INTERNATIONAL PRACTICE OF TAX RISK MANAGEMENT

Valentina Dzobelova[1], Tengiz Tinikashvili[2], Irina Yablochnikova[3], Elvira Nurdavliatova[4], Sofya Gugkaeva[5]

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[1]North-Ossetian State University named after Kosta Khetagurov, RUSSIA
[2]Financial University under the Government of the Russian Federation,
[3]Moscow Technical University of Communications and Informatics, Gubkin University, RUSSIA
[4]Ufa University of Science and Technology, RUSSIA
[5]Vladikavkaz branch of the Federal State Budgetary Educational Institution of Higher Professional Education "Financial University under the Government of the Russian Federation"
dzobelova@mail.ru
Tengiz-05@mail.ru
irayablochnikova@mail.ru
nurdavliatovaelvira@mail.ru
sosgugkaeva@fa.ru

Abstract

The article examines the essence of tax risks, based on the international experience of various countries. Undoubtedly, the topic of our research is quite relevant at the present stage of the development of economic relations. After all, as we see it, the role of taxes is very significant for any state, since taxes act as the main source of state budget replenishment of practically any country. But at the same time, there are many dishonest taxpayers who try to avoid tax payments as much as possible, using various tools to optimize the burden of taxation, including illegal ones. In addition, during the research we identified the main zones of tax risk for identifying dishonest taxpayers in various foreign countries.

Keywords: taxes, tax risks, economics, burden of taxation, tax optimization, tax legislation, tax control

I. Introduction

Under the conditions of modern developing economic relations, such a phenomenon as “tax risks” is acquiring universal significance in the field of taxation. This phenomenon is influenced by many processes and factors that occur all over the world. Unfortunately, the analysis of the financial and economic situation for most countries shows a process of reduction in tax revenues to the country's budget, which, in turn, is accompanied by a decrease in the revenues of the state budget of a particular country. In this connection, the relevance of the topic of our research, devoted to the study of the essence and nature of tax risks, the reasons for their occurrence, as well as the search for methods to fight them, increases.

Note that the term “risk” takes its impetuous origin from the very development of market relations. As for tax risks, they should be classified as a group of economic risks, which, in turn, include other risks, such as financial, banking, insurance, etc. In addition, many economists classified tax risks as financial risks before. But, subsequently, economists came to a common opinion about classifying them as an independently existing type of economic risks. As practice shows, currently there is no clearly formed concept of tax risks, both from the practical and theoretical sides.

But despite this fact, many researchers classify tax risks into two main groups:
- ✓ Risks on the taxpayer`s part;
- ✓ Risks on the state`s part.

That is, simply put, the risks on the state`s part consist in the shortfalls of tax revenues from citizens to the state budget due to various tax minimization schemes.

But for citizens, tax risks are associated with the imperfection of the country's tax legislation, increase of burden of taxation, etc.

Thus, summarizing all the above, we can come to the following definition of the essence of tax risks, which is interpreted as the probable occurrence of negative material, primarily financial, consequences either for the state or for the taxpayer in connection with the actions or inactions of certain participants of tax legal relations. In other words, for both the taxpayer and the state, the concerned category serves as a source of financial losses. As it is known, there are internal and external factors that influence tax risks for both taxpayers and the state. As for the internal factors of tax risks for the state, we would like to note, first of all, the tax policy pursued in the country. As for taxpayers, it is the procedure for submitting tax reporting and paying taxes, as well as tax planning. External factors of tax risks for taxpayers cover such phenomena as changes in terms of taxation. As for the state it is the creation and existence of offshore zones. Let's also add a common external factor for both the state and taxpayers, which is the world price situation for exported products and the general state of the world market.

Thus, summarizing all the above, we can conclude that tax risks in any case are accompanied by negative consequences that have a financial nature and consist in losses, damages, as well as shortfalls in profits and income.

In addition, tax risks are associated with the probability of negative consequences of a legal, social and psychological nature.

That is why the importance and relevance of studying tax risks, the reasons for their occurrence and ways to minimize them is increasing every day.

II. Methods

The fundamental goal of our research is to identify the essence of tax risks and the main methods to fight them, based on international experience.

The subject of our research is to find ways to reduce tax risks. And the object is tax risks.

In the course of writing this scientific work, various textbooks, teaching aids, works of both domestic and foreign scientists and economists, as well as periodical articles, magazines and Internet resources devoted to the topic of our research were used.

III. Results

Thus, having studied the phenomenon of our research, we`d like to consider the main reasons for the emergence of tax risks.

First of all, we would like to note the imperfection of tax legislation as the first reason for the tax risks formation. In our opinion, this factor can have a negative impact on both taxpayers and the activities of the state. Drawing on the modern experience of many countries around the world, one can observe the manifestation of imperfections in tax legislation in matters of taxpayers reducing their tax obligations, which, in turn, automatically reduces state revenues through reduced tax revenues.

On the other hand, the actions of taxpayers can have very legal grounds with due to additional assessments by the tax authorities, which, in turn, is accompanied by financial losses and various legal proceedings. As the next reason for tax risks, we`d also like to note the ambiguity and inaccuracy of judicial practice regarding tax administration. After all, a situation where courts make very ambiguous decisions on the same issue it often observed.

In the emergence of tax risks, a key role is also occupied by the incompetence of personnel, as well as various technical errors, or intentional ones, which are often accompanied by deliberate noncompliance with the law.

