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Effective Tax Management: Selected Issues and Solutions in International Practice

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Abstract
Contemporary government and business sector relations are primarily built on fiscal foundations which rooted from a dilemma of further strengthening for sound performance and tightening for poor performance. Business rounds around the world admit that an effective tax management can be central to thinking of beneficial interaction with tax authorities to keep the relations in mutually fair way. Considering the effects of global financial crisis in global business environment, fiscal profile and behavior of many crisis-hit economies, visibility of relevance of effective tax management may be far-reaching and prioritized in the context of tight tax policies and pressures. This article examines the theoretical and empirical approaches to tax management practices and proposes a tailored effective tax management framework based on comparative analysis and current global economic condition.
Keywords: effective tax management, tax strategy, tax risk.

1.Introduction
In an increasingly demanding global environment, managing tax responsibilities and planning for tax issues is becoming more complex (Deloitte, 2011). Businesses regularly focus on effective use of resources due to significant resource constraints faced after global economic downturn. Expanding fiscal space and governments' attempts to bridge the fiscal gap often pose excessive tax burden to businesses and create hidden risks to fail in meeting tax compliance. In global context, financial recovery and followed uncertainty require companies to reduce costs and tax authorities to increase revenues. Cross-border transfer of potential risks and losses caused by globalization make companies centralize tax functions and improve tax accounting services, as tax authorities are demanding fair share of tax from their revenues. Therefore, companies are facing a growing need for adapting smoothly to this changing environment through an effective tax management and planning. In response to volatility in the world economy and its impact on international business environment, governments are changing tax policies to follow the global trends. Tightened market access, severe competition and narrow tax policies make businesses take prudent and flexible tax management measures to keep a stable financial profile.

Approaches of enterprises to tax management are different among large companies and small and medium sized enterprises. Shareholders and boards of directors of large companies often think of reputational risk, brand management and consequent market share reduction derived from poor tax management, while small and medium sized enterprises focus on tax management to increase tax-deducted profits from the sale of goods and services. Size of enterprise and its operation zones plays the key role in tax management. In some economies companies are taxed in respect to the size of stock capital, number of employers or turnover. In multinational enterprises effective tax management is the central issue, as they operate in several economies and follow different taxation procedures in each economy. Moreover, dual taxation brings a doubled challenge to multinational and FDI-based enterprises.

Tax management has greater impact on enterprise's performance, as private entities always seek profit and try to avoid taxes by reducing taxable income. Recent studies and evidence proved that efficiency of tax system has direct effect in several business performance indicators. Tight fiscal policies in many economies, both developed and developing, influence on assets, liabilities, cash flow, turnover, profitability, investment return, portfolio and shareholder value of an enterprise. In all types of enterprises, managing taxable assets efficiently and smoothing impact of taxes on investment returns are of common problems. Another side of this double-edged problem roots back to tax systems and policies of governments. In most economies taxes are calculated and levied on different tax bases. Particular taxed are levied at the fixed rates in consistent with volume of turnover, revenue, profits from different sources and each source may be levied separately. Consequently, complexity in tax accounting and misreporting may cause data asymmetry in tax authorities and can be found as tax evasion. This article provides a comparative view of pre-and post crisis relevance of tax management in companies with a stronger focus on crisis-led challenges and lessons from an international perspective, and proposes a practically-rooted effective tax management model based on internationally accepted financial management practices.

2. Literature Review
Tax management is often liked with corporate governance, since fiscal effects in enterprise and tax burden seen

as separate elements of effective business performance. Several theories and concepts were proposed in several literatures which relied on diverse approaches and methodologies that brought contrasting results. Interestingly, international organizations and business consulting agencies have been adding more practical value in tax management. Their observations, surveys and expert notes are ensuring a path to effective internal and external tax relations for businesses. Nowadays, tax consulting companies play a key role in decision making processes in nearly all multinational enterprises, as they provide a tailored approach to each business, economy and market profile. However, rising trend is increasingly focused on tax management tools, strategy and flexible framework. KPMG, Deloitte, PwC and Ernst & Young are ensuring them in pure analytical manner from accounting, corporate governance, maturity and business cycle perspectives.

3. Tax Management: Relevancy and Efficiency Revisited

The attitudes of many governments, shareholders and boards of directors to the management of tax are changing – managing tax risk and reputational issues are high on the agenda (KPMG, 2014). Large businesses have adjusted the way they approach tax management. This highlights that global business environment heightened sensitivity to financial market volatility and tax policy changes. In last decade's macroeconomic scenario, businesses hardly hit by global financial crisis and became highly vulnerable to any shifts in factors that drive business environment. These factors downsized businesses and market, in consequence, obscured adequate diversification of economic activities and adaption to crisis condition due to weakened financial structure and lowered capitalization, made them highly dependent on loans and debts, which eventually led to regular income losses.

