

A Study between Internal Control and Tax Risk -Based on the Listed Real Estate Enterprises in China

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Abstract

In May 2009, the State Administration of Taxation issued the “Guidelines for the Management of tax risk of Large Enterprises” (Guo Shui Fa [2009] No. 90) to help enterprises establish a tax risk management system. This is the first time that tax risk have been formally presented in a separate form, causing a stir in the academic and practical circles. Tax risk is one of the financial risks faced by enterprises. The consequences can not be underestimated. Improper handling or slight neglect may bring economic losses, reputation damage and even bankruptcy crisis. At present, the tax risk management of Chinese enterprises has just started. Many enterprises have inadequate internal control systems and limited ability to manage tax risk. tax risk have become an important factor affecting business results and safeguarding corporate interests. The control and reduction of risks is crucial to the survival and development of enterprises. This paper cuts through the internal control of the enterprise, and selects 90 enterprises during 2013-2017 for the total of 450 samples in the A-share real estate industry listed in China’s securities market as the research object. Combined with the theory of internal control and from the perspectives of operation, reporting and compliance with taxation the hypothesis is proposed and regression models are constructed. The empirical study is related to the correlation between the degree of implementation of internal control and corporate tax risk, and finds that the quality of the report is negatively correlated with the tax risk of the enterprise. The quality of the operation is positively correlated with the tax risk of the enterprise. The quality of compliance is negatively correlated with the tax risk of the enterprise. Finally, the paper puts forward reasonable suggestions for the reduction and prevention of tax risk.

Key words: Internal Control; Tax Risk; Real Estate Enterprises

1 Introduction

With the continuous development of the market economy, the competitive environment in which enterprises are located is becoming increasingly fierce, which makes the financial risks faced by enterprises more complicated and diversified. Whether enterprises can achieve sustainable development in this environment is inextricably linked to the level of financial risk. As an important part of financial risk, tax risk also affects the survival and development of enterprises. Improper handling of tax risk can cause financial losses, reputation damage and even bankruptcy. In recent years, many large companies have fallen into the “tax gate” scandal due to their lax tax risk prevention. Guomei, PingAn, Suning, Wahaha and other well-known companies have been deeply involved. How to build a corporate tax risk “firewall” and improve corporate tax risk prevention capabilities has become the focus of both domestic and foreign governments and enterprises. In foreign countries, it is earlier to pay attention to tax risk.

The concept of total risk management has been put forward in the comprehensive framework of enterprise risk management issued by COSO of the United States in 2004, and tax risk has been taken as the risk that needs to be prevented in enterprise risk management. Since then, many multinational companies have set chief tax officers in their finance departments to guard against tax risk. In China, the state-owned assets supervision and administration commission

(SASAC) issued the “guidance on overall risk management of central enterprises” in 2006 and enterprise risk management should be taken as a focus of enterprise operation, but tax risk have not been specifically mentioned in the guidance. Until May 2009, the state administration of taxation issued guidelines on tax risk management of large enterprises (guoshuifa [2009] no. 90), which was the first time that “tax risk” were formally proposed in the official documents of the state administration of taxation. At this point, the domestic academic circle set off a climax of the study of tax risk, and the practice circle also began to pay attention to the enterprise tax risk as an important part of enterprise risk management. There are many factors affecting the tax risk of enterprises, but internal control can be said to be the key factor affecting the level of tax risk of enterprises. The internal and external environment of an enterprise is very complex. With the expansion of modern enterprise scale, the degree of complexity is also deepening. The existence of internal control can help enterprises to cope with various uncertain factors. Through the assessment, prevention and control of enterprise risks, various activities of enterprises can be carried out in an orderly manner to ensure the realization of enterprise goals. Internal control is the most effective means of risk management. the COSO published “risk management an integrated framework” in 2004. including it into “integrated framework in the enterprise risk management”, the integrated framework of internal control and

enterprise risk management are close united and it also marks the internal control has risen to the height of overall corporate risk management. It can be inferred that the level of tax risk, which is also one of the enterprise risks, may be related to the quality of internal control. However, the academic research on the relationship between the two is only theoretical discussion and lacks empirical research results, which makes the role of internal control lack of data supportin preventing tax risk.

