

The Role of Stakeholders in Tax Risk Management Within an Economic Enterprises

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Abstract

This study aims to analyze the role played by stakeholders in managing tax risks within the economic enterprise by identifying the different categories of stakeholders and highlighting the contribution of each party to reducing tax risks and strengthening tax compliance, in line with the achievement of sustainable organizational performance. It also seeks to provide a theoretical framework linking stakeholder theory with tax risk management, thereby contributing to a better understanding of the interrelationships between these concepts and their applications in economic enterprises. The study concludes that stakeholder participation at the various stages of tax risk management is a key factor in strengthening tax compliance and improving the tax efficiency of the economic enterprise.

Keywords: Risk Management; Stakeholders; Tax Risk.

Introduction

Among the most significant risks facing an economic enterprise are those originating from taxation within the enterprise, whether in the form of fines or penalties incurred during tax audits or following the voluntary correction of an error that has been committed (risks arising from tax declarations), or losses in profits resulting from a lack of knowledge of tax options (incorrect tax decisions).

The impact and consequences of such risks are usually financial in nature, but in some cases they may extend to the criminal liability of decision-makers and consequently damage the reputation of the enterprise. To avoid such consequences, enterprise managers and decision-makers must establish a framework for tax risk management that ensures proactive treatment of these risks.

In this context, the concept of stakeholders has emerged as one of the modern concepts in management thought and corporate governance. The enterprise is now managed within a network of interconnected relationships involving various parties that influence or are affected by its activities, such as shareholders, the board of directors, executive management, employees, the tax administration, auditors, investors, creditors, and others. The roles and degree of influence of these parties differ, but they share responsibility for supporting an effective governance system that ensures tax compliance, promotes transparency, and improves risk-management efficiency by providing accurate information, activating control mechanisms, and fostering a culture of compliance with tax laws and regulations.

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- Research Problem:

Although interest in tax risk management is increasing, the effectiveness of stakeholders' contribution in this area varies according to the nature of the enterprise and the level of coordination among the parties concerned. This raises several questions concerning the nature and effectiveness of such contribution in reducing tax risks.

Accordingly, the research problem of this study is formulated as follows:

How can stakeholders contribute to enhancing the effectiveness of tax risk management in the economic enterprise?

This problem gives rise to the following sub-questions:

- What is the conceptual framework of stakeholders and tax risk management?
- What is the nature of the relationship between stakeholders and tax risk management in the economic enterprise?
- What roles do internal and external stakeholders play in reducing tax risks?

- Research Objective:

This study aims to highlight the role of stakeholders in managing tax risks within the economic enterprise and to examine how the various parties concerned contribute to achieving effective tax management that supports financial performance and strengthens the enterprise's competitiveness in a changing economic and legislative environment.

- Significance of the Study:

The study of the role of stakeholders in tax risk management is becoming increasingly important in light of modern approaches emphasizing that effective risk management is not the responsibility of a single entity within the enterprise, but rather a participatory process based on coordination and integration among the various relevant parties. The successful management of tax risks has a positive impact on the quality of financial decisions, the protection of resources, the enhancement of economic value, and the achievement of a balance between profit maximization and compliance with legal and ethical requirements.

- Research Methodology:

Given the nature of the subject, the study adopts the descriptive-analytical approach, which is considered one of the most appropriate approaches for theoretical studies in economics and management sciences. This approach consists of accurately describing the phenomenon under study, analyzing its components, and interpreting the relationships among its variables in order to reach objective scientific findings.

1. Theoretical Context of Tax Risk Management in the Economic Enterprise:

Over the past few years, governments in many countries have encouraged sound corporate management and developed guidelines for proper tax risk management. Despite the diversity of regulatory and business environments in these countries, recognition of the need for an effective tax risk management system is of great importance to both tax administrations and large taxpayers.

- Concept of Tax Risk Management:

There is no established consensus on a single definition of tax risk management, particularly because most previous studies have focused on the risks faced by tax administrations and the methods of addressing them, especially risks related to tax compliance and evasion.

In a study conducted by Dr. Daniel N. Erasmus, a professor at Middlesex University in the United Kingdom, in 2008 on the importance of tax risks, 90% of the companies surveyed indicated that tax risks would be an important area for them during the following years. According to another survey conducted by Ernst & Young in 2010, 63% of companies in emerging countries experienced stricter enforcement by tax authorities, compared with 39% in developed countries (Rensburg, 2012, p. 16).

