A Study of Customs Tax Risk Management

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Abstract. This paper studied customs tax risk management. Our research contents are summarized as follows: First, we build Customs Tax Risk Management System (CTRMS). This system includes risk management goal programming, risk analysis and identification, risk quantification and ranking, risk disposal, risk monitoring and control. Secondly, we build a Customs Tax Risk Management System of uniform norms, clear division of labor, mutual cohesion, coordinating order and continuous self-improvement. Finally, we point out the problems and challenges of customs tax risk management.

Introduction

With the promotion of Customs Clearance Integration and the establishment of Tax Administration Center, Chinese traditional mode of Tax Administration has been challenged by innovative mode and new environment. Therefore, a scientific tax risk management system is now in an urgent need of being established in order to reach the goal of tax security and trade facilitation.

Based on the definition that risk is the object's possibility of suffering from harm, customs tax risk can be concluded like this: in the process of tax administration, the possibility and uncertainty of tax erosion may emerge because of the application behavior of taxpayer, social economic environment, tax policy, tax regulation and tax administration, and thus leads to the deviation between actual result and ideal result.

Tax risk management is a subject studying on the laws and the effective disposals of tax risk. Its chief aim is to combine the limited administration resources and the best effect of risk control by optimally combining skills such as risk management goal programming, risk analysis and identification, risk quantification and ranking, risk disposal, risk monitoring and control, which leads to the goal of minimizing tax erosion but at the lowest cost.

The Establishment of Customs Tax Risk Management System (CTRMS)

On the one hand, because the customs administration is a course of recognizing the laws of tax risk, the establishment of CTRMS is a management process of continuous self-improvement; on the other hand, because risk management is a course of optimally combining management methodologies, the establishment of CTRMS needs to make use of multiple methodologies scientifically and orderly throughout the whole process so that a risk management system with uniform norm, clear division of labor, mutual cohesion, coordinating order and continuous self-improvement can be built successfully.

CTRMS includes five aspects: risk management goal programming, risk analysis and identification, risk quantification and ranking, risk disposal, risk monitoring and control. The relationship between them is shown in Figure 1.
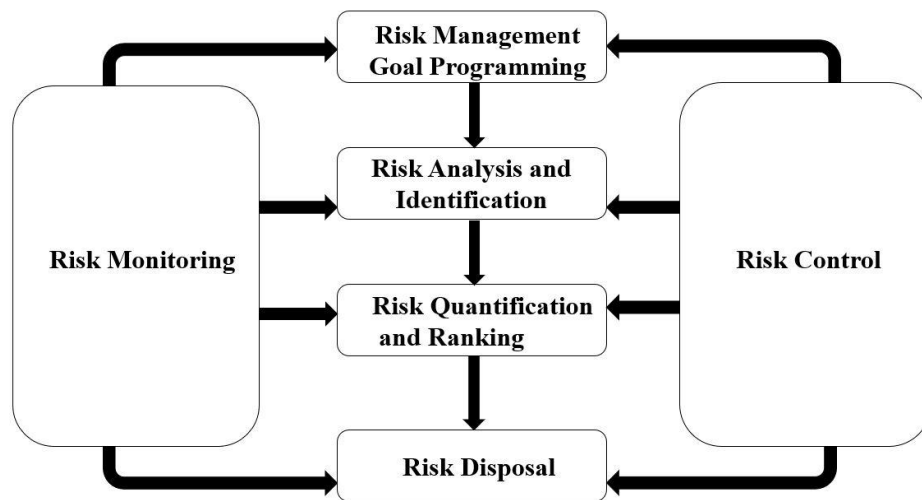
Fig. 1 Customs Tax Risk Management System

Risk Management Goal Programming

The beginning stage of Customs Tax Risk Management is setting the goal and making a plan. To be specific, it means that based on the deep analysis of import and export trade process, social economic environment, customs administration resources, tax administration process, and tax resources, the management level set practical goals, make executable plans, and offer the guarantee of staff arrangement, scientific technology and needed resources.

When setting the goals, pay attention to the following things. First, goals should be set respectively according to Three-tiered system—GACC, Tax Administration Center, and Industries, making the goals more well-organized, clear and practical. Second, decompose the goals on the basis of different stages, making the process controllable. Third, use monitor control index to evaluate the performance in the period of implementation.

Risk Analysis and Identification

Risk analysis and identification is the core part. Based on the goals, it comprehensively utilize methodologies such as risk indicators method, quantitative technology, numeric analysis, data mining and data modeling, search the area with tax risk, generalize the laws and conclude the characteristic of tax risk in order to navigate the implementation of risk control.