This paper is divided into five parts. The first part is the introduction, and the second part is the prior research and hypothesis. On the basis of domestic and foreign literatures related to tax risk and internal control, this paper proposes the research method and hypothesis. The third part is research design. In the quality-oriented internal control evaluation index system, combined with tax risk evaluation index, the regression model is constructed. The fourth part summarizes and expounds the results of empirical analysis, and empirically tests the relationship between the degree of realization of various objectives of internal control and tax risk. The fifth part is the conclusion, according to the results the paper puts forward policy and suggestions to prevent and control the tax risk.

2 Prior Research and hypothesis

2.1 Definition and measurement of internal control

2.1.1 Definition of internal control

According to the article “Internal Control-Integrated Framework” issued by the US COSO Committee (1992), internal control is influenced by the board of directors, management and other personnel of the company. The framework aims at the process of achieving the efficiency of business operations, ensuring financial reliability and providing reasonable assurance of compliance. This article refers to these three measurement indicators as operation quality, report quality, and compliance quality.

2.1.2 Measurement of internal control (1) operation quality

The operation quality is to improve the efficiency of business operations through the implementation of internal control. The level of achievement of business quality can be measured in terms of both efficiency and effectiveness of operations. An enterprise’s operating efficiency mainly refers to the asset’s turnover speed and liquidity, while the operating effect mainly refers to the profitability of the enterprise.

(2) Report quality

That is to ensure the reliability of financial reports, the level of achievement of report quality can be measured from the internal audit normative and the financial reports authenticity. It is a reflection of the

standardization of corporate financial management.

(3) Compliance quality

Compliance with laws and regulations should be the bottom line of business activities. The degree of achievement of corporate compliance quality largely reflects the rationality and legitimacy of corporate tax planning. Compliance and legal tax planning has a major impact on the construction of a benign corporate environment and the standardized development of enterprises.

2.2 Definition and form of tax risk

2.2.1 Definition of tax risk

Michael Carmody (2003) believes that tax risk is an uncertainty risk, mainly from internal and external factors. Internal factors are internal control of the enterprise, while external factors are uncontrollable. According to the book *Corporate Tax Management*, tax risk refers to the possibility that a taxpayer may incur losses caused by taking additional responsibility in the tax-related process.

2.2.2 Forms of tax risk

From the perspective of punishment, the tax-related behavior of enterprises violates, the provisions of tax regulations, tax payable unpaid or less paid. Thus the company faces risks such as tax reimbursement, fines, late payment of late fees, criminal liability (sentence, fines) and reputation damage.

From the perspective of management, the

tax risk include: the performance of the company's strategic objectives, business practices and tax planning inaccurate use of tax laws, not enough to use the relevant tax policy, pay more unnecessary taxes, no reasonable tax avoidance to the maximum extent, bear the risk of unnecessary tax burden.

2.3 Internal Control and tax risk

Sarbanes-Oxley article 302 and 404 respectively published in 2002 and 2004 required to submit an annual report of listed companies management or quarterly report, which must disclose internal control report and evaluate the quality of enterprise internal control. It also requires external auditor to audit the internal control report issued. Chinese scholars started the research late in tax risk management, but in recent years, more and more attention has been paid to the study of internal control and financial risk. According to Zhang Xiao (2010), based on the internal control system of enterprises, the main objectives of tax risk management include: tax planning has a reasonable business purpose and conforms to the provisions of the tax law; Business decisions and daily business activities shall conform to the provisions of the tax law; Accounting treatment of tax matters in accordance with relevant accounting systems or standards and relevant laws and regulations; Tax declaration and payment in accordance with the provisions of the tax law. Jin Yu (2015) believes that the integration of tax risk and internal control can enable enterprises to

