



Tax Management

Paying taxes is a company's social responsibility. Huawei believes that the biggest contribution a company can make to society is to serve customers earnestly, do its work the best it can to survive, and pay its fair share of taxes.

Paying taxes is also a basic tax management requirement. Tax management must ensure taxes are reasonable, risks are well managed, and operations are secure.

Huawei prioritizes tax security for the company as a whole over that for regional and country offices and/or subsidiaries. Their tax planning must not undermine the overall tax security for the company. Huawei strives to avoid implicit tax costs when pursuing explicit tax benefits, and long-term tax burdens when pursuing short-term tax benefits. Improper tax planning is strictly prohibited at Huawei.

The company effectively performs intercompany transactions in compliance with external laws and regulations as well as industry practices. Transfer pricing (TP) positions are defined based on the functions performed, risks assumed, and assets invested by the involved parties during value creation. Intercompany transaction risks can spread easily, which requires the company to pay special attention to intercompany transaction quality.

Relationships with tax authorities are not the same as relationships with customers. Through close connections with tax authorities, the company takes more initiative to work out tax solutions. Managing tax authority relationships is not the same as managing people. It is in fact building up our expertise to manage things.

The company aims to build an effective tax risk management mechanism. By identifying, assessing, addressing, and closing risks, the company manages tax risk exposures on an ongoing basis.

This chapter dives deep into the policies and principles that Huawei follows in tax management.

14.1 PAYING TAXES IS A CORPORATE SOCIAL RESPONSIBILITY

14.1.1 *A Company's Biggest Contribution to Society Is to Pay Taxes and Do Its Work the Best It Can*

As long as we comply with national laws, maintain a healthy, dynamic, and well-coordinated internal management system, serve our customers earnestly, do our work as best as we can to survive, and pay our fair share of taxes, then we are making the biggest contribution to society. (*Ren Zhengfei: Notification on the Status of Human Resources Management Transformation, Huawei Executive Office Speech No. [2007] 037*)

Paying taxes is a company's social responsibility. (*Source: Minutes of the Report on the Company's Effective Tax Rate, Group Finance CFO Office Meeting Minutes No. [2016] 024*)

We must pay taxes, maintain a good brand image and corporate reputation, and ensure secure global business operations. (*Source: Tax Management Policy, Group Finance Business Directive No. [2016] 027*)

Tax management must focus on three goals: to ensure taxes are reasonable, risks are well managed, and operations are secure. (*Ren Zhengfei: Minutes of the Report on the "Manage Tax" Process, "Manage Finance" GPO Meeting Minutes No. [2016] 002*)

14.1.2 *Abiding by Applicable Tax Laws in All Business Activities*

Paying taxes according to applicable laws

To ensure accounting and tax compliance, we must make an ongoing effort to improve our rules, processes, data, and IT systems, and establish a long-term local tax compliance mechanism at a legal entity level. Tax rules must be built into business and accounting processes. Tax data must be accurate, verifiable, and traceable. Tax filing data must be accurate and completely recorded. (*Source: Minutes of the Report on the Progress of the*

Accounting and Tax Compliance Project, Finance Staff Team Meeting Minutes No. [2014] 117)

We must pay taxes according to applicable laws. When it is unclear whether tax laws and rules apply to us, we must develop a tax compliance solution based on standard tax practices. *(Source: Tax Compliance Management Policy, Group Finance Business Directive No. [2016] 020)*

We must accurately interpret existing tax laws and practices, and develop clear, accurate tax instructions specific to our business scenarios. We also need to keep track of changes in tax laws and prepare contingency plans in advance. We must update tax guides, processes, and work instructions before new laws come into effect. *(Source: Tax Compliance Management Policy, Group Finance Business Directive No. [2016] 020)*

The Integrated Tax Compliance (ITC) project aims to ensure local tax compliance by subsidiaries. This will help us create a positive business environment and avoid the spread of risk from one country to another. We must ensure 100% legal compliance and fulfill all our social responsibilities. This is a minimum requirement for us. To fulfill our economic responsibilities, we should analyze possible risks and compliance costs based on ROI on a case-by-case basis. *(Source: Report on the Progress of the ITC Project in Germany and the Decision on Tax Risk Acceptance, Finance Committee Resolution, 2017)*

We must embed tax compliance requirements into our business activities, and ensure tax compliance through data sharing and process interactions. Tax filing data must be based on accounting and real business data to ensure the data source is reliable, traceable, verifiable, and can be easily evaluated. Documentation is key to tax compliance. All tax payment supporting documents must be effectively managed. *(Source: Tax Management Policy, Group Finance Business Directive No. [2016] 027)*

Performing tax planning based on Huawei's business plan and in compliance with global tax laws

Tax planning must be in compliance with applicable laws, including the tax laws and conventions in countries where the tax payer is located as well as international tax laws and conventions. *(Source: Tax Planning Management Policy, Group Finance Business Directive No. [2016] 021)*