The main methodologies of risk analysis and identification are as followed:

(1)Tax risk indicators

Also known as Tax Risk Warning, this method uses anomalous changes of indicators to signal tax risk. Here are some common performances: sharp increase of import column, high or anomalous business profit ratio and business expenses.

(2)Teasing out the import and export process

By teasing out the import and export process, find out anomalous phenomenon, dig out the reasons and screen out the tax risks. The main way is to analyze the capital flow and logistics of entrepreneurs, while making a comparison validation of contract, account book and report forms.

(3)Translating the experts' experience

By concluding the laws and characteristics of tax risk from the experience of the tax experts, a model of Risk analysis and identification can be built by computer technology.

(4)Delphi method

By consulting tax experts, conclude different opinions, send the different opinions back to experts and then let experts revise their opinions. The process mentioned above should be circulated constantly so that consensus can be reached and identification characteristics can be generalized.

(5)Case analysis method

By logically decomposing and deeply analyzing typical cases, the laws and characteristics of

risks can be summarized. Then, verified by mathematical statistics, the laws and characteristics can be used to build the models.

(6)Fault tree analysis

This method acquires that risk should be divided logically into small parts, leading to the deeply analysis and comprehensive conclusion of the laws of risk.

Risk Quantification and Ranking

Also known as risk evaluation, risk quantification and ranking, the premise of differentiated risk disposal, means that based on risk analysis and identification, the risk probability, loss severity and other factors should be all considered to measure risk.

There are quantitative way and qualitative way. Quantitative way sorts the risk degree into six classes (extremely high, high, medium, low, extremely low, none), and qualitative way assigns risk by the rules of quantification and to show the risk degree by figures.

Risk Disposal

Risk disposal is a way both to deal with the risk and to reach the goal of risk management. The immediate effect is lowering the tax risk and tax erosion.

(1) The technologies of risk disposal

Tax risk indicators, orders and model are three main technologies.

Tax risk indicators are some indexes and their logical relationships concluded by customs administrators. The indicators can be translated into computer instruction code and implemented by operating system.

Orders are the forms of risk targeting. Risk targeting is a way of risk control. Based on risk analysis, risk evaluation, intelligence or policies, the Customs management level capture the high-risk objects, come up with specific disposal and then pass on the ideas to operational level.

Model is the abstraction of complex current situation. It not only describes the rules and phenomenon of risk but also reveals the inner relationship and causes of risk. Therefore, model is a way of risk disposal as well as an important technology of risk analysis and risk monitoring.

(2) The strategies of risk disposal

Aimed at using limited administration resources to reach effective results of risk control, strategies of risk disposal are very necessary and important.

Customs can set up differentiated disposal according to the four groups. For the first one, customs can publicize the laws and offer preferential policies in order to encourage them to obey the laws positively. For the second one, customs can offer certain ways for them to deal with problems in order to navigate them to pay tax legally. For the third one, risk control should be strengthened by using indicators, orders and models so that they are discouraged to defy the laws. For the fourth one, besides the technologies used in the former period, inspecting measures in the later period and harder punishments are also necessary.

Risk Monitoring and Control

As a vital skill to make customs tax risk management controllable, risk monitoring and control should penetrate the whole process of risk management. Risk monitoring indicator system, combining different indicators such as risk identification index, risk quantitative index, and risk performance index, is one of the skills to implement risk monitoring and control.

Besides, the measurement of tax risk, a crucial skill in risk management, occupies a markedly important position in risk monitoring and control. The measurement of tax risk means that aiming at unknown or low risk, customs infer the law-abiding condition of all relative people by a small volume of indexes. What's more, sampling is the core technology of the measurement, which requires that not only is the dissimilarity of samples big enough to reflect the overall risk condition, but also the numbers of sample group should be small enough, which requires that similar enough sample should be divided into the same group.

The Problems and Challenges of Tax Risk

Since high-quality statistics is the cardinal backup of tax risk management, how to manage and apply the statistics becomes very crucial. However, statistics is still the barrier of improving and promoting tax risk management. Here are some problems of statistics: First, fewer data on tax. Customs can't grasp the external data of other departments, which hinder the development of risk verification immediately. Second, low quality of data. Internal data grasped by Customs are ambiguous and formally wrong, making lots of data invalid. Third, fake data. Because most of the data are provided by entrepreneurs, whether the data is authentic or not depends on whether the entrepreneurs is honesty. Last, low utilization of data. Because of lacking ways to make use of the data, lots of them cannot be transformed into useful information.

Conclusion

Although CTRMS is still confronted with challenges, it is still the premise of intelligent customs supervision and the significant way to improve the capability of customs supervision. Hope that more and more customs talents can involve themselves in the study of CTRMS and make China Customs become intelligent customs as early as possible.

Acknowledgement

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