form a sound internal control system and provide a good internal control environment, so as to effectively reduce tax risk. Wu Xianghui (2010) believes that enterprises need to establish standardized internal control processes, and to prevent tax risk, they need to consider five elements of internal control, including control environment, risk assessment, control activities, information and communication, supervision and feedback. According to Wang Xia (2012), non-standard business and financial behaviors of enterprises, as well as low level and inappropriate tax planning of tax payers lead to tax risk, and strengthening internal control is the most effective measure to prevent tax risk. Li Shuo (2014) believes that in terms of the evaluation of internal control, there is no unified standard evaluation form, which is mainly caused by the difficulty in quantifying the evaluation of internal control. The internal control deficiencies is used to measure quality of internal control abroad. The reason is that the foreign internal control regulations and disclosure system is relatively perfect. It is more strict for stringent execution, and the report quality is relatively high to encourage enterprises to issue internal control self assessment report and internal control of the verification. It is more comprehensive and reliable for the enterprise to disclose internal control defects.

Wang Zeye (2012) believes that tax risk will have an impact on the business management decisions of enterprises. No doubt, every link of the production and

operation of an enterprise does not involve taxes. Procurement, production, sales, planning and investment all involve the calculation and payment of taxes. Weili Ge (2005) believes that both operational risk and financial risk will induce the ultimate tax risk. According to Fan Zhongshan (2003), there is a strong relationship between the business activities and tax risk. Gaide (2009) believes that tax risk should be divided into two aspects. On the one hand, it is because of the inaccuracy of tax laws applicable to business operations, insufficient use of tax policies, overpayment of taxes, and unnecessary tax burden. Liu Zhen (2009) puts forward the tax risk measurement theory, and she pointed out that tax risk can be quantified by "cost-benefit analysis". Zhang fan (2011) believes that the non-standard operation and financial behavior of enterprises, the limited quality of tax-related staff, inappropriate tax planning and other factors will lead to the intensification of tax risk of enterprises, and the control of tax risk is closely related to the internal control of enterprises.

In summary, this paper proposes hypothesis 1: the higher the quality of operation, the lower the tax risk.

Chen Hanwen (2009) believes that ensuring the reliability of financial reporting is the most important goal of internal control. To a certain extent, effective internal control prevents managers from deliberately manipulating surpluses and reducing the occurrence of false financial reports, thereby

improving the reliability of financial reporting. Internal control was originally used to check for fraud prevention. It can be said that the degree of achievement of financial reporting objectives is the best for the quality of an internal control system. Luo Zhengyuan (2013) also obtained the result through empirical analysis: the company that issued the non-standard audit opinion is worse than the standard audit opinion of the internal control. The audit guidelines issued by the five ministries and commissions such as the Ministry of Finance also clearly pointed out that “the enterprise has corrected the published financial report, which indicates that there are signs of major defects in internal control.” Gu Zhaochun (2011) also believes that under the internal control of enterprises, the accounting treatment of tax matters is in line with the corresponding accounting system or standards, and the corresponding laws and regulations are an important point in the prevention and control of tax risk. Jin yu (2015) conducted an empirical analysis of the tax risk under the internal control of commercial banks. The timely and accurate tax returns of commercial banks are based on accurate and standardized accounting. The irregular accounting results will inevitably lead to the appearance of tax returns. Mistakes, thus facing the risk of being inspected by the tax authorities.

In summary, this paper proposes hypothesis 2: the higher the quality of the report, the lower the tax risk.

