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«Internal Auditing, Tax Risks and Tax Risk Management»

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Table of Contents

Abstract	4
Introduction	4
Tax Fields.....	5
Corporate Income Tax.....	5
Value Added Tax.....	6
Transfer Pricing.....	6
Tax Risks.....	7
Tax Evasion.....	7
Tax Fraud	8
Tax Risks and Tax Risk Management.....	9
Internal Audit Applications in Tax Risk Management.....	11
Planning Internal Auditing	11
Tax Internal Auditing Plan.....	12
Hypothesis Development.....	14
Method.....	14
Data Collection and Participants	16
Results Analysis	19
Corporate Income Tax.....	19
Value Added Tax.....	20
Transfer Pricing.....	21
Conclusion.....	22
Bibliography.....	23

Abstract

Purpose: The following thesis is attempting to understand the importance of tax risk management in the process of creating an effective internal auditing plan. A tax risk management department should work closely with the internal auditors to ensure the implication of tax risk controls in the internal audit plan of a company, especially if business development across different regions is a goal of the organization.

Approach: A regression analysis is used to determine how prepared are Greek companies to deal with tax threats in accordance with their tax internal audit plan. The insight of professionals (internal and external auditors, risk management consultants) is collected through online questionnaires and analyzed to find correlations in the existence and effectiveness of controls that prepare companies to deal with rising tax risks.

Findings: The study concluded that companies in Greece do not plan for future tax risks rather than deal with past incidents and “known issues”.

Introduction

Corporate governance and risk management issues are important and come to the fore during periods of financial crisis. They also are a point of concern when corporate failures take place. Tax is also one of the most important areas related to risk management in the financial performance of companies. Big international accounting firms conducted studies about tax risk and ways to manage it and large companies are interested in the subject increasingly (Turegun & Gercek, 2022). In the same time, tax authorities in various countries conducted revisions in the policy of their audit sampling strategy to work with, rather against companies that pay the greatest amounts of tax. To make it possible they had to first understand their problems and then guide them to apply the guidelines correctly. Tax violations are common incidents around the world. They are found in most economic environments, to different levels of extent. Their impact on the economy is difficult to be measured but surely is significant, always in relation to the extent of which they are noticed. According to research (Vousinas, 2017), Greece is among the countries with the highest rate of tax evasion, even though the European Union has established laws and regulations, with which Greece must comply, to prevent that from happening. When businesses create their strategy, tax compliance should be a matter of concern. Strategy is commonly described as a set of long-term goals that can be achieved by the effective and efficient management of the available means, such as personnel, financial resources, technology and any other resource to accomplish the goals. To make a successful strategy, one needs to set goals and specific objectives and then explain the steps required to be followed. Then one would need to manage

available resources in a manner that would allow him to execute the planned methodology in the most effective and efficient way. (Freedman, 2015).

Tax Fields

Corporate Income Tax

To calculate corporate tax, one must begin with the tax base, which is the revenue, then deduct the expenses and end up with the net profit which will be multiplied with the tax rate in order to calculate the tax of the corporate period. Net profit though is not so easily calculated as tax laws and regulations that are different in each country, command accountants and tax technicians to perform some alternations to the expenses known as tax reforms. The rules for tax reforms and the rate of tax vary in different countries or even regions. The tax rate may even have a different base than tax net profit. Some tax systems use calculations performed on assets, payroll expenses, or other incomes calculated with other processes.

Most countries even have a system that subtract some species of corporate expenses from income tax base. Such events are those related to the formation of a new company or the transformation of an existing one, known as capital costs. Most tax systems provide rules and regulations for the calculation of income tax for the members of an entity that is to be dissolved. In the tax systems that use net profit as tax base there even are different types of expense deduction that is subject to limitations and complex regulation.

There are tax systems that combine personal and corporate income in order to calculate tax and have complex rules in place to tax dividends and other benefits that an entity can distribute to its owners.

A different way of transactional taxation which is also present in the Greek tax system is the method of withholding tax. It is applicable to certain types of payments from one company to another or from companies to freelancers. The entity that makes the payment withholds a percentage of the total amount and pays it to the tax authorities on behalf of the other entity or the freelancer. The withholding tax acts as a payment in advance for the tax obligations that will arise in the end of the period. If the company that makes the payment fails to apply the law successfully, it will deal with fines and penalties even though the tax paid is not its own obligation.

Value Added Tax

VAT or value-added tax is a tax that is applied with a different method. The person paying this type of tax is the final consumer and the amount of tax paid is added up in every stage that a product or service has passed until it reaches the final consumer. The companies that intervene the road of the product or service to the final consumer play the role of the collector as they can claim back the amount of VAT, they paid to buy products or services and return the VAT that they collect from their customers even if they are other companies or persons. Since the person that is burdened with the VAT tax is usually not the same that has to pay the tax to the government, VAT is characterized as an indirect tax. The final consumer also affects the rate of the VAT tax as the location to which a product is shipped, or a service is provided can have different laws and regulations in place about how the tax rate will be applied.

There are at least two different methods for calculating VAT on a transaction, (a) the invoice-based or credit-invoice method and (b) the accounts-based or subtraction method. In the invoice-based method, tax is applied on sales transactions, the corporation informs the customer for the VAT added on the price of the good or service sold through the receipt, and businesses can deduct the amount of VAT paid on materials and services they bought to create the product or provide the service from the amount of VAT they collected when making the sale to the ultimate customer. The invoice-based method is used by most nations in the world with very few exceptions. In nations that the accounts-based method is used, every entity has to summarize all sales that VAT is applied on and then subtract all the purchases that VAT is applied on and then the VAT tax rate is applied on the difference between the two amounts in the end of the period.