In our tax planning, we prioritize tax security for the company as a whole over that of regional and country offices and subsidiaries. We must avoid implicit tax costs when pursuing explicit tax benefits, and must not ignore long-term tax burdens when pursuing short-term tax benefits. *(Source: Tax Planning Management Policy, Group Finance Business Directive No. [2016] 021)*

No improper tax planning

The Tax Management Department must perform tax planning in a way that ensures Huawei's operational security. Business arrangements must be real and reasonable. (*Source: Resolution on Global Profit and Tax Distribution, Finance Committee Resolution No. [2008] 012*)

Improper tax planning includes designing tax solutions that break tax laws and regulations, fabricating or concealing business information, distorting business activities, or misusing preferential tax policies for the purpose of reducing or avoiding tax obligations. Improper tax planning is strictly prohibited at Huawei. (*Source: Tax Planning Management Policy, Group Finance Business Directive No. [2016] 021*)

14.1.3 Performing Intercompany Transactions in a Standard and Effective Way Based on External Laws and Industry Practices

Intercompany transactions must meet the requirements of external laws, including applicable local tax laws and international laws, such as TP instructions and Base Erosion and Profit Shifting (BEPS) issued by the Organization for Economic Co-operation and Development and the United Nations. We must be familiar with the law enforcement practices of local tax authorities and business operations of the industry, and analyze future development trends so as to ensure our intercompany transactions are appropriate. (*Source: Intercompany Transaction Management Policy, Group Finance Business Directive No. [2016] 022*)

Intercompany transactions must be designed based on actual business activities. Intercompany transaction profits are determined based on the functions undertaken by subsidiaries and their roles in value creation. This pricing must follow the "arm's length principle". (*Source: Tax Management Policy, Group Finance Business Directive No. [2016] 027*)

Intercompany transactions must follow the "arm's length principle". In other words, these transactions must be priced in a way similar to the pricing for similar transactions performed by comparable and independent third parties. (*Source: Intercompany Transaction Management Policy, Group Finance Business Directive No. [2016] 022*)

Intercompany transactions must be designed based on actual business activities. TP positions must be defined based on the functions performed, risks assumed, and assets invested by the involved parties during value creation. (*Source: Intercompany Transaction Management Policy, Group Finance Business Directive No. [2016] 022*)

Intercompany transactions must be designed based on actual business activities. A clear, holistic transaction architecture must be established at the corporate level to flexibly and effectively address BEPS challenges. During intercompany transaction design, we shouldn't just aim to cut short-term costs; we must also ensure that transactions benefit Huawei in the long term and meet external compliance requirements. The design must be clear and simple. (*Source: Minutes of the Meeting on Intercompany Transaction Planning, Group Finance CFO Office Meeting Minutes No. [2015] 001*)

To cope with the impact the BEPS Action Plan may have on international tax laws and address the increasingly complex challenges that we face in our intercompany transaction management, the company has decided to comprehensively transform intercompany transactions, establish a clear intercompany transaction architecture, and clarify relevant rules. This will support business compliance and efficient operations. (*Source: Minutes of the Discussion on BEPS Interpretation and Intercompany Transactions, Finance Committee Meeting Minutes No. [2015] 031*)

After the intercompany transaction transformation project is deployed, both field office and the tax COE must respect the rules. (*Source: Minutes of the 2017 Work Report by the Tax Management Department, Finance Staff Team Meeting Minutes No. [2017] 020*)

14.1.4 Establishing a Long-Term Transformation and Operation Management Mechanism to Ensure Taxes Are Paid According to Law

The deployment of the ITC project has ensured tax compliance at the technical level. We must also ensure tax compliance at the operational level by focusing on the responsibilities that are assumed and results that are delivered during performance appraisals. (*Source: Minutes of the Report on the ITC Solution for Huawei COOP, Group Finance CFO Office Meeting Minutes No. [2015] 084*)

Tax compliance key control points (KCPs) are part of our key controls over financial reporting (KCFR) and will be continuously improved alongside internal controls over financial reporting (ICFR) after the ITC project passes its acceptance checks. (*Source: Resolution on the Report at the Concept Decision Checkpoint of the ITC Project, Finance Business Transformation & IT Management Team Resolution No. [2015] 024*)

The ITC project's key deliverables for the initial and final acceptance stages should be assessed using the 5-phase and 18-step methodology. We will use the final acceptance report as our operations quality management baseline after the project is completed. (*Source: Minutes of the Report on the Progress of the ITC Project, Group Finance CFO Office Meeting Minutes No. [2016] 042*)

After the ITC project passes its acceptance checks, the corresponding regional and country CFOs must gradually improve their operational quality. Those improvements need to be reflected in their ICFR results. (*Source: Minutes of the Report on the Acceptance of the ITC Project, Group Finance CFO Office Meeting Minutes No. [2015] 079*)

Whether or not we deploy ITC, tax compliance is the responsibility of our country managers. (*Source: Minutes of the Report on the Deployment Strategy of the ITC Project, Group Finance CFO Office Meeting Minutes No. [2015] 085*)