Gai di, Zhang xiao (2009) in the article “Enterprise Tax Risk Management: Risk Identification and Prevention and Control” in the definition of tax risk, the company’s tax-related behavior does not meet the requirements of tax regulations. The use of tax laws in business operations is inaccurate, and there is no need to use the relevant tax policies, to pay more taxes, and to bear unnecessary tax burdens. Han Lingli (2008) believes that tax risk is a taxpayer’s tax-related matters in the course of business operations because of violations of tax policies and regulations, such as the penalties of tax authorities, the possibility of late fees or even criminal penalties. Hu Guoqiang (thinks) the system and method of internal control of tax risk itself must comply with national laws and regulations, various industry norms and regulatory requirements of relevant departments. If the above requirements are violated, it will not only deviate from the compliance objectives of the internal control of tax risk, but also the legal risks faced by enterprises, which will cause the enterprises to fall into punishment.

In summary, this paper proposes hypothesis 3: the higher the quality of compliance, the lower the tax risk.

3 Research design

3.1 sample selection

After combing the existing literature, the automobile manufacturing industry, the pharmaceutical industry, and the small and

medium-sized enterprises have all been systematically empirically analyzed by scholars as research samples. This paper selects the latest data of the real estate industry as a research sample, mainly based on the tax-related risks of the real estate industry. Higher features of the high tax risk are mainly manifested in two aspects: on the one hand, because the industry involves many types of taxes, including income tax, business tax, land value-added tax, property tax, etc., The tax burden is heavier, coupled with the recent macro-control of the real estate industry by the state. Moreover, the actual tax burden of the industry has increased; on the other hand, due to the long span of real estate projects, many links, and complex cost calculations, the phenomenon of tax evasion is more serious. Selecting the real estate industry as a research sample can better reflect the current tax burden of real estate enterprises in China, and has great significance for the related research of the real estate industry.

Sample selection and screening process takes the new version of the industry classification issued by the China Securities Regulatory Commission in 2012 as the classification standard, and collects the data of real estate listed companies (A shares) in Shanghai and Shenzhen in 2013-2017 as the research object. Excluding ST companies and missing data samples, this paper has obtained 90 listed real estate companies as research objects, with a total of 450 samples for consecutive 5 years as research objects.

3.2 Variable definition

According to the Internal Control-Integrated Framework issued by the US COSO Committee (1992), the efficiency of business operations, ensuring financial reliability, and compliance with relevant regulations are the main metrics for internal control of enterprises. The principle is: (1) the indicator must be directly affected by internal control, and (2) the indicator data must be publicly available.

3.2.1 dependent variable

Tax risk: Since the tax authorities usually use the industry tax rate as a reference standard when conducting tax audits. the calculation method is: the actual tax rate of the enterprise = (tax payable + business tax and additional + administrative fees) / business income. The individual corporate tax rate is compared with the industry tax rate to judge whether there is an abnormality. This article is also the same as most domestic scholars on the measurement of tax risk (CAOXIAOLI, LIUJIANMIN, etc.). Tax difference rate is used to measure tax risk and the absolute value of the negative difference rate is use to measures the overall tax risk. It is expressed in TDR.

3.2.2 independent variables

In this paper, the internal control quality is taken as an independent variable, and one index is selected as the substitute variable of the equity structure from the three dimensions of operation quality, report quality and compliance quality.

(1) operation quality : This paper selects the return on net assets to measure the quality of business operations. Expressed by ROE. An enterprise's operating efficiency and operational efficiency mainly refer to the profitability of the enterprise. Considering the size of the enterprise, the return on net assets can well measure the current operating capacity of the enterprise. Therefore, this paper takes the return on net assets of the enterprise as Metrics.

(2) Report quality: This paper selects whether the financial statement restatement has been used as a measure of the quality of the report and is expressed by RFR. The restatement of the financial statements, that means, whether the corrections and supplements have been issued due to accounting errors and abnormal amounts after the announcement of the financial statements.

(3) Compliance quality: This paper selects the number of major violations of the sample company as an indicator of compliance quality, and uses NOA to reflect the company's current compliance with relevant laws.

3.2.3 control variables

(1) Enterprise size: expressed in SIZE. LiuJianmin (2001), Liao Xiaojing (2005) and many other scholars believe that there is a certain correlation between the size of the enterprise and the corporate tax burden, that is, the larger the enterprise, the higher the actual tax burden.