To prevent tax frauds and tax evasion, special exceptions and differentiations of the law are applied to the calculation of VAT due in certain types of services provided or goods sold. Such regulations are tailored from governments when tax fraud patterns are observed from tax authorities.

Transfer Pricing

Transfer pricing is a set of rules and regulations applied in transactions performed between a parent company and its subsidiaries or between the subsidiaries of the same group or even between companies that share common management team or ownership. It consists of tax and accounting principles and its goal is to determine a fair price in which the transactions are performed to prevent the transportation of taxable income from subsidiaries with greater taxable earnings to those with less. Failure to prevent this transportation would result in significant tax evasion and tax losses for the tax authorities. Transfer pricing policies are

applied in small transactions that happen in the same region or country as well as bigger global or international transactions.

Using the method of transfer pricing, a company can determine a fair price (calculated from analyzing data from similar transactions performed from similar entities that are independent to each other) in which the goods sold, or services provided are charged to a subsidiary or parent company.

Entities that operate in many different nations are legally allowed to use the transfer pricing method to allocate expenses that are made and concern the group as a whole or share revenues in a fair way according to the net contribution of each subsidiary to the total revenue. The transfer pricing mechanism however can be used to shift taxable income to subsidiaries operating in countries with lower tax rates (tax heavens) thus reducing overall tax for the group. These actions are considered tax evasion.

Tax Risks

Tax Evasion

Tax authorities around the world deal with tax evasion and facts state that it is one of the biggest problems ever dealt. Countries in the list of the Organization for Economic Co-operation and Development lose about 3,2% of their gross domestic product from tax evasion every year (Buehn & Schneider, 2016). A loss on taxes collected from governments leads to a loss on the liquidity of public resources used to provide public goods and services to civilians. Schneider proved that grey economy and tax evasion is higher in countries with less income per capita (Schneider, 2005). Studies have proven that tax evasion is higher in countries that collect tax from production and wealth creation than consumption of services or goods as the taxation of production is dependent on more factors than just the transaction, therefore there is a greater window of opportunity for misstatements. Most governments try to improve tax compliance by conducting tax audits, but this method is not always effective given the fact that entities subject to tax are numerous and the personnel needed to conduct the audits is limited. Tax audit is also strongly dependent to critical thinking of the auditor which is also difficult to be taught to the existing personnel. The specific set of skills that tax auditors possess is used in the process of choosing an audit sample among taxpayers but it cannot yet fully take advantage of all the existing data in the tax authorities database due to its big volume, even though digitalization of such services has been proven to be a major factor in the decrease of tax avoidance incidents (Uyar, Nimer, Kuzey, Shahbaz, & Schneider, 2021).

Tax fraud can be traced much more easily by locating behavioral patterns with the use of data science which has evolved rapidly in the last years. The data collected from this application can be analyzed and studied with mathematical models to better understand the mechanics of tax fraud (Chica, Hernandez, Manrique-de Lara-Penate, & Chiong, 2021). However, despite the introduction of data science applications several challenges remain that haven't been completely addressed.

A study by Dr Georgios Vousinas (Vousinas, 2017) examined two serious problems, tax evasion in Greece and the shadow economy. The study analyzes the factors that led to the expansion of the shadow economy in Greece. Borrowing results in a rise in public debt, while external borrowing ends up in a rise in interests to boost foreign capital flows, which ends up within the decrease of liquidity within the market and a decrease within in personal investment, which is a major factor for economic growth. The conclusions of the study are that tax evasion has created deficits within the Greek economy, which cannot be covered effectively, forcing the government to borrow both internally and externally. the general conclusion of the study is that evasion has led to Greece's economic stagnation and loss of competitiveness.

Tax Fraud

One of the most difficult tasks for tax authorities is to measure the amount of tax fraud. Tax authorities often present studies that estimate the amount of fraud but without evidence since it cannot be measured with precision. VAT evasion for example is extremely difficult to be measured as it is an indirect tax and in order to trace it, a tax auditor would have to conduct multilayer audits in more than one entities. (De la Feria, Blueprint for reform of VAT rates in Europe, 2015) Governments are actively trying to lower the amount of tax fraud and it seems to be working as stated by estimates, at least for developed countries. In the UK, for example, the overall tax gap has decreased by 2 per cent, and the VAT gap by 4 per cent, between 2005 and 2016 (HMRC, website), a decrease that was happily accepted from even those who were sceptic in the beginning. (Gemmel & Hasseltine, 2014). Of course, there are measures that can be taken to minimize the impact of tax fraud in the economy even without fighting tax fraud itself. A good example would be the collection of third-party liability, a technique that states that extra revenue is collected from compliant entities to compensate for non-compliant ones. In this case, the decrease in the gap is due to greater tax collection overall rather than the good implementation of the existing measures.

