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Causes of Tax Risks and Ways to Reduce Them

D.A. Artemenko[1], L.A.Aguzarova[2], F.S.Aguzarova[2], E.V. Porollo[3]

Abstract:
The research studies the tax risks theoretical fundament, identifies the causes of their occurrence and looks for possible ways to minimize them. The purpose of the work is to economically justify the use of state regulation tools to eliminate a risky event in practice, as well as the ability to cope with the situation when tax risks occur.

Theoretical analysis based on various scientific methods allows the authors to conclude that the constant tax legislation changes, the introduction of new taxes and fees increasing tax burden, the tax payments cuts are main sources of tax risks.

The authors identify the following tax risks types: seizure of property in the amount of unpaid taxes, tax sanctions and penalties and others. The article focuses on efficient measures to eliminate tax risks: development of an unambiguous tax legislation and its timely implementation; introduction of deep tax control to reveal all unaccounted objects of taxation and thereby exclude non-taxable objects; do not raise the level of the tax burden, minimize tax payments.

The authors introduce the novel concept of tax risk meaning the likely possibility of unplanned losses occurrence in the performance of a state, region or a business entity within the framework of tax relations in connection with financial resources.
The obtained results will serve for practical improvement of tax relations for both sides: the tax and customs authorities on the one side and organizations, individual entrepreneurs, individuals on the other side.

Keywords: *Tax risks, financial risks, financial losses, adverse financial consequences.*

JEL Classification Codes: *F65, G01, H21, H26*

[1]*Dmitry Aleksandrovich Artemenko, Doctor of Sciences (Economics), professor, Southern Federal University, Rostov-on-Don, Russian Federation.*
[2]*Larisa Aslanbekovna Aguzarova, Doctor of Sciences (Economics), professor of Accounting & Taxation Department, North Ossetian State University after K.L. Khetagourov, Vladikavkaz, Russian Federation, corresponding author, aguzarus@yandex.ru .*
[2]*Fatima Savkuevna Aguzarova, PHD (Economics), associate professor of Accounting & Taxation Department, North Ossetian State University after K.L. Khetagourov, Vladikavkaz, Russian Federation.*
[3]*Elena Valentinovna Porollo, PHD (Economics), associate professor, Rostov State University of Economics, Rostov-on-Don, Russian Federation.*

1. Introduction

Despite the fact that the concept of "tax risks" originates from taxation, it has not been well presented yet in the tax legislation of the national economies in the world. As the tax administration procedure becomes tougher, the tax risks research gets more attention. The conflict between tax legal relations and tax risks is inevitable. Taxes a priori are recognized as sources of risk for any subject of tax relations, since they are gratuitous payments, paid by organizations and individuals obligatory.

It is believed that modern tax practice demonstrates that few people voluntarily, irrevocably sacrifice part of their income to the state, and here the tax risks appear. Given the high tax burden, it is not surprising that taxpayers by all means try to reduce their tax payments or to escape from payment, which results in the expansion of "shadow" economy (Macijauskas and Maditinos, 2014; Polemis, 2014).

It is well known that taxation embraces all types of activities of all economic agents; hence it is reasonable to take into account tax risks and timely imply effective measures to reduce them (Pociovalisteanu and Thalassinos, 2008).

2. Theoretical, Informational and Empirical, and Methodological Grounds of the Research

Meanwhile the problem of tax risks is increasingly on the agenda. Many economists in the world study this issue, the causes of its occurrence, as well as ways to reduce it. Tax risks are the separate subgroup of financial risks because taxes are an integral part of finance, and therefore, tax risks are part of financial risks (Liapis *et al.,* 2013; Nechaev and Antipina, 2016; Hapsoro and Suryanto, 2017).

Assessing the level of tax risks, it is necessary to pay special attention to the current situation in the national economy of a particular state, including a particular region or business entity. Undoubtedly, the more developed the economic region or business entity is, the lower are the tax risks. The more prosperous the economy is, the fewer the cases of tax evasion, since there is a sufficient amount of financial resources in circulation to fully implement the tax obligations, that is, timely tax payments. It is noteworthy that poorly developed regions generate corruption, resulting in untimely tax payments.

More often than not, the unemployment rate of such regions is high and the people have little or no choice other than using corrupt means earning their living, hence the high level of tax risks. Tax risks, as noted above, are there whatever tax relations are involved.