(2) Asset-liability ratio: expressed in DAR. Chen Jing (1999), Chen Xiao (1999), Xiao Zuoping (2005), Ma Haiping (2009) and other scholars have proved through empirical analysis that the excessive financial leverage has a significant impact on the tax rate.

(3) Nominal income tax rate: expressed in NTR. The income tax rate can be said to be the most direct indicator of tax burden. Enterprises will formulate tax planning according to different tax policies, which will affect the size of corporate tax burden from the root cause.

(4) Flow ratio: expressed in CR. The current ratio reflects the proportion of the company's available assets. When enterprises encounter a shortage of available assets, the pressure on paying taxes and fees will increase, which will affect the tax burden of enterprises and increase tax risk.

(5) Asset intensity: expressed in AI. Liu Xing (2009) believes that asset intensity is the proportion of fixed assets to total assets. The greater the proportion of fixed assets in total assets, the greater the annual depreciation will be, affecting tax risk.

(6) Whether it is a loss or not: it is expressed by LOSS. China's tax law stipulates that an enterprise's annual loss situation, the income tax payable can be used to make up for the income of the next year, and the next year is not enough to make up for the continuation of the year, up to 5 years.

After the above indicators are summarized, see Table 1.

Table 1: Definition of each variable

Variable name	variable name	Variable symbol	Variable definitions
Dependent variable	Tax risk	TDR	The value of the tax difference.
Independent variable	operation quality	ROE	Return on net assets =net income/Average net assets
	Report quality	RFR	Financial report restatement. If there are any additions to the annual report, the correction is 0, not is 1.
	Compliance quality	NOA	Number of violations. Number of violations of penalties for major matters, taking negative value
Control variable	Business size	SIZE	Natural logarithm of total assets at the beginning of the period
	Debt Asset ratio	DAR	total liability/Total assets
	Nominal income tax rate	NTR	Available directly Corporate annual report
	Current ratio	CR	Current assets/Current liabilities
	Asset intensity	AI	Fixed assets/Total assets
	Whether it was a loss in the previous period	LOSS	If there is a profit, the value is 1; if a loss, the value is 0.

3.3 Model Construction

In view of the research focus of this paper, the impact of the quality of internal control on the tax risk. Therefore, tax risk is taken as the explanatory variable, the degree of realization of internal control objectives,

operation quality, report quality, and compliance quality are used as explanatory variables, and other factors affecting tax risk are used as control variables. Based on all of this, a regression model is constructed.

$$TDR = \alpha + \beta_1 ROE + \beta_2 RFR + \beta_3 NOA + \beta_4 SIZE + \beta_5 DAR + \beta_6 NTR + \beta_7 CR + \beta_8 AI + \beta_9 LOSS + \epsilon$$

According to the above model, this paper conducts an empirical analysis of the internal control objectives, the relationship

between operation quality, report quality, compliance quality and tax risk in chapter 4.

4 Empirical analysis

4.1 Descriptive statistics

Table 2: Descriptive statistics

Variables	Obs	Mean	SD	Min	Median	Max
TDR	450	0.381	0.347	.00117	.294	2.76
ROE	450	9.251	10.419	-39.7	9.31	41.2
NOA	450	-0.151	0.611	-4	0	2
RFR	450	0.976	0.155	0	1	1
SIZE	450	23.586	1.364	19.4	23.5	27.8
DAR	450	66.358	16.522	12.2	69	94
NTR	450	24.578	2.013	15	25	25
CR	450	1.967	0.800	.0297	1.85	6.13
AI	450	0.032	0.057	.000215	.012	.513
LOSS	450	0.053	0.225	0	0	1

This paper uses Stata14.0 to perform descriptive statistical analysis of each variable. The results are shown in Table 2.