Tax Risks and Tax Risk Management

There are two aspects of tax risks used to categorize them as to how they affect entities. One is likelihood and the other is magnitude. Other definitions state that (Neuman, Omer, & Schmidt, 2020) for example, tax risk is “the uncertainty about future tax outcomes”, which consists of from (a) economic risk, (b) tax law uncertainty, and (c) inaccurate information processing. In an analogous way, Neubig and Sangha (Neubig & Shanga, 2004) gave tax risks the definition of “the likelihood and magnitude of outcomes that are different than expected”. With emphasis in its negative aspects, the firm Ernst & Young described tax risk as something that “either adversely affects the company’s tax or business objectives or leads to an unanticipated or unacceptable level of monetary, plan or reputation exposure.” Recently, Brühne and Schanz (Bruhne & Schanz, 2019) conducted an interview study only to find that different practitioners have different definitions for tax risks, emphasizing in the negative aspect of this statement and the even worse potential. They analyzed tax risk to six portals:

- Financial risk
- Compliance risk
- Reputational risk
- Tax process risk
- Political risk
- Private liability risk.

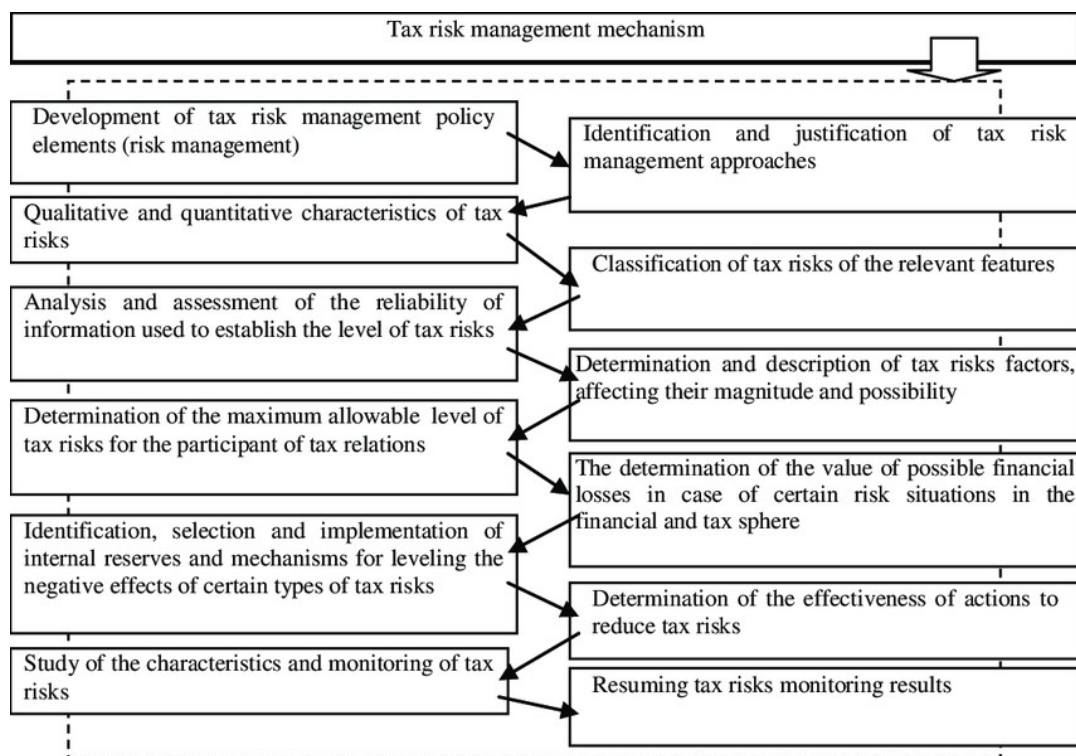


Table 1 Tax risk management mechanism (Popova, Nazarov, Varaksa, & Selyukov, 2019)

Similarly to Brühne and Schanz (Brühne & Schanz, 2019), tax risk management is defined “as the whole lot of a firm’s actions, tools, and processes implemented to forestall, mitigate, and control corporate tax risk exposure”. The decision to include tax risks in risk management systems is a result of increasing public awareness and rising attention from the regulatory authorities. A survey by Ernst & Young, as an example, identified a change within the role of tax directors. The explanations for this alteration exist “increased scrutiny of companies’ tax issues by regulators, legislators, tax authorities, and also the media; increased interest in corporate program by shareholders, audit committees, and management; and an overall specialize in transparency and disclosure, which itself could be a direct result of such mandates because the Sarbanes-Oxley Act within the United States and also the European Union’s 8th Directive”. Since then, the focus on tax has increased further, as demonstrated by the public debate about taxation and domestic yet international efforts to combat minimization and profit shifting. Increased specialization in risky tax positions resulted in demand for tax risk management, which was met by consulting firms. PwC, for instance, developed a tax risk management model supported COSO’s control framework.

However, the degree of how much firms implement tax risk management is still volatile. Brühne and Schanz (Brühne & Schanz, 2019) pointed out that integration between the processes of the overall risk management department and tax risk have a long way to be successful. Lavermicocca and McKerchar (Lavermicocca & McKerchar, 2013) that studied Australian entities found out that only a handful of them have a tax risk management system. They found out that for firms that operate tax risk management systems, improve their overall tax compliance level by reducing the acceptable risk amount. Wunder (Wunder, 2009) analyzed the existence of tax risk management within the United States and abroad. She identified transactional risk from merger and acquisitions activities as they are the most distinguished forms of tax risk for firms. Other research initiatives about tax risk management focused on managerial aspects. The creation and implementation of a tax risk control framework is a great tool to deal with tax risk as they are considerable part of the tax risk management system. Seen from the attitude of tax administrations, a well-organized tax control framework reduces the chance of fraud, nonpayment, and even tax evasion. Siglé (Siglé, 2019), using survey data and tax compliance statistics, conducted a close analysis of HM-related variables and their effects on tax compliance. While the standard of the tax control framework is positively associated with taxpayer transparency and the quality of the working relationship with the tax administration, the author only finds little evidence on the results of tax control frameworks and transparency on tax compliance. Goslinga (Goslinga, Siglé, & Veldhuizen, 2019), however, find that for firms, the standard of tax control

frameworks is positively related to the requirement for certainty and the perceived importance of tax compliance.