It should be specified that anyone who implements legal rights and duties in accordance with the current tax legislation is recognized as a participant in tax legal relations. Organizations, individual entrepreneurs and individuals, tax authorities and customs bodies are treated as participants in tax legal relations**.** Thus, the main participants of tax relations are the state, represented by tax and customs bodies and taxpayers. In the process of interaction of these parties, there may emerge other participants, entitled to special tax rights, and new tax risks can be involved.

Tax risks can also concern only one party **-** either the state or the taxpayer i.e., tax risks arise due to the way the participants in tax relations act. It should be also noted that there is much to be clarified concerning the very definition of the concept of tax risks. Given that in the scientific discourse all over the world the concept of risk suggests uncertainty or probability of adverse events, tax risk should be understood as possible unforeseen financial losses. Any risk, tax risk included, can bring about an unfavorable outcome, a danger, a loss

Tax risk is a financial risk suggesting possible unforeseen financial losses caused by the introduction of new tax types changes in tax rules and regulations, like cancelling tax breaks or "tax holidays", increasing tax rates for current taxes, changing the procedure and deadlines for making tax payments and other norms of tax legislation Tax risks are also said to be linked with some uncertainty in achieving the objectives of the region, or the economic entity due to unforeseen negative factors in the taxation process.

3. Results

Yet, the problems caused by uncertainty in taxation and entailing tax risks remain insufficiently studied and need to be addressed. Here are the main reasons why tax risks arise. Thus, most frequently the main factors entailing taxation risks are systematic changes in tax legislation, concerning tax rates, tax benefits, calculating procedures, and timing of tax payments.

The tax legislation is a set of normative and legal acts which regulates relations in the field of current taxes and fees, their elements related to the emergence of tax obligations, their termination, changes in them, and which imposes tax sanctions. The tax legislation is complicated, many of its items allow of ambiguous and controversial interpretations (Tsamis and Liapis, 2014).

The above stated confirms the high probability rate of tax risks and calls for improvements in the tax legislation. At the same time, failure to comply with the norms of tax legislation leads to financial losses. In this regard, first and foremost, we suggest correcting the ambiguous articles of the law to make their interpretation unambiguous and simple.

It is essential, on the one hand, to remove any loopholes fraught with tax evasion in the tax legislation, on the other, however, not to ignore the interests of the taxpayer, for example, tax incentives and preferences. Due to the fact that the norms of the tax legislation change annually, in real life these changes are not applied in a timely manner. The tax payments are not calculated accurately (either over-calculated or law calculated) which involves more of tax risks. Such situations recur in the work of various organizations as a result of the changes, according to which the original decision was made. The tax laws are determined by both the initial and subsequent circumstances. It follows that stability in lawmaking is of paramount importance as it reduces the possibility of tax risks.

Introduction of entirely new types of taxes and fees provokes more tax risks. We believe that the current taxes and fees cover all the objects of taxation. So, imposing new taxes and fees does not seem plausible as it can lead to double taxation. The introduction of new tax payments will increase the tax burden of taxpayers, which does not comply with the tax policy of the state and is fraught with consequences. The tax and fee payers will use different methods and tricks to minimize the tax burden, to conceal objects of taxation. In the long run, the budgets of the budgetary system will lose more than before. Similar measures are taken to minimize payments when there is an increase in tax rates for the applicable taxes, and when tax privileges are cancelled. Thus, the introduction of new taxes, increased tax rates, cancellation of tax incentives make the tax burden heavier and entail more tax risks.

We hold that the current system of taxes and fees should remain the way it is, although, the representative bodies of some countries have been initiating to impose additional taxes. Tax risks may arise as a result of wrong pricing. In cases when the prices of individual goods and services are unreasonably increased the producers' income may fall, because elastic demand for goods and services and an increase in their price will most probably reduce the revenue. Hence, the financial flows and the overall income of the economic entities are reduced. Due to these consequences the production of goods has to be cut down. Thereby increases the tax burden of the subject of taxation (taxpayer), which entails a reduction in the volume of activity and the emergence of tax risks. Price risk is substantially increased under conditions of excessive inflation. Very often, experts don't present properly established tax base, incorrectly calculate the size of taxes payable to the budget system.

According to the tax legislation, in the event of incorrect determination of the tax base, wrong calculation of taxes, partial payment, untimely delivery of tax returns to the tax authorities, a tax penalty can be imposed on the taxpayer for tax evasion. The actions may be committed intentionally or negligently. Inaccuracies in the tax records and in determining the amount of tax should be attributed primarily to lack of order in the tax legislation system. As noted, each year amendments are introduced into the tax legislation, which experts may be ignorant of at the time when individual tax calculations are made. But no one is exempt from tax liability whether or not the taxpayer knows the law. No doubt, in such cases tax risks may arise, as a result of which an entity may be declared financially insolvent and eventually bankrupt.