We need to identify positions that are responsible for tax compliance in key countries, and train and incentivize people in those roles to ensure that our local offices continue to benefit from the ITC project. (*Source: Resolution on the Report at the Plan Decision Checkpoint of the ITC Project, Finance Business Transformation & IT Management Team Resolution No. [2016] 001*)

We must take effective managerial steps to ensure that Huawei meets the requirements of the preferential tax policies. (*Source: Tax Management Policy, Group Finance Business Directive No. [2016] 027*)

14.1.5 Creating a Positive Business Environment to Support Huawei's Global Operations

Legal compliance is the most important basis on which we survive, provide services, and contribute worldwide. We must strictly abide by rules and laws, and use the certainty of legal compliance to tackle the uncertainty of international politics. We must strictly monitor internal and external compliance, and operate within the boundaries of our business. (*Ren Zhengfei: Dedicated to China's Century-old Dream of Revitalizing Science and Technology, Huawei Executive Office Speech No. [2016] 067*)

We must stay on top of changes in the financial laws of the countries where our subsidiaries are located and make appropriate risk assessments. (*Source: Work Priorities for Subsidiary CFOs from 2017 to 2019, Group Finance Notice No. [2016] 039*)

We need to proactively communicate with local tax authorities and other government departments, leveraging our expertise and professionalism to respond to their inquiries and audits. (*Source: Tax Management Policy, Group Finance Business Directive No. [2016] 027*)

Our relationships with tax authorities are not the same as our relationships with customers. Through close connections with tax authorities, we can take more initiative to work out tax solutions. Managing tax authority relationships is not the same as managing people. It is in fact building up our expertise to manage things. (*Source: Minutes of the Report on the Organizational Restructuring of the Tax Management Department, Finance Staff Team Meeting Minutes No. [2015] 071*)

The Tax Management Department must not only function as a tax COE – it should also manage tax compliance, establish an effective mechanism for assessing local tax compliance, and regularly assess tax compliance. (*Source: Assessment Results of Finance's 2015 Work Priorities, Finance Staff Team Meeting Minutes No. [2016] 026*)

The Tax Management Department has brought in many high-end experts and is building up its capacity, and moving in the right direction at a fast but steady pace. The department must continue to bring in professionals and build a positive work environment, enabling them to unleash their potential as soon as possible. The department must also retain sufficient Chinese employees in each of its domain-specific teams. (*Source: Minutes of the 2017 Work Report by the Tax Management Department, Finance Staff Team Meeting Minutes No. [2017] 020*)

14.2 PROACTIVELY, EFFECTIVELY, AND APPROPRIATELY MANAGING TAX RISKS AND COSTS

14.2.1 *Clarifying Goals and Responsibilities of Tax Risk Management*

The goal of tax risk management is to reduce tax risk exposure through specialized and reasonable risk assessment, proactive, effective, and appropriate risk management, and ongoing improvements on the business side. (*Source: Tax Management Policy, Group Finance Business Directive No. [2016] 027*)

We must develop a responsibility matrix for tax risk management. With clearly defined job responsibilities and efficient collaboration, we can work

to reduce tax risk exposure. To further reduce risk, we must drive ongoing improvements on the business side because it is the source of tax risks. *(Source: Tax Risk Management Policy, Group Finance Business Directive No. [2016] 009)*

When business needs and tax rules conflict, we must identify potential or possible risks and manage those risks until they are eliminated by following a standardized decision-making process. We must also take the initiative to regularly review tax risks so as to identify potential risks, make improvements, and eliminate risks. We must keep improving our tax compliance management with ICFR and process controls tools. *(Source: Tax Compliance Management Policy, Group Finance Business Directive No. [2016] 020)*

To effectively close tax audits, we need to establish a collaborative approach. We also need to drive improvements based on audit findings. *(Source: Tax Management Policy, Group Finance Business Directive No. [2016] 027)*

We must build an end-to-end tax audit management approach. Specifically, we need to analyze existing rules and create contingency plans before tax audits; fully leverage our expertise and documentation to defend ourselves during audits; and take corrective actions when audits end. *(Source: Minutes of the Report on the Approach to Tax Risk Management, Finance Staff Team Meeting Minutes No. [2016] 066)*

14.2.2 Effectively Developing Global Tax Plans and Keeping the Company's Taxes at a Reasonable Level

We must truly reflect our effective tax rate (ETR). *(Source: Resolution on the Company's Annual Effective Tax Rate, Finance Committee Resolution No. [2011] 044)*

Our goal in ETR management is to ensure the ETR is reasonable, stable, predictable, and manageable. *(Source: Minutes of the Report on the Company's Effective Tax Rate, Group Finance CFO Office Meeting Minutes No. [2016] 024)*

We must clearly define non-standard taxes and their scope, and remind all relevant business departments to effectively manage losses that result from such taxes. Non-standard taxes are extra tax costs incurred due to trade-offs, operational violations, poor management, failure to comply

with tax laws and regulations, and failure to comply with tax policies and guidelines. (Source: *Regulations on Irregular Taxes, Group Finance Business Directive No. [2016] 008*)

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