The difficulty companies face in dealing with changes in the implementation of tax legislation, together with the resulting increase in administrative transactions and the large volume of operations associated with corporate activities—purchasing, sales, storage, disposal of assets, mergers, and so forth—especially in multinational companies, constitutes a source of risk. The sheer volume and rapid growth of these transactions make it difficult to review each transaction separately on a daily basis.

Under these circumstances, tax risks arise from the misinterpretation of legislation, regulatory provisions, or regulations, or from shortcomings on the part of those responsible for tax management

within the enterprise. To address this problem, the Australian Taxation Office issued a handbook in September 2010 on large enterprises and tax compliance. The handbook explains how the Australian Taxation Office deals with the tax affairs of these companies and how tax risk management within the company can contribute to tax reform in the country (Rensburg, 2012, p. 17).

The foregoing indicates that the real risk lies in the need for companies to examine their internal controls and mitigate these risks by establishing appropriate mechanisms. This provides a brief overview of the urgent need for tax risk management in business.

Whether due to ignorance, negligence, or even organizational inefficiency, many economic enterprises fail to meet their tax obligations, which makes it necessary to establish an integrated system to address this deficiency. Numerous researchers have attempted to develop comprehensive definitions of tax risk management, including the following:

“Tax risk management is the management of uncertainty. Given the diverse nature of uncertainty, there is no single correct answer or solution. This means that there is no single management strategy that applies to all enterprises” (Abderrahmane, 2013, p. 76).

This means that tax risk management is not a fixed approach applicable to all circumstances and all enterprises. Every economic entity is affected by its environment, whether in terms of the applicable tax system, the nature of the market and the number of competitors, or the type of activity carried out. In other words, one size does not fit all.

Another definition states that “tax risk management does not eliminate risks, nor does it mean the end of conflicts with the tax administration, but it can help avoid costly surprises” (Lacroque, 2008, p. 45).

This definition means that every economic enterprise is called upon to implement a risk management system regardless of its size, sector, or competitive position.

A more detailed and comprehensive definition states that “tax risk management is a process designed to systematically identify, assess, classify, and treat risks related to non-payment, failure to correctly declare tax obligations, and so forth, as well as management risks in general. It is an iterative process consisting of well-defined steps to support and improve decision-making” (Khalaf, 2019, p. 03).

Based on the foregoing, tax risk management may be defined as the process of identifying, measuring, and evaluating risks arising from financial activities, such as non-payment of taxes; operational risks resulting from incorrect decisions when choosing among tax options; and reputational or informational risks arising from information asymmetry among parties concerned with taxation, with the aim of ensuring the achievement of objectives through sound decision-making and efficient allocation of available resources.

2. Importance of Tax Risk Management for the Enterprise:

- Calculating the costs that can be saved by reducing risks.
- Identifying the profit that can be achieved.
- Taking tax risks when they can be considered opportunities and exploiting such opportunities to achieve desired outcomes.
- Assessing the resources required to manage both risks and the opportunities that may arise from them.
- Reducing taxes and related financial costs by establishing effective controls and mechanisms that enable the enterprise to detect errors and take appropriate corrective measures within a short period, thereby reducing additional taxes and potential penalties for late payment.
- Reducing the risks of tax investigations and compliance costs. When an enterprise has a sound system for monitoring tax risks and managing tax compliance, the likelihood of being subject to an investigation by the tax administration may decrease.
- Improving understanding of the enterprise’s tax strategy. Carefully prepared documentation, such as a tax risk management manual, provides the board of directors with more useful information for understanding the enterprise’s tax strategies and positions and facilitates decision-making (KPMG, p. 08).

3. Tax Risk Management Methodology:

As an integral part of enterprise risk management, tax risk management involves two fundamental stages that must be followed to achieve effective corrective management:

3.1. Tax Risk Identification Stage:

Identifying tax risks is the first step in the management strategy and determines its effectiveness. Tax risk identification is carried out through identification followed by assessment.

- Risk identification: This involves identifying internal and external risks that may affect the enterprise's objectives by distinguishing between threats and opportunities.
- Risk assessment: The tax team, particularly the audit committee, assesses the likelihood of tax risks occurring and their impact on the achievement of the enterprise's objectives. Assessment makes it possible to prioritize these risks and distinguish those requiring proactive management. The work team prioritizes risks according to three main indicators: detectability (the enterprise's ability to identify tax risks); significance (the financial impact of the risk); and degree of impact (the effect on the enterprise's objectives).