It can be seen from descriptive statistics that the maximum tax difference rate is 2.76 and the minimum value is 0.0117. It can be seen from table2 that the tax difference between enterprises is not large, and it is also normal that the tax difference ratio between the same industry is similar. From the perspective of ROE, the maximum value is 41.2 and the minimum value is -39.7, indicating that the profitability between enterprises is quite different, and a small number of enterprises are at a loss. From the point of view of the number of violations, more than half of the companies did not violate the regulations in 2013-2017; from

the restatement of the financial statements, the median is greater than the average, indicating that the financial reliability of the company exceeds the industry average; the asset-liability ratio is the largest. The value is 94, the minimum value is only 12.2, and the average is not much different from the median, but the standard deviation is 16.522, indicating that the gap between assets and liabilities is also large. The maximum income tax rate is 25, the minimum value is 15, and the average value is 24.578, indicating that most enterprises do not enjoy preferential policies and continue to apply the 25% corporate income tax rate; the inter-enterprise flow ratio differs greatly from the asset intensity. The side reflects the large difference in the company's operating capacity. From

the perspective of corporate loss indicators, the median is 0, and a small number of companies are at a loss.

4.2 Relevance test

When model is constructed, it will have a

great impact on the accuracy of the model if there is multiple collinearity between variables. Therefore, before the regression analysis, the paper analyzes the correlation of the independent variables to eliminate highly correlated variables.

Table 3: Pearson correlation test results between variables

	TDR	ROE	NOA	RFR	SIZE	DAR	NTR
TDR	1						
ROE	-0.0380	1					
NOA	-0.114**	0.146***	1				
RFR	-0.0580	0.0410	0.0320	1			
SIZE	-0.295***	0.337***	0.193***	0.00500	1		
DAR	-0.294***	0.085*	-0.0220	-0.080*	0.591***	1	
NTR	-0.092*	0.084*	0.0570	0.110**	0.090*	-0.0440	1
CR	0.086*	-0.129***	0.0610	-0.0190	-0.323***	-0.474***	-0.081*
AI	0.275***	-0.083*	-0.104**	0.0420	-0.254***	-0.190***	-0.176***
LOSS	0.0400	-0.628***	-0.136***	0.0380	-0.156***	0.0540	0.00100
	CR	AI	LOSS				
CR	1						
AI	-0.088*	1					
LOSS	-0.0170	0.0610	1				

It can be seen from Table 4.3 that the correlation coefficients of the four board structure variables and the three control variables selected in this paper are less than 0.3, indicating that there is no multicollinearity in the regression model constructed by these explanatory variables. Therefore, regression analysis can be performed.

4.3 Regression analysis

4.3.1 F test

The Person correlation test can only preliminary test the relationship between the two variables. In order to further verify the hypothesis, this paper carries out regression analysis for the model. Before regression analysis, the F test and Hausman test are used to determine the model form.

Table 4: F test result of regression model

F test that all $u_i=0$
$F(89, 347) = 2.58$
Prob > F = 0.0000

According to the result of Table 4, it can be seen from the test results that the statistic of the F test is 2.58, the corresponding probability value is 0.00, which is much less than 1%. Therefore, the null hypothesis should be

rejected, and there is a difference between individuals, we should choose a fixed effect model.

4.3.2 Hausman test

The null hypothesis of the Hausmann test is: $\text{corr}(u_i, X) = 0$, which means that there is no correlation between the individual and the independent variable, and a random effects model should be chosen. The results of the test are as follows.

Table 5: Hausman test result of regression model

Test: Ho: difference in coefficients not systematic
$\chi^2(9) = (b-B)'[(V_b-V_B)^{-1}](b-B) = 7.51$
Prob> $\chi^2 = 0.87$

It can be seen from the test results that the statistic of the Hausman test is 7.51, and the corresponding probability value is 0.87, which is much larger than 10%. Therefore, the null hypothesis should be accepted, so we should choose a random effects model.

