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# Tax Risks and Tax Risk Management Associated to Internal Auditing: Empirical Evidence from Greece

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**Abstract**

The goal of this paper is to highlight the importance of tax risk management in the process of creating an effective internal auditing plan. The insight of professionals (internal and external auditors, risk management consultants) is collected through online questionnaires that are analyzed to identify important correlations that affect company effectiveness of controls associated to the increasing tax risks. A regression analysis is used to determine the degree of preparation of Greek companies to deal with tax threats in accordance with their internal tax audit plan. The study concluded that companies in Greece do not plan for future tax risks but mostly deal with past incidents and "known issues". The findings are of practical importance to companies, as their risk management departments should work closely with the internal auditors to ensure the implication of tax risk controls in their internal audit plans, especially if business development across different regions is intended.

**JEL Classifications:** M41, M 48

**Keywords:** Tax Risks; Risk Management; Internal Auditing; Efficiency; Greece

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## 1 Introduction

Tax violations are common incidents around the world. They are found in most economic environments, to different levels of extent. When businesses create their strategy, tax compliance should be a matter of concern as impact from tax risks might affect long term performance and operation.

Six types of tax risk can be assessed:1) Financial risk 2) Compliance risk 3) Reputational risk 4) Tax process risk 5) Political risk 6) Private liability risk

The decision to include tax risks in risk management systems is a result of increasing public awareness and rising attention from the regulatory authorities since evidence shows that firms that operate tax risk management systems improve their overall tax compliance level by reducing the acceptable risk amount.

Tax Fraud is difficult to be measured, authorities depend on estimations since tax fraud is hard to trace especially in indirect taxes like V.A.T.

To minimize impact of tax fraud in the economy without fighting tax fraud itself Governments utilize the collection of third-party liability, a technique that states that extra revenue is collected from compliant entities to compensate for non-compliant ones.

To ensure tax compliance authorities use tax audits but even with digitalization and applications of big data science the number of available auditors with the mandatory critical thinking and skills can't cope with the volume of the data that should be audited.

Organizations need to develop and maintain a well-organized strategy of tax risk management while they expand across different regions since tax laws and guidelines tend to be more and more complicated and difficult to apply on time.

Ernst & Young (2013) highlighted risks that need to be assessed in the Internal Audit Plan of entities globally. The most difficult to assess is lack of available tax knowledge, lack of available data to perform transfer pricing studies and calculate the right prices for related party transactions, difficulty of managing processes that involve different regions with different tax regulations.

The present study explores the critical role of internal audit in managing tax risks, with a focus on corporate income tax (CIT), value-added tax (VAT), and transfer pricing. Tax risks have become increasingly prominent in corporate governance due to their significant impact on financial performance, reputation, and compliance. Drawing on data from a quantitative survey conducted among internal and external auditors, this study examines the effectiveness of tax risk management frameworks in large corporations in Greece.

The findings reveal that while many organizations have implemented basic controls to address CIT, VAT, and transfer pricing risks, these controls often lack proactive planning and adaptability to evolving tax landscapes. Regression analysis highlights a positive correlation between the existence of controls and improved preparedness to manage tax risks. However, it also underscores the gaps in planning for future threats, especially in the areas of VAT compliance and transfer pricing.

The study underscores the transformative role of internal audit in mitigating tax risks by implementing risk-based auditing, enhancing operational governance, and fostering interdepartmental collaboration. By integrating robust tax risk management strategies, organizations can achieve sustainable growth, maintain compliance, and safeguard their financial and reputational standing in an increasingly complex regulatory environment. These findings emphasize the urgent need for a holistic and automated tax internal auditing framework to address the challenges posed by globalization and rapid regulatory changes.

The study is organized as follows. First the main dimensions of the study's background issues are introduced accompanied by a bibliographic overview. Then, the data and the methodology used in carrying out this study are presented. Accordingly, the main results obtained are commented. Finally, the main conclusions and their potential implications are discussed and evaluated.

## 2 Theoretical Background – Literature Review

Corporate governance and risk management are essential for maintaining operational stability, especially in times of financial crisis and economic uncertainty. Among the critical aspects of risk management, taxation stands out as a key factor influencing financial performance and sustainability. Studies by major international accounting firms highlight the importance of effective tax risk management, with large companies increasingly prioritizing this area (Türegün et al., 2022).

Tax authorities around the world are revising their audit sampling strategies to take a collaborative approach with high tax paying companies. This shift is focused on identifying systemic problems, providing compliance guidance and fostering a cooperative environment. However, tax violations such as evasion and fraud remain widespread. Their economic impact is often difficult to measure, but it is undeniably significant. For example, the OECD estimates that its member countries lose approximately 3.2% of GDP annually due to tax evasion, which reduces the liquidity of the state, and the quality of public services provided (Buehn & Schneider, 2016). Greece ranks among the European Union countries with the highest rate of tax evasion, although the country is subject to strict EU regulations designed to curb this issue (Voutsinas, 2017).