It is essential to be noted that a law-abiding taxpayer does not always have the financial ability to fully and timely pay the taxes. Still, such circumstances cause delays in collection of tax payments to the budgets of the budgetary system, and also leads to recalculation of tax payments

Tax risks may be founded in the process of tax control activities implemented by the tax authorities. For example, on-site tax inspection revealed violation of tax legislation resulting in arrest of taxpayer property/assets and limited or restricted operations with accounts in the credit institutions. Such situation faces financial losses, wastes and bankruptcy for business entity. Financial losses after tax control spring from dramatic penalty charges. Tax control risks depend on taxpayer intention either to minimize tax payments (bite of taxes) or not. For the record of regular principle: law-abiding taxpayers have law tax control risks. In this case it's most likely due to technical or random mistakes. However certain activities taken by taxpayer to reduce tax payments rise tax risks dramatically due to illegal methods of tax payments' reduction. Thus, illegal strategy has no respect for minimizing tax payments. Besides, it's more reasonable for the state to support non-profitable institutions for some period of time. Types of governmental support include: tax credit, installment, prolongation, tax holidays, etc. Rapid imposition of tax penalties on economic entities seems to be unreasonable.

We share expert opinion in discussion of tax penalties' size for big enterprises. This type of tax risks is caused by correspondingly low penalties addressed to the biggest companies for non-payment of taxes with further criminal prosecution. For example in Russia such penalty is equivalent to 100 000 rubles.[4] Such payment is available for any big enterprise all over the world. The existing limits for taxes payment default are considered to be undersized & accessible. Hence, the biggest taxpayers may hide tremendous tax payments due to be paid to the state budget and pay legitimate penalty instead. Thus, they gain profits for themselves not for the state.

It's worth to mention that the better quality of financial decision taken both by the Government and business entities eliminates tax risks and creates stable economic environment for work. However participants of tax legal matters are not always able to take proper financial decisions and develop efficient system to manage tax risks due to mistakes inside business entity and objective situation outside. To overcome this trend we need ongoing monitoring and analysis of tax legislation.

Tax risks can be divided into internal and external. External risks include risks emerging due to economic collapse in the country or region, financial crisis, tax reforms. Internal tax risks include certain risks associated with activities within a

[4] *Criminal Code of RF. 2017. Art. 194, 198, 199.*

certain business entity, for example, increase of tax burden, changing regulations of tax legislation, tax lien.

4. Conclusions and recommendations

Thus, the research carried out enables to make the following conclusions. Tax risk is a probability of unplanned financial losses in the activities of a state, its regions or a business entity. Tax risks can entail real losses in the course of tax relations in adverse economic situations. Such situations should be evaluated and avoided on time. A helpful and viable way of tackling the problem is monitoring violations of tax liabilities of tax legal matters participants (taxpayers).

The phenomenon of tax risks in practical activities should be assessed as negative provided that their negative effect has specific forms of manifestation. Each payer of taxes and fees uses various schemes of minimizing the tax payments to save on taxes. The emergence of tax risks is normally accompanied with the reduction of tax revenues in the country's budgetary fund. Often, taxpayers hide the objects of taxation to minimize tax payments, thereby becoming shadow economy participants. Such behavior of participants in tax legal relations is regarded as illegal and involves high tax risks.

Types of tax risks include: seizure of property covering the amount of unpaid taxes (tax lien); tax sanctions and penalties levied in cases when the tax is ignorant of the laws and others. Reasons for tax risks' formation are the following: regular changes in the tax legislation; establishment of new taxes and fees; pricing policy of a certain region and business entity; level of the tax burden. Foundation of «fly-by-night» companies, operation of institutions/organizations in the sector of illegal production (e.g. alcohol production) also may result in tax risks.

In our opinion, the currently applied measures aimed at eliminating and minimizing tax risks should be reconsidered so as to make them more effective: firstly, the norms of tax legislation and their accurate execution in order to remove any grounds for tax risks should be developed unambiguous an explicit; secondly, all taxable items should be properly registered in the course of a thorough tax control, leaving no taxable items in the shadow; thirdly, the level of the tax burden should be curbed to prevent tax evasion.

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