To ensure preventive tax risk management, the enterprise should undertake several measures to facilitate the identification and assessment of these risks, most importantly (Abderrahmane, 2013, pp. 80–82):

- Determining the enterprise's overall tax position.
- Designing, documenting, and communicating the tax risk management strategy.
- Forming and training a team responsible for tax matters (Tilila Taj, 2018, p. 71).

3.2. Tax Risk Treatment and Monitoring Stage:

Once tax risks have been identified, assessed, and prioritized, the team responsible for tax matters undertakes one of the following appropriate treatments:

- Risk avoidance: abandoning the transaction or treatment considered to be the source of the risk and replacing it with an alternative procedure capable of eliminating the tax risk.
- Risk transfer: taking measures to reduce the likelihood or impact of risks by transferring the risk. This may be achieved through outsourcing tax-related activities or obtaining advice from experts.
- Risk reduction: reducing tax risk by implementing measures that lower the probability of occurrence or its impact through appropriate tax planning and restructuring operations so that they receive more favorable tax treatment, thereby reducing their negative effects or identifying deficiencies in the enterprise's tax position.
- Risk acceptance: accepting the tax risk after analyzing the cost-benefit relationship associated with it and determining the degree of risk that can be tolerated based on the profits that may be achieved. In other words, an enterprise may accept a tax risk when the benefits obtained from it exceed the costs incurred as a result.

4. Analysis of Stakeholders' Role in the Tax Risk Management Process:

Tax risk management is achieved through the participation of parties inside and outside the enterprise, including decision-makers, regulatory bodies, boards of directors, internal auditors, and external bodies, whether advisory (external advisers) or regulatory (tax authorities, external auditors, and judges). The role of each is presented below (Younes Rahil, 2021, pp. 258–262).

4.1. Board of Directors:

Many researchers have highlighted the important role played by the board in managing tax risks and protecting shareholders' interests, particularly with the general shift in attitudes toward tax planning, which has created greater awareness among boards of the importance of tax matters. In a KPMG survey conducted in 2006, 72% of the companies surveyed considered taxes and tax risks to be the responsibility of the board of directors, which should assess the financial and reputational risks associated with the tax strategy adopted (Abderrahmane, 2013, p. 141).

The board of directors is responsible for the enterprise's strategic direction, its control environment, the implementation of its internal-control system, and communication with shareholders as part of its strategic management responsibilities. The board determines the group's tax philosophy, documents and communicates it throughout the enterprise, sets the acceptable risk tolerance level, identifies the main risks facing the enterprise and the measures adopted to manage them, and is also responsible for appointing the risk committee.

Audit Committee:

The audit committee, established by the board of directors, approves the financial statements, oversees auditing and internal-control activities, coordinates between internal and external auditors, and protects their interests within an independent framework.

According to an OECD study, the responsibilities of the audit committee include selecting the tax adviser, selecting the tax activities for which services are contracted, and, most importantly, preparing and monitoring a comprehensive and appropriate tax risk management strategy.

The audit committee supervises the internal-control system with the participation of members possessing financial expertise. Studies have demonstrated the effectiveness of financial expertise among audit committee members in reducing arbitrary management of violations subject to oversight and failures in the internal-control system over financial reporting.

4.2. Tax Function:

Defining the objectives of the tax function is the first step in establishing a successful tax function. Its objectives derive from the internal and external environment of the enterprise, particularly its regulatory environment. Although these objectives vary from one enterprise to another, they remain centered on the general goal of increasing enterprise value and ensuring compliance with tax rules and disclosure requirements.

Its role in the risk-management process includes implementing appropriate procedures and processes for determining acceptable levels of tax risk and developing action plans based on risk-management strategies through participation in the development of a tax risk matrix.

The tax function consists of specific building blocks that provide a framework for identifying areas requiring attention. The tax function can also be linked to other parties that contribute to its success (Leon Jansen van Rensburg, 2012, pp. 32–34):

- The Chief Financial Officer: provides guidance on the overall internal-control strategy and is also responsible for monitoring how tax risks are managed within the finance function.
- The Finance Department: responsible for providing the information required by the tax administration to compile tax declarations.
- Other Business Units: employees in the remaining units where transactions are recorded daily, even though the tax impact may not be apparent for each individual transaction. They perform the first level of risk assessment and mitigation and thus provide support to the finance department.
- Internal Audit Function: the internal audit department reviews the accounts and activities performed by the finance and accounting department, thereby contributing to improving the performance of the tax function.