Internal Audit Applications in Tax Risk Management

Planning Internal Auditing

Internal audit activities are a variety of assignments that auditors are performing to feature value to a company. Supporting the internal auditors' scope, risk management departments can determine where internal auditing efforts should focus the most. This prioritization of an auditors' effort is an element of the yearly auditing. Audit planning refers to developing general strategies and detailed methods for anticipated timing, nature, process, and extent of auditing function in a corporation. This plan allowed auditors to perform auditing activities in an efficient, effective, and timely manner which will facilitate their functions objectively.

Planning consists of defining goals and objectives for future direction by considering resources and the mission of a corporation as a major target. Magupa (Magupa, 2018) argued that planning process that's anticipated to be result oriented has three steps namely choosing a destination, assessing alternative routes to be there, and deciding a selected course of conceive to achieved intended goals. In auditing, the concept of producing an audit plan involve identifying, formulating, and strategizing processes and resources by answering some basic questions. How will we want it to be? How can we visiting achieve it?

Internal auditing planning could be a specific process and necessarily required for attaining multiple functions in a corporation and implementing actions in an efficient and effective manner. Pitt (Pitt, 2014) argues that internal auditing planning could be a platform during which auditors would initiate, arrange, and strategized their action plans for a period of auditing which will articulate their functions in a corporation. Moeller (Moeller, 2009) states that auditing planning is one among the foremost significant projection utilized by internal auditors to arrange a sequence of activities to realize some specific goal within the reason behind achieving organization objectives effectively. If internal auditors effectively perform planning, this may minimize much necessary effort and time of achieving auditing goals and objectives (Ridley & Chambers, 1998). Integrity, commitment, and accountability of internal auditors would supply more value to senior management and administration of a company through offering objective and independence advice to the executive success. Additionally, internal auditors planning plays an initiative-taking role in gathering momentum for deterring risk management and other fraudulence activities in an operational practice of a corporation. Except of these characteristics of adding value, independent and objective advice is best achieved through effective planning of auditing which will reflect to those needs of

organization from a proficient and competent auditor. Therefore, key success factor of internal auditing activities is the auditors' ability to predict, assess, and properly articulate their actions in a way they can be properly executed with efficiency.

Tax Internal Auditing Plan

Tax risk goes well beyond the tax technical implementation of the law. Organizations need to develop and then maintain a well-organized strategy of tax risk management. Business operations are increasingly expanding across different regions, tax laws and guidelines tend to be more and more complicated and difficult to apply on time, even accounting standards evolve in a higher pace that companies struggle to catch up. If all previous factors are combined with the rising need for transparency in an organization's actions and decisions, and the increased accountability against stakeholder, they can quite simply explain the reason that the organizations are put under so much pressure to constantly be up to date with the current changes.

An interesting fact is that from the moment that reporting under Section 404 of the Sarbanes-Oxley Act (SOX 404) was applied, the most common reason for restatements and about 30% of the cases that an adverse opinion was filed under SOX 404 every year was due to tax. A great amount of capital is shifted to emerging markets as the financial crisis has increased the globalization results. As emerging markets have greater amount of capital flow the tax authorities in charge are coming up with new mechanisms to fairly benefit from this rise in transactions. On the other hand, tax authorities in more mature regions of the world need to increase their revenue rapidly to keep up with emerging markets and maintain the financial trial balance. This leads to a rise in tax rates and the creation of more collection-oriented policies in transactions in their area of influence. The aforementioned situation raises attention to the following tax risks that should be assessed by companies through the implementation of their internal audit plan (Ernst & Young, 2013):

- Lack of the ability to assess proper tax risks in large global initiatives — If a company wishes to move some of its services to a foreign shared services center or alternate its supply chain through the use of supply channels in different countries or even implement a new Enterprise Resource Planning system that will make good use of the previous initiatives then tax obligations that may arise should be prioritized. The organization's management should concern issues about compliance to tax obligations and lack of tax knowledge on specific processes even if the tax department is not involved in the process.

- Lack of available tax knowledge — Tax departments must be constantly fueled with up-to-date knowledge and have access to specific insights in order to avoid tax compliance issues and possible higher costs for the company.
- Transfer pricing — Companies are obliged to comply with the policies of transfer pricing even though the policies and guidelines for the specific subject matter are owned by tax regulators and tax authorities. The ability to have strong controls in place to address transfer pricing risks is a key factor for tax compliance. Practically, if the company does not have access to the data necessary to properly document the transfer pricing profits may lose the ability to be compliant to the policy. The complexity of transfer pricing matter lets tax regulators use different approaches depending on different goals in different regions.
- VAT and indirect taxes in general— Since these tax obligations depend on information from inside the company and its accuracy there is great risk for companies to be compliant. The tax departments can provide the necessary insight to the company in order for the latter to remain compliant, it is still a risk since the transactions are executed from different departments of the company and if proper controls are not in place there is always a chance of an incident. The creation of an efficient model to control risks of VAT and other similar taxes is complex for any organization.
- For businesses that operate in big geographical areas there is always a risk since different regions or different countries in the same region have different tax laws and regulations. A mistake in the application of the specific laws in one region or country might affect the overall tax compliance of the organization.
- Other tax risks that should be noted are the risks of poor tax management across different jurisdictions, the wrongful handling of non-income taxes like custom duties, wrongful handling of assets or inventory imported from different regions or countries with special tax regulations, lack of accounting skills in the departments that deal with such matters, even the risk of incomplete tax planning due to poor cooperation inside the organization.

Managing tax risks is complex and professionals with different backgrounds but with the right set of skills combined should be involved in order to be effective and efficient in the process. Even if such personnel is available, the good cooperation between them and the operational departments must be ensured through the creation of proper communication channels. Internal audit can, and should, play an integral role within the organization's broader tax risk management approach.

Hypothesis Development

The hypothesis developed from this internal audit thesis will cover the extent in which businesses and internal audit practitioners and consultants implement internal auditing processes for tax risks and if efficient tax risk internal controls are in place to cope with the topics analyzed above for big corporations in Greece. Is the risk for cases of tax evasion and tax fraud covered in the tax fields of corporate income tax, VAT and Transfer Pricing applications? What would the benefits be for big entities if they implement effective controls for these tax fields?

Method

The research application of this thesis will be quantitative using an online survey to gather insight and information from active internal audit, external audit and risk management professionals who provide their services in-house or by outsourcing contracts or by audit engagements and work with big entities in Greece. An interview is one of the data collection techniques that is accurate and precise if compared to online survey in gathering data thoroughly about a case like the one studied, but an online survey can be far more efficient since restrictions are in place due to Covid-19 pandemic.

The questionnaire covered the existence of controls in place about each of the three tax fields (CIT, VAT, Transfer Pricing) and it tries to answer some basic questions about the effectiveness of the controls and the willingness of client companies to review and redesign their controls (if any in place) to mitigate the rising risks.

During the online survey 181 answers were collected. Some basic demographic statistics of the participants are presented below in the data collection and participants' section.

The online survey was receiving responses for 2 months from August 1st to September 30th, 2022, and the questions that the participants answered are presented here:

- Age
- Sex
- Field of Employment
- Seniority Level
- Employer Company Size
- Client Company Size
- Type of Services Provided
- Experience on the Tax Field of Income Tax
- Experience on the Tax field of Value Added Tax
- Experience in the Tax Field of Transfer Pricing
- Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have potential CIT related risks?
- Did your employer (applicable if in house) or client (applicable if external consultant/auditor) had losses or any other form of negative impact from incidents related to Corporate Income Tax in the past?
- Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have controls in place to address Corporate Income Tax risks?
- In your opinion are your employer (applicable if in house) or client (applicable if external consultant/auditor) prepared to deal with such risks? (C.I.T.)
- Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have potential VAT related risks?
- Did your employer (applicable if in house) or client (applicable if external consultant/auditor) had losses or any other form of negative impact from incidents related to VAT in the past?
- Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have controls in place to address VAT risks?
- In your opinion are your employer (applicable if in house) or client (applicable if external consultant/auditor) prepared to deal with such risks? (VAT)
- Is your employer (applicable if in house) or client (applicable if external consultant/auditor) in the process of addressing such risks by updating current controls?

- Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have potential Transfer Pricing related risks?
- Did your employer (applicable if in house) or client (applicable if external consultant/auditor) had losses or any other form of negative impact from incidents related to Transfer Pricing in the past?
- Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have controls in place to address Transfer Pricing risks?
- In your opinion are your employer (applicable if in house) or client (applicable if external consultant/auditor) prepared to deal with such risks? (Transfer Pricing)

Data Collection and Participants

In this section of the study, basic demographics of the participants will be presented.

Most of the participants were professionals between the age of 20 and 30.

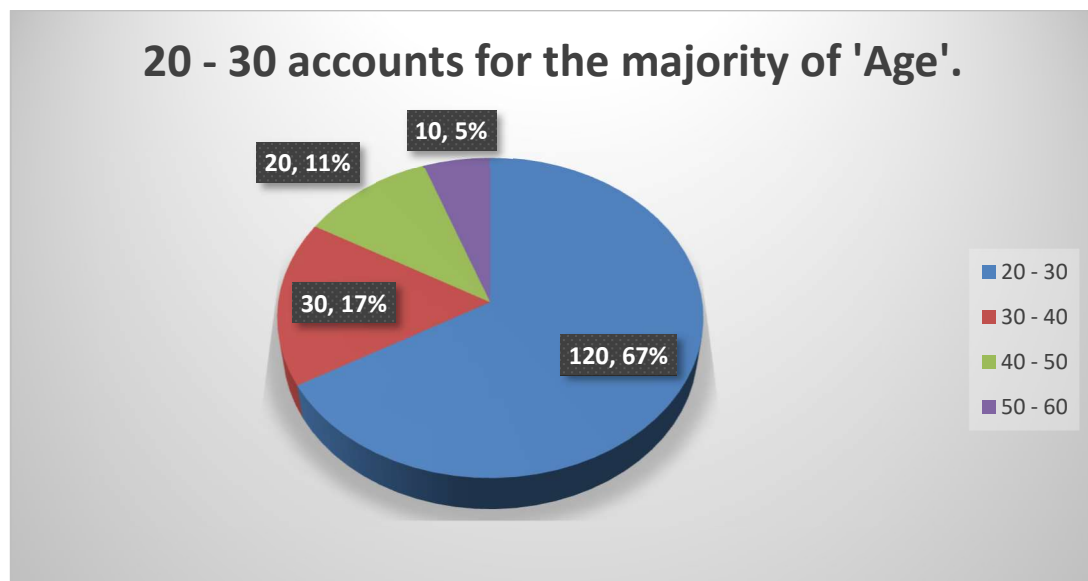


Table 2 - Results of Question: Age

Male participants were about twice as many as female participants.