4.3.3 regression analysis

This paper starts from three perspectives of internal control and establishes three basic assumptions about the relationship between internal control and tax risk. In order to verify these hypotheses, this paper selects appropriate indicators and establishes multiple regression models for empirical research. The results are shown in Table 6.

Table 6: Results of regression analysis

Variables	TDR
ROE	0.00385* (0.00202)
NOA	-0.0494* (0.0258)

RFR	-0.199**
	(0.0927)
SIZE	-0.0347**
	(0.0198)
DAR	-0.00347**
	(0.00154)
NTR	-0.0115
	(0.00880)
CR	-0.0238
	(0.0248)
AI	1.284***
	(0.328)
LOSS	0.105
	(0.0825)
Constant	2.014***
	(0.478)
R-squared	0.102
N	450
chi2	74.60

Note: The standard deviations are in brackets. *, **, *** indicate significant at 10%, 5%, and 1% respectively.

According to the regression analysis of the model, the paper shows the following results:

(1) Relationship between operation quality and tax risk

The operation quality and tax risk are significantly positively correlated at the level of 10%, indicating that enterprises with higher quality of operation have higher and higher tax risk, which is inconsistent with the assumptions in this paper. On the one

hand, perhaps because the company's ability to operate is stronger, the tax planning is more arduous, and thus the risks of tax reimbursement, fines, late payment of late fees, penalties and reputation damage are increasing. On the other hand, the stronger the business capabilities, the higher the enterprise attaches importance to production and management and the greater the investment in the realization of the business objectives and the implementation of the

strategy. It makes the potential cost in capital, income and capital flow higher, thus ignoring the evaluation of tax planning. It is far from enough for the importance of tax planning and reasonable avoidance of tax risk. There is no guarantee for the identification, evaluation and control of tax risk. While expanding the operating profits of enterprises, the tax risk of enterprises are also increasing. However, the tracking and monitoring of tax risk did not keep pace.

(2) Relationship between report quality and tax risk

According to the results of regression analysis, the report quality and tax risk are significantly negatively correlated at the level of 10%, indicating that the higher the report quality, the lower the tax risk, which is consistent with the assumptions in this paper, which verifies hypothesis 2. The reliability of financial reports directly reflects the standardization of accounting standards for enterprises. The restatement, revision, and supplementation of financial reports by enterprises reflect the irregularity and unclearness of internal control of enterprises, and the rigor of financial management and control of enterprises. Conversely, the lower the quality of the report, the higher the tax risk. The tax risk is largely an indicator of whether the enterprise system is standardized, the daily production and operation activities are reasonable, the financial management ability of the enterprise and the daily financial indicators of the enterprise. The accurate report has a very important impact

on tax planning and tax risk avoidance. It is the top priority for enterprises to control tax risk.

(3) Relationship between compliance quality and tax risk

According to the results of regression analysis, the compliance quality and tax risk are significantly negatively correlated at the level of 5%, indicating that the higher the quality of compliance, the lower the tax risk. This is consistent with Hypothesis 3 in this paper, which verifies that a high degree of compliance with the law will reduce the tax risk of the company. Some enterprises ignore or cross the bottom line of the law in order to obtain higher benefits. Thus the companies generate excessive tax avoidance motives and even evade tax incentives, so it increases the risk of being warned and punished by tax authorities. The company has not carried out effective internal control, control and prevention of risks in the planning process, and has chosen some risky tax planning schemes, which not only does not have the cost savings, but also increases the tax risk and greatly increases the financial risks of enterprises.