4.3. Internal Audit Function:

The internal audit function plays an important role in evaluating the risk-management process by ensuring that major risks have been identified and that the internal-control system operates efficiently. According to the French Institute of Internal Audit and Internal Control (IFACI), the internal audit function provides general management with independent and objective information on the level of risk control. With regard specifically to tax risks, this function should confirm the existence of a tax risk management policy, verify the accuracy of taxes calculated and paid, and assess the soundness of the enterprise's overall tax position. The internal auditor may conduct an internal tax audit to ensure the regularity of the enterprise's tax position with regard to the application of applicable tax laws and regulations. It also seeks to verify the effectiveness of the measures implemented by the enterprise to improve tax performance, thereby constituting a dual control mechanism for compliance and efficiency.

4.4. General Management:

General management is responsible for designing and implementing appropriate policies for tax risk management. These policies should primarily address:

- Determining the enterprise's level of tax risk tolerance.
- Defining operational and strategic objectives.
- Supervising negotiations with the tax administration.
- Ensuring transparency, communication, and policy implementation.

Once the appropriate risk-management policy has been determined and approved by the board of directors, tax risk management activities are delegated to the tax function within the enterprise, after ensuring that it has the human and financial resources necessary to perform this important process effectively and efficiently.

4.5. External Stakeholders:

The parties mentioned above are internal stakeholders of the enterprise. There are also external

stakeholders who participate essentially in the tax risk management process, including the tax administration and external advisers.

4.6. Tax Administration:

The role of the tax administration differs from one country to another. According to an OECD study conducted in 2004 entitled “Compliance Risk Management,” the objective of the tax administration is to make optimal use of its resources in order to ensure that taxpayers comply with the regulatory requirements concerning filing and payment.

In general, the tax administration is required to adopt proactive approaches and measures, such as raising awareness of tax risks through consultation, rather than reactive approaches based on tax investigations and the resulting fines and penalties. Its objective should be to seek solutions and measures that address the causes of tax risks rather than merely treating their consequences after they occur. One of the most important and effective measures is dialogue with managers of economic enterprises.

4.7. External Advice:

In response to the internationalization of business and the increasing complexity of tax regulations, the role of external advice in the risk-management process has become more important. External advisers help taxpayers develop and implement their internal risk-management processes.

The tax adviser assists the enterprise in identifying, measuring, and estimating tax risk by collecting, examining, and evaluating accounting evidence and documents to compile the enterprise’s tax file, extract information concerning its tax position, compare it with tax legislation, and identify areas of risk. The tax adviser is usually an accountant with the competence and skills required to understand and structure the enterprise’s tax risks on the one hand and provide recommendations enabling the enterprise to exploit available tax opportunities without engaging in abusive use of rights or unusual management practices on the other hand.

External auditors also help the enterprise reduce tax risks, as the external audit aims to evaluate the financial statements and ensure that they have been prepared according to standards of regularity, fairness, and reliability, as well as conducting tax audits to verify the soundness of the enterprise’s tax position and ensure the effectiveness of tax management within it.

Conclusion:

This study demonstrates that tax risk management is an integral part of enterprise risk management and therefore cannot be attributed to a single function within the enterprise, namely the tax function. Rather, it should involve internal and external parties, particularly those concerned with tax matters and the risks that may arise from them. These parties interact within a framework based on fundamental components aimed at establishing an effective and integrated framework for tax risk management within the economic enterprise.

The main findings are as follows:

- Tax risk management does not necessarily mean reducing the level of risk; rather, it means understanding its origins and deciding how to deal with it without undermining the enterprise’s ability to exploit opportunities.
- The importance of tax risk management lies in achieving objectives through a rational analysis of the value that can be generated and the resources required, in addition to assessing the potential impact of the risk on those objectives. The smaller the volume of risks, the more effectively the remaining risks can be managed.
- Boards of directors should discuss and approve risk-management policies, particularly tax-risk policies, jointly with general management and ensure that these policies are communicated to all relevant parties.
- Using external advice enables the enterprise to improve tax risk management, particularly in identifying risks associated with non-recurring transactions that may pose difficulties for the tax function. Resorting to external advice in such cases constitutes an advantage for the enterprise.

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