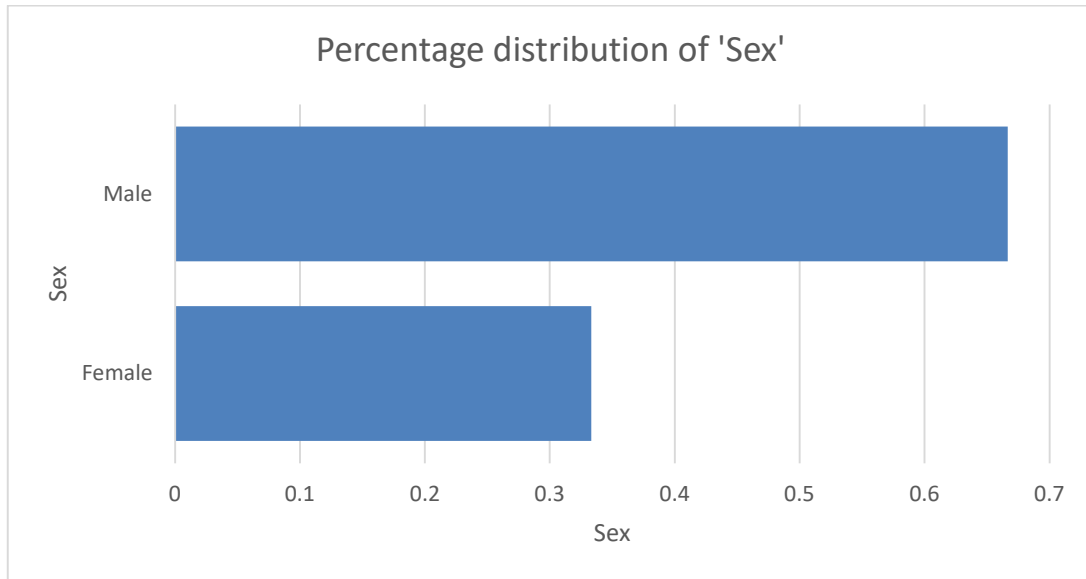


Table 3 - Results of question: Sex

Most of the participants were employed in the External Audit industry as certified accountants. This sample of professionals will give us a good point of view on the topic as the nature of their job requires of them to have a solid understanding of their clients.

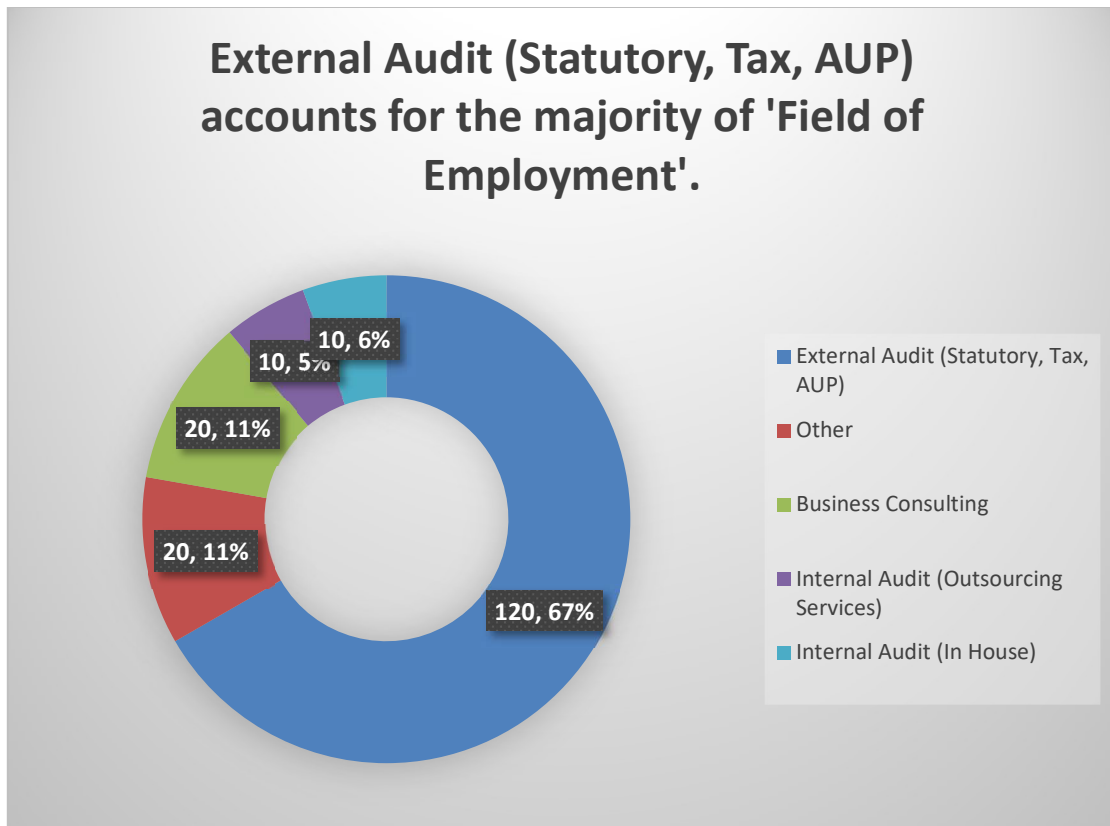


Table 4 - results of Question: Field of Employment

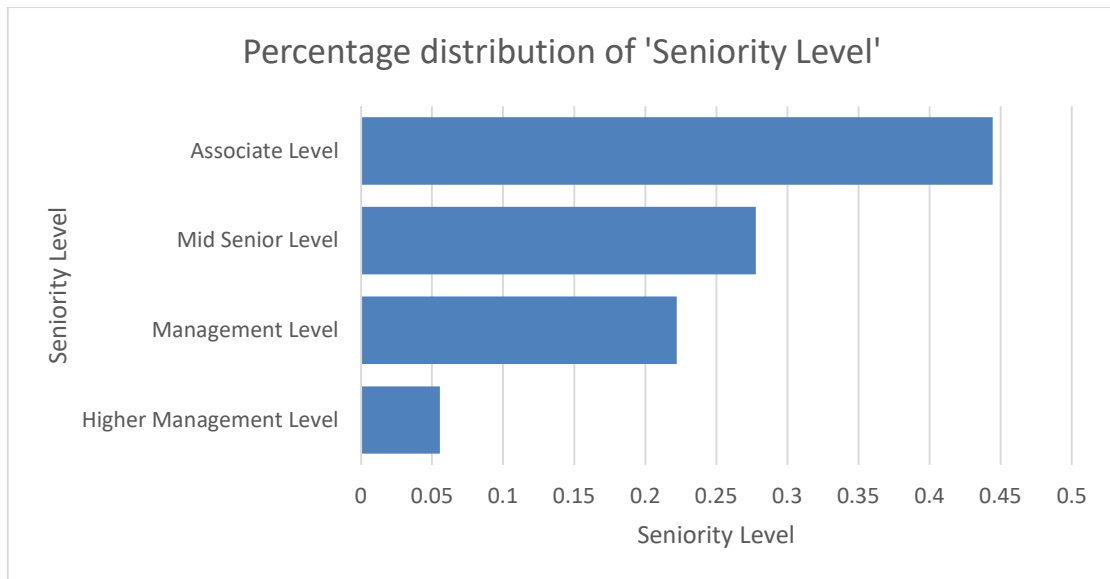


Table 5 - Results of Question: Seniority Level

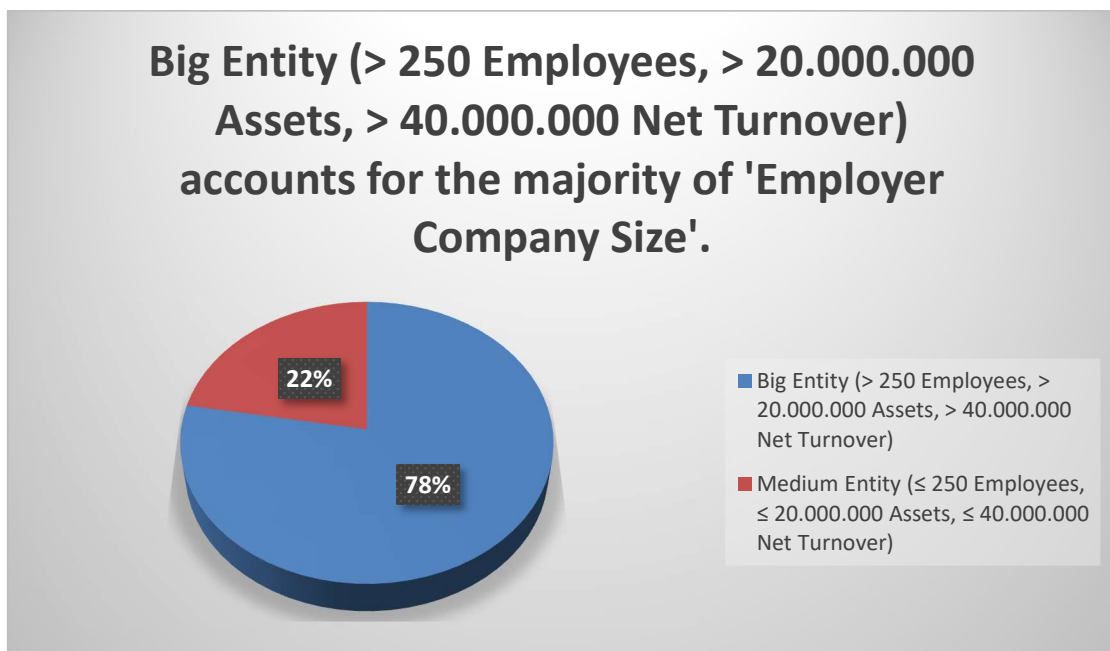


Table 6 - Results of Question: Employer Entity Size

Results Analysis

For the purpose of the analysis the response “yes” was transformed to the value “1” and the response No was transformed to the value “2”.

The tables presented below will follow this rule.