Efforts to mitigate tax evasion are increasingly relying on data science and digital tools to help identify fraud patterns and improve enforcement mechanisms. Despite this progress, challenges such as limited resources and the overwhelming amount of data often hinder the effectiveness of these initiatives (Chica et al., 2021). Governments have also adopted compensatory measures, such as levying liability fees, to recover lost revenue (Neuman et al., 2014).

Companies should take tax risks seriously as they can have a significant impact on long-term performance and operations. They have an impact on financial stability, company reputation and market share, making it vital to incorporate tax risk management into strategic planning(Donohoe et al., 2014; Leha et al., 2022). Increasing global pressure from tax authorities aiming to maximize revenue has necessitated a shift from simple compliance to comprehensive risk management approaches. Effective tax risk management not only optimizes tax security but also mitigates negative impacts on broader economic activities (Leha et al., 2022; Rompotis, 2024). At the same time, uncertainties in tax legislation and economic conditions can jeopardize the stable functioning and development of a company (Freedman, 2015).

Aligning corporate strategy with tax compliance efforts is particularly important given the variation in tax planning practices. For example, companies with innovative and risk-taking strategies often employ aggressive tax practices, while risk-averse organizations focus on sustainability and compliance (Higgins et al., 2013; Ihsan & Mustikasari, 2018; Sadjiarto et al., 2020) This dynamic highlights the need to integrate sustainable tax strategies into broader corporate frameworks. Research shows that such a focus not only improves long-term sustainability, but also reduces the risks associated with aggressive earnings management (Brühne, 2018; Neuman et al., 2020).

Taxation covers various areas such as corporate income tax (CIT), value added tax (VAT) and transfer pricing. Each of these areas presents unique challenges, so robust tax compliance mechanisms are an essential part of strategic planning.

## 2.1 Tax Fields

The calculation of CIT begins with the determination of the tax base—revenue minus allowable expenses— to determine the net profit, which is then taxed at a prescribed rate. However, complexity arises from jurisdiction-specific regulations and mandatory adjustments. For example, some tax systems allow deductions for capital costs related to the formation or transformation of a business, while others impose restrictions on the use of assets or payroll expenses. Withholding tax, another layer of complexity, acts as an advance payment mechanism where companies deduct taxes on behalf of other entities. Mismanagement of these processes often results in penalties, highlighting the need for strict compliance controls (Voutsinas, 2017).

VAT, on the other hand, is a consumption-based tax where businesses act as intermediaries to collect and remit taxes. This indirect tax is applied at every stage of the value chain of a product or service and is ultimately borne by the end consumer. However, VAT compliance is complicated by different tax rates and exemptions designed to prevent fraud. Businesses must maintain precise records and ensure compliance with either the invoice-based method, which is widely used around the world, or the account-based method, which is less common. These intricacies require sophisticated internal systems to effectively mitigate the risks.

Transfer pricing regulates transactions between companies within multinational groups and ensures that the transactions correspond to fair market values. This prevents the shifting of profits to low-tax countries and protects the tax base of high-tax regions. Transfer pricing guidelines are essential for fair tax allocation but require careful documentation and robust compliance controls. Failure to comply with these guidelines can lead to significant fines and reputational damage (de la Feria, 2015; Voutsinas, 2017).

Other tax risks that companies face include poor management of non-income taxes such as customs duties, errors in handling assets or inventory in regions with different regulations and insufficient collaboration between departments, which can lead to incomplete tax planning. Addressing these risks requires the collaboration of qualified professionals with diverse backgrounds who can work together to ensure efficient and effective management of tax obligations.

## 2.2 Tax Risk Management Frameworks

Tax risks are uncertainties related to future tax outcomes, including economic, regulatory and informational uncertainties (Neuman et al., 2020). Ernst & Young (2013) defines tax risks as factors that could negatively impact a company's financial, operational or reputational objectives. Research suggests that companies with a comprehensive tax control framework enjoy better relationships with tax authorities and are less susceptible to financial penalties (Siglé et al., 2022).

However, the implementation of tax risk management systems remains inconsistent across organizations. A study by Lavermicocca & McKerchar, (2013) revealed that only a handful of companies in Australia have a robust tax risk management framework in place. In addition, transaction risks, particularly those arising from mergers and acquisitions, require focused management attention to mitigate potential vulnerabilities (Neuman et al., 2014).

Tax risk is an important aspect of corporate governance and financial stability. Companies need to integrate comprehensive tax risk management systems into their strategies to manage the complexity of global taxation and the evolving regulatory environment. Effective tax risk management improves financial performance, protects reputation and ensures compliance, enabling organizations to thrive in competitive markets. By aligning their business strategies with sustainable tax practices, organizations can mitigate the risks associated with aggressive tax planning while optimizing economic results.

## