

## The Exploration On Construction Of Risk Identification Method System For Taxation

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**Abstract:** In order to fully adapt to the current challenges and situation in China's tax source management, the State Administration of Taxation has put forward measures for the professional management of tax source, and made an in-depth exploration on the reform of new round of tax management system. Confronting the current tax work situation with risk management as the core, only by fully ensuring the scientific nature of the tax risk identification method system in China, can the tax management system reform in China achieve basic results. This paper explores the construction of tax risk identification method system, briefly summarizes the tax risk identification system, analyzes the tax risk identification level system, and puts forward some measures to build the tax risk identification method system for reference.

Preface: The management work for tax risk can be further divide, which include risk response and treatment, ranking of risk level, tax risk identification and analysis, risk management goal and planning as well as performance evaluation and other aspect so as to explore the resources to be collected and managed to the maximum extent, as a result, the degree of compliance for tax will be effectively promoted and effectively defuse and control the tax risk. In the whole work for tax risk management, tax risk identification is a very important work, or even the core of the whole work for tax risk management. Only when the accuracy and scientificity of tax risk identification are fully guaranteed, can the efficiency and pertinence of tax risk management work be guaranteed. Therefore, it is of great practical significance to explore the construction of tax risk identification method system [1].

### 1. Identification of tax risk

As one of the most basic applications of risk management science in tax management, tax risk management is not a new concept. Relatively mature theoretical systems and rich practical experience have been formed in other countries, and tax risk management has also been gradually explored in some regions of China [2]. In the Tax Risk Management Guide, the first step of the risk management process is risk identification, analysis, level determination, response and evaluation on management efficiency [3]. In other words, various risks should be listed respectively and be provided to tax management workers, so as to ensure that the tax administrators know where the problems of tax risk management may occur. The foundation of tax risk management is risk list. If a certain tax risk is not identified in time in this process, it is difficult for relevant departments to comprehensively prevent the direction of the project. From this perspective, the importance of tax risk identification is obvious.

In the process of tax management, the so-called tax risk refers to the possibility of tax loss. Powerful and quantitative methods are adopted to analyze the collected data and control the probability of tax risk and the severity of tax loss, which is the so-called tax risk identification. In view of this, there are two kinds of measurement indicators for tax risk identification, including estimation and analysis of the degree of tax loss likely to be caused by tax risks and estimation of the probability of tax risks [4]. By estimating the probability of occurrence of tax risks, tax

administrators can better understand the harm caused by certain risks and estimate the degree of after-tax loss so as to define the consequences caused by tax loss, and control the risk of tax loss to the maximum extent by concentrating all their efforts.

## **2. Tax risk identification hierarchy system**

### **2.1 From macroscopic aspects**

The so-called tax risk at macro level refers to the overall level of risk for each risk area or different levels of law-abiding taxpayers [5]. The tax risk identification at this level should not be further subdivided, but some problems can also be found, which plays a vital role in the initial stage of tax risk management. At the macro level, tax risk identification usually divides taxpayers into various sub-entities according to different characteristics or behaviors, which promotes the accurate identification of tax risk. For example, the tax of enterprises can be divided into indirect tax risks and direct tax risks according to the type of tax payment, so as to ensure that the measurement of each risk can be fully refined. Referring to the tax administration, it can be divided into warehousing risk, low declaration risk, undeclared risk and tax registration risk.

### **2.2 At micro level**

At the micro level, tax risk identification is mainly to identify the tax compliance level of a single taxpayer through the establishment of some risk indicators based on enterprise information collected from various parties and various potential energy means such as data mining and statistical methods [6]. Enterprise information covers various data from a variety of sources, such as information provided by the Internet, information provided by third parties (which is the main component of enterprise information), and data declared by taxpayers in the information collection and management system. Generally speaking, the data itself has no value, but the data can be related to a certain risk through mutual correlation and comparison, so that the data can be of great value. By comparing all kinds of data, the result obtained is, to some extent, the so-called risk characteristics and risk indicators. As a kind of selection standard, a certain risk of taxpayers can be determined by setting parameters of indicators and then comparing parameters and data in tax returns.

## **3. Construction of tax risk identification method system**

### **3.1 Tax risk identification method at macro - level**

From a macro point of view, tax risks should be measured by the index of tax loss. Tax risks are usually identified from the top down or from the bottom up, but experts' opinions are also used to carry out work in special cases [7].

Firstly, the top-down approach. The method is used from the perspective of micro data of national economic accounting and from the perspective of survey on relative consumer spending on the basis of the tax system at present stage, the economic aggregate and the tax revenue calculated by economic institutions can be accurately calculated, the difference between theoretical tax revenue and the actual tax revenue is the so-called tax loss. This method is mainly applied to tax systems such as business tax, consumption tax and value-added tax. Since the design of such taxes is relatively simple, macroeconomic data corresponding to the tax base is relatively comprehensive and indirect tax loss can be easily obtained [8].

Secondly, the bottom-up approach. From the perspective of micro enterprises, the sample enterprises are reviewed and analyzed to clarify the tax loss of the sample enterprises, and the overall tax loss is inferred through the tax loss of the sample enterprises in the way of statistical reasoning and technical adjustment. This method is mainly aimed at all taxes and other taxes that are difficult to be collected from macroeconomic data corresponding to relatively complex tax base with tax system design [9].

Both of the above methods have their own advantages and disadvantages. The top-down method

is adopted for tax risk identification, which is easy to obtain important data without excessive costs for estimation. The results can be obtained in a relatively fast manner and the general situation of tax loss can be basically mastered [10]. However, due to the limitation of macro data, it is difficult to further subdivide into agent tax base, and it is difficult to timely discover some more detailed loss information, let alone make clear the causes of tax risks. The bottom-up approach can be used to summarize the law of tax loss from a micro perspective and from an incongruous dimension, and it can depict taxpayers suspected of tax evasion in details. However, the biggest disadvantage of this method is that it is relatively difficult to obtain micro data, which requires a long estimation cycle and huge cost for estimation, and sometimes it is difficult to find all tax evasion and avoid the occurrence of underestimation.

### **3.2 Tax risk identification method at micro level**

In general, it is difficult for us to accurately estimate the amount of tax loss of a single taxpayer. However, in order to describe the tax risk of a single taxpayer, it is usually based on the possibility of tax loss of the taxpayer. If there is more possibility of tax loss of this taxpayer, the tax risk will be greater. Tax risk identification at micro level can be defined to identify the individual taxpayer in specific groups with higher tax risk, in other words, the taxpayer in special groups can be divided into two categories according to the possibility of tax loss, which are high probability with high tax risk and low possibility with low tax risk. Therefore, we can view tax risk identification at the micro level from the perspective of mathematical classification or clustering theory, and an appropriate data mining algorithm pair can be adopted to classify individual taxpayers in a specific group [11].

In order to establish a scientific tax risk identification method system, data collection, risk feature extraction, model selection and training and risk model evaluation are usually required. As far as data acquisition is concerned, data acquisition is the basis and premise of risk identification. A good classifier needs sufficient data support. For the extraction of risk characteristics and the judgment of a risk index, the key point is to analyze whether the characteristics of different samples from the same risk category are similar, while for the samples of different risk categories, it is necessary to determine whether there are large differences. For model selection and training, in the whole model classification system, it is necessary to extract an accurate feature value according to the risk feature extractor with the help of sample information, and conduct in-depth training on it. This process is called learning process in the professional field.[12] By learning samples in this way, unknown parameters of a model can be predicted, and then a risk category can be marked for the measured object. Finally, to conduct risk analysis for risk model, in the process of tax risk identification, it is frequently regarded that there will be greater error value by using a single risk indicator for classification, while by using two more risk indicators can effectively reduce the error. However, in the process of establishing the tax risk identification method system, it does not mean that more risk indicators can show better results, excessive use of risk indicators will lead to the ignorance of important risk indicators by the algorithm, complex model is not necessarily good in producing the most effective classification results.

### **Conclusion**

Above said, with the rapid development of social economy in our country, we have made more efforts in research on the construction of the tax risk identification method to make clear the importance of the establishment of tax risk identification method system. A feasible tax risk identification method system can be constructed according to the actual situation of our country and tax risk to safeguard the effective implementation of the work for taxation, which lays a solid foundation for the development of our country.

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