Corporate Income Tax

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,563094428
R Square	0,317075335
Adjusted R Square	0,305434574
Standard Error	0,493552134
Observations	180

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	19,90528494	6,63509498	27,23836752	1,61098E-14
Residual	176	42,87249284	0,243593709		
Total	179	62,77777778			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	2,373925501	0,164564511	14,4255009	1,21373E-31	2,04915178	2,698699223	2,04915178	2,698699223
Did your employer (applicable if in house) or client (applicable if external consultant/auditor) had losses or any other form of negative impact from incidents related to Corporate Income Tax in the past?	0,035100287	0,063213242	0,555267935	0,579416473	-0,089653221	0,159853794	-0,089653221	0,159853794
Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have potential CIT related risks?	-0,770057307	0,092937915	-8,285717487	2,89144E-14	-0,953473478	-0,586641136	-0,953473478	-0,586641136
Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have controls in place to address Corporate Income Tax risks?	0,083810888	0,054943127	1,525411677	0,128951418	-0,024621263	0,19224304	-0,024621263	0,19224304

Table 7-Regression Analysis in CIT Questions

From the analysis of the responses collected from income tax-related questions we can see a positive correlation between past incidents and the existence of controls to how much (in the opinion of the professionals) a company is prepared to deal with income tax risks. Companies that had incidents in the past seem to have in mind that a set of controls should be put in place to mitigate potential risks in the future. The negative relationship between the perceived existence of risks and the readiness to address them seems to be picturing a bigger problem of companies failing to plan beforehand for future risks.

Value Added Tax

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,6220583
R Square	0,3869565
Adjusted R Square	0,3765069
Standard Error	0,5278789
Observations	180

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	30,956522	10,318841	37,030733	1,329E-18
Residual	176	49,043478	0,2786561		
Total	179	80			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	1,2347826	0,1767992	6,9840971	5,659E-11	0,8858634	1,5837019	0,8858634	1,5837019
Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have potential VAT related risks?	-0,4666667	0,0862023	-5,4136244	2,001E-07	-0,6367898	-0,2965435	-0,6367898	-0,2965435
Did your employer (applicable if in house) or client (applicable if external consultant/auditor) had losses or any other form of negative impact from incidents related to VAT in the past?	-0,0869565	0,0852601	-1,0198966	0,3091774	-0,2552203	0,0813073	-0,2552203	0,0813073
Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have controls in place to address VAT risks?	0,8956522	0,0907663	9,8676684	1,477E-18	0,7165217	1,0747827	0,7165217	1,0747827

Table 8-Regression Analysis in VAT Questions

A positive relationship between the existence of controls in place and the ability of the company to deal with risks is again present and a lack of planning for risks that do not seem to be immediate threats is also seen in the summary of the regression analysis. A negative relationship between the existence of controls and their effectiveness is explained by the failure to update the controls to cope with the evolution of a less regional tax area.

Transfer Pricing

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,891506096
R Square	0,794783118
Adjusted R Square	0,791285103
Standard Error	0,341468155
Observations	180

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	79,47831	26,49277061	227,2097496	2,83E-60
Residual	176	20,52169	0,116600501		
Total	179	100			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	0,303634232	0,07568	4,012065633	8,88862E-05	0,154277	0,452992	0,154277	0,452992
Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have potential Transfer Pricing related risks?	-0,349355217	0,059788	-5,843266497	2,42688E-08	-0,46735	-0,23136	-0,46735	-0,23136
Did your employer (applicable if in house) or client (applicable if external consultant/auditor) had losses or any other form of negative impact from incidents related to Transfer Pricing in the past?	0,222157093	0,050288	4,417724477	1,73867E-05	0,122913	0,321402	0,122913	0,321402
Does your employer (applicable if in house) or client (applicable if external consultant/auditor) have controls in place to address Transfer Pricing risks?	0,993552169	0,042719	23,25810626	1,45077E-55	0,909246	1,077859	0,909246	1,077859

Table 9-Regression Analysis in TP Questions

In the field of transfer pricing, we see a strong relationship with the existence of controls and the ability of a company to deal with tax threats. Again, companies fail to plan for future threats but from the results of this analysis we can conclude that even the creation of controls for transfer pricing tax risks can greatly increase the chances of a company to deal with the rising threats.

Conclusion

Completing the study, we can conclude with greater assurance that companies do not cover the rising tax risks effectively enough, as is supported from statistics of tax frauds and from the results of this study. Companies should take immediate actions to plan for tax risks of the future rather than dealing with the consequences after the incidents.

Tax planning was mostly a quantitative procedure in the past, now it has been altered to include qualitative aspects which organizations need to include in their business plan.

Since qualitative aspects have been added to the procedure, the new holistic model which includes qualitative and quantitative aspects needs to be used more often. On the one hand, having a thoroughly planned business plan in terms of operations across different regions and countries is definitely very important. On the other hand, if the company is unable to meet the new requirements arising from the implementation of the business plan, then it cannot create value. To do that, a more automated and sophisticated tax internal auditing plan must be created beforehand for the company to maximize its chances for success.

The processes that will be created from that plan must ensure that the company tax department and the internal auditor have been properly involved before a big initiative takes place and all tax laws and regulations that may interact with it is accounted for and assessed properly.

To avoid significant incidents of tax fraud and legal disputes with tax authorities in the regions or countries the company operates in, the tax risk management should have consistent performance. It would be even better if companies introduced a code of conduct about tax compliance issues and introduce it to their already existing corporate governance plan.

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