(4) Relationship between other control variables and tax risk

According to the results of regression analysis, the scale of the enterprise and the tax risk are significantly negatively correlated at the level of 5%, that is, the larger the scale of the enterprise, the lower the tax risk, indicating that the large-scale enterprises

not only have more resources for tax planning, but also employ Professionals provide financial support for reasonable tax avoidance. The asset-liability ratio and tax risk are significantly negatively correlated at the 5% level. The higher the asset-liability ratio, the lower the tax risk, indicating that the debt tax shield effect has been exerted. On the one hand, the enterprise with high asset-liability ratio is in the securities. In order to obtain a higher financing reputation, the market tends to a conservative taxation strategy. On the other hand, it shows that the tax credit of the debt makes the tax avoidance motive and even the tax evasion motivation weaken, thus affecting the level of tax risk. Asset intensity and tax risk are significantly positively correlated at the 1% level. In theory, the greater the proportion of fixed assets in total assets, the more depreciation can be deducted before tax, thus reducing corporate tax burden and thus reducing taxation. risk. However, the regression analysis results are contrary to the fact that the higher the proportion of fixed assets of the enterprise, the lower the proportion of current assets, and the worse the ability to respond to risks, resulting in a rise in tax risk. Other control variables were not statistically significant in relation to tax risk.

5 Conclusion

Based on the previous scholars' research on the relationship between internal control and tax risk, this paper makes assumptions

about the relationship between the three basic metrics and tax risk of internal control, establishes a regression model, and empirically tests the tax risk and The relationship between operation quality, reporting quality and of compliance quality. According to the empirical test in Chapter 4, the paper draws the following conclusions. First, there is a high correlation between the degree of quality realization of internal control and tax risk. The better the enterprise's ability to achieve business, the heavier the tax burden, the greater the tax risk. Although the hypothesis is not verified, the reasons have been analyzed. Second, the more reliable the financial report, the lower the tax risk. Third, taxation risks are getting lower and lower for companies with higher legal compliance. Undoubtedly, the taxation risk is lower for enterprises that have high compliance with laws and the accuracy of accounting standards. The more compliance with laws and regulations, the less tolerance they have for risks. Effective internal control can prevent and control tax risk with its good control environment, perfect supervision and restraint mechanism and effective information communication methods, thus reducing the losses of enterprises. Fourth, tax risk are also affected by factors such as size, asset-liability ratio, and asset intensity. The larger the scale of the enterprise, the higher the asset intensity, the higher the tax risk will be. The lower the asset-liability ratio, the more the tax risk will be. low. In addition, the company's loss or not, current ratio, income tax rate also has a certain correlation

with tax risk. All in all, companies should pay close attention to the realization of the three qualities: the operation quality, the reports quality and the compliance quality. Through the monitoring and identification of the three qualities, the company finds possible tax risk, which in turn reduces tax risk and reduces corporate losses.

Combined with the research of this paper, this paper puts forward the following suggestions for the management and control of corporate tax risk: First, strengthen the internal control of enterprises, establish a good internal environment, establish a sound tax risk management organization system, set up tax risk control points, and protect enterprises. Effectively identify, assess and control tax risk and eliminate or reduce the adverse effects of tax risk in a timely manner. Second, set up a special tax supervision department, equipped with commissioners to review and supervise tax accounting and tax planning, comply with internal management systems and laws and regulations, establish a personal responsibility system, avoid tax risk, ensure that enterprises are legally and compliant and Conduct in an orderly manner to avoid loopholes. Third, improve the enterprise accounting system and improve the professional competence of tax-related personnel. China's taxation and taxation policies will be continuously adjusted and improved along with economic development. Tax-related personnel should be regularly organized to learn the latest tax-related knowledge and regulations, and strict Follow accounting standards to ensure the

standardization of corporate tax management and even financial management.

The limitations of this paper are as follows: First, the sample is selected as the real estate industry, and no research on all companies in the securities market is conducted, which is not conducive to the research and promotion of the results. Second, the limitations of internal control measures, how to measure the quality of internal control, scholars in the world have different views. This paper adopts three quality measurement principles, each taking a substitute indicator to try to measure and transform internal control impact, but it does not fully represent and replace the quality of internal control. Third, the limitation of tax risk measurement, this paper uses the tax difference rate to measure tax risk. The adverse effects in this study need to be further tested.

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