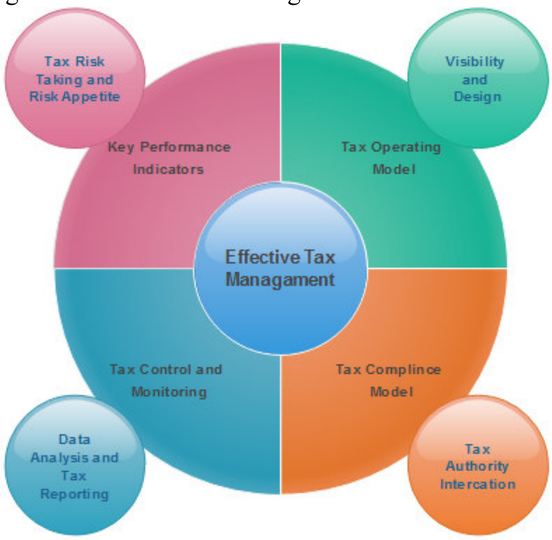
Although tax management has been of growing importance at global scale, business community revisited to it due to sudden explosion of both international financial and commodity markets. Businesses in most countries confronted with a clear downturn in demand for their goods and services, increased payment delays on receivables, consequent endemic shortage of working capital, fall in liquidity, increase in reported defaults, insolvencies and bankruptcies. Considering the truth that businesses always need a governmental support at least to survive and need a special public support framework to grow even in normal economic conditions. Loss of profit in businesses and growing unemployment rate in the economy showed a doubled effect in fiscal condition in economies: sudden and significant reduction in budget revenues and increased government spending on welfare. In that context, governments hugely attempted to bridge the fiscal gap by posing new taxes and levies or shifting the rates of existed ones. Consequently, governments' appetite to seek revenues from taxpayers, mainly large financial and non-financial corporations, opened further. A dilemma of governments' double-edged role in business sector interaction unearthed and government support schemes were provided as a lender of last resort.

Several factors in the economic environment affected the tax compliance systems, including legislation, government policy, public opinion and economic condition. These factors all impact on the compliance procedure, which got narrowed through strict taxation and administrative pressures by tax authorities. Increased attempts of tax authorities and tight tax policies to attract more revenue to bridge the fiscal gap required a careful approach to tax accounting and management. More careful-to-touch and prudent measures in tax compliance urged sparked the absolute need for rethinking of tax existed tax management practices and revising for coordination with current tax environment.

4. Effective Tax Management in a Risky Global Economic Environment

The path to tax management transformation is no doubt challenging (Deloitte, 2013). High level of uncertainty in the world economy is fuelling the pressure on businesses to cut costs and on tax authorities to increase revenue. As globalization is accelerating centralization of finance and tax, businesses are required to improve their governance, accountability and transparency in all areas including tax. Tax regulation from the standpoint of tax authorities and businesses require tax data disclosure in order to monitor the payment of fair share from profits they earn. Tightening of tax measures in global scale is forcing the companies to revise their tax management practices and to increase their effectiveness and efficiency with country-specific elements through a tailored approach. Development of a tailored tax management practices is always of growing importance, as tax regulation regularly changes depending on economic and fiscal conditions. Therefore, effective tax management framework basically has to include key and ad hoc actions and measures to keep the tax functions stable within the firm (Figure 1).

Figure 1. Effective tax management framework



Source: Author's compilation

The basis for sound tax management is business's tax policy that needs to address what the strategic, operational, financial accounting and compliance tax risks are in the business. Central to any effective tax management practices is a cohesive tax strategy reinforced by a prudent implementation roadmap. A crucial element is the assessment of existing tax management practices and adapting them to business's broader strategies. From operational and strategic perspective, effective tax management bases on several key actions and particular measures to avoid tax risk and any other negative factors. In international practice, assessment of company's risk tolerance and compliance with tax policies and procedures are seen as flagship actions, while modern approach focuses on several ad hoc measures as shown in Figure 1. Setting a tax compliance model, an assessment framework and taking steps to implement in an efficient way is of controversial debate among business rounds. Establishment of a clear tax vision and a prudential strategy integrated to business objectives delivers the value from effective tax management. During global financial crisis many large companies failed in meeting the tax obligations and covering the tax debt in condition of international economic turbulence. They overlooked tax responsibilities and interacted with tax authorities in an improper procedure. It proved that appropriate model of tax authority interaction may influence tax management. Tax compliance is another issue and a key element of effective tax management which has both direct and collateral effect in financial and market profile of a business leads to reputational and financial risks derived from aggressive and strict tax audits.

Tax reporting is an integral component of tax management practices, as they reflect the full financial profile and income composition. Tax data and reporting are technically important sources of managing the tax risk, if they are combined with key performance indicators, tax control results and regular monitoring findings. Change in both financial and non-financial indicators clearly shows the business environment, performance, profitability, stability and liquidity of a company, which are central to tax capacity. They serve as a key tool for the assessment of tax risk taking and risk appetite of a business.

5. Conclusions and Recommendations

Ensuring the expected efficiency of tax management is a hard-to-achieve target for many companies in a volatile global market condition. Vehicles of global capital – multinational enterprises – face greater scope of risks from tax issues caused from dual taxation principles and different tax categories and rates in economies where their headquarters and affiliates operate, while observing domestic tax system changes suffice to small and medium sized enterprises to have a smooth tax compliance and management policy. It apparently clarifies that polarization of tax management practices still exists and roots from diverse cores depending on business size and location. Therefore, it is impossible to propose equally relevant and common recommendations. However, there is room for ensuring core actions and measures for an affective tax management framework:

1. Setting a firm-specific tax compliance principles in consistent with tax policy and tax authority's auditing behavior;
2. Setting a tax risk assessment and prioritization tools and methods;
3. Timely evaluation and monitoring of business environment and market condition in order to get clear revenue and taxation forecast;
4. Setting a specific tax risk and tax compliance management report at least in internal level;
5. Ensuring an integrated tax management framework elements especially tax compliance, tax authority

interaction, risk taking from tax and tax data analysis.

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