrepreneurship*, 2023 (07): 125-127.
- [5] Bai Hui. Challenges and Measures Faced by Enterprise Tax Accounting in the Era of Big Data. *Taxation*, 2021 (15): 13-14.
- [6] Zheng Hao. Analysis of the compliance supervision and evaluation system of the enterprises involved. *China Small and Medium-sized Enterprises*, 2021 (10): 162-163.
- [7] Zhang Ninghui. Research and prevention of financial risks of small and medium-sized enterprises under the Fourth Phase of the Golden Tax. *Certified Tax Agent*, 2023 (09): 32-34.
- [8] Xu Jun. Tax Risk Management Strategies for Enterprises under the Supervision of the Golden Tax Big Data Platform - Taking Jian'an Enterprises as an Example. *Accounting for Township Enterprises in China*, 2022 (11): 153-155.
- [9] Li Xin. Financial risk and preventive measures of small and medium-sized enterprises under the background of the Fourth Phase of the Golden Tax. *Journal of Shandong Open University*, 2022 (04):78-80.
- [10] Luan Chunhua, Liu Chao, Hou Zhe Tax risk management under the framework of the "Golden Tax Phase III" project. *China Taxation*, 2010 (06): 52-53.