Moreover, as we see it, such a phenomenon can occur both on the part of the state and taxpayers. To minimize tax risks, countries are actively pursuing tax policy, which is aimed at improving the quality of audits, applying the basic principles of taxation that are applied everywhere in many foreign countries, as well as bringing closer together in matters of information interaction between various authorities, in particular customs, law enforcement, tax authorities, etc. That is, the state's main aim is to fight against dishonest taxpayers who use one or another method to hide the taxation base. As for tax risks, we`d also like to focus on those large taxpayers who register in offshore zones.

This, in turn, negatively affects the financial component of any country, since it can result in a decrease in the amount of revenues to the country's budget.

Thus, we`d like to summarize all of the above and note the main well-known causes of tax risks:

- ✓ Introducing various amendments and changes to the country's legislation, in particular, the abolition of tax benefits, or an increase in the tax rate, which is risky for taxpayers with not updating their tax accounting;
- ✓ The emergence of contradictions in regulatory documents in connection with various amendments;
- ✓ Lack of qualified personnel who can correctly calculate the taxation base, amounts of taxes and contributions;
- ✓ Unscrupulous analysis on the part of companies when concluding transactions with unreliable counterparties;
- ✓ Use of illegal schemes by taxpayers to optimize the burden of taxation.

IV. Discussions

Besides, during the research, we identified and classified the main groups of tax risks, based on the international experience of foreign countries.

For clarity, we would like to refer to Table 1 below.

Thus, based on the data presented, we clearly see that most countries note the use of taxpayers of various schemes involving offshore companies as the main source of tax risk.

Also, an important place is given to the factors of abuse of double tax agreements, the formation of artificial losses and the application of imperfections in tax legislation.

Table 1: *The main area of tax risks according to the international practice of foreign countries*

Country	Main areas of tax risks
Australia	✓ Tax schemes aimed at tax evasion using prepaid options for services; ✓ Use of new financial instruments; ✓ Schemes aimed at removing company assets (variation of the wage fund, use of offshore companies, "thin capitalization" tools).
United Kingdom	✓ Artificial creation of losses: using offshore bank accounts to hide assets and income.
Germany	✓ Transfer of income to low-tax jurisdictions; ✓ Abuse of double tax agreements; ✓ Tax evasion by permanent representative offices of foreign organizations.
Ireland	✓ Schemes using offshore companies; ✓ Concealment of income and capital gains; ✓ Artificial creation or "inflation" of losses; ✓ Abuse of double tax agreements.
Spain	✓ Real estate schemes;

	✓ Use of offshore companies; ✓ Tax planning.
Italy	✓ Schemes using offshore companies and trusts; ✓ Comprehensive contractual schemes both at the national and international levels; ✓ Abuse of double tax agreements.
Canada	✓ Transactions aimed at artificially understating income and asset value growth, inflating expenses, overstating losses; ✓ Abuse of double tax agreements; ✓ Illegal use of tax benefits; ✓ Use of offshore companies, transfer pricing; ✓ Intentional bankruptcy.
South Korea	✓ Schemes using "trading agreements"; ✓ Tax evasion using offshore companies; ✓ Use of derivative securities in schemes to create artificial losses and tax deferral.
Netherlands	✓ Schemes aimed at distorting the taxation base; ✓ Offshore companies; ✓ Individuals with a high level of income and a significant value of their property.
New Zealand	✓ Income split and creation of artificial losses (for individuals); ✓ Exploitation of "gaps" in tax legislation, often using financial instruments (for companies).
Norway	✓ Schemes using offshore companies
USA	✓ Schemes using imperfections in tax legislation; ✓ Tax evasion using offshore structures to hide income, creating artificial expenses and losses.
France	✓ Tax offenses on a particularly large scale, especially at the international level; ✓ Non-declaration of economic activity.
Sweden	✓ Schemes using offshore companies, bank cards and foreign holding companies (for individuals, small and medium-sized businesses); ✓ Schemes with commercial real estate, loans (of a company).
Japan	✓ International tax planning schemes based on preferential provisions of foreign tax systems and abuse of double tax agreements; ✓ Use of foreign shell companies; ✓ Use of new financial instruments in schemes.

Thus, we can conclude that the tax risk assessment system acts as a many-sided element and can be considered in various aspects depending on the organizational and operational structure of tax authorities.

In other words, some countries focus on referring risks to certain groups of taxpayers, in particular such groups as:

- ✓ Individuals;
- ✓ Small and medium-sized business;
- ✓ Large corporations;
- ✓ Individuals with large incomes and property.

Other countries are studying the risks from the point of view of the legality of using basic tax planning tools.

It concerns, for example, the use of double tax agreements, which serves as a formal method of tax optimization, but at the same time has high tax risks for the budget.

But the situation of non-declaration of income and property undoubtedly serves as an illegal way to optimize taxes.

In our opinion, the proposed and discussed above methodology of systematization and segmentation of tax risks, which acts as the basis of tax monitoring, serves as the most important factor in building an effective system of tax administration.

V. Conclusion

Thus, based on the foreign experience of various countries in identifying tax risks, we can draw a conclusion about the important role of introducing penalties at the legislative level for promoters (lawyers, auditors, etc.) of aggressive tax planning schemes (promoter penalty regime).

Such obligations exist in the laws of other countries, in particular in Canada, New Zealand, Australia, the USA, and the UK.

Thus, based on the experience of developed countries, we can conclude that their tax services carry out their work using a comprehensive analysis of tax risks.

In our opinion, the development of a tax monitoring system, which is based on risk management techniques, will become an auxiliary tool in identifying certain problems of tax administration and legislation at the early stages of their manifestation.

In addition, we support the idea, the essence of which is that if there are certain measures to identify information, as well as appropriate structural units for tax monitoring, the success of the state tax policy implementation will be manifested through the timely detection of certain tax risks and their effective management.

Thus, we revealed the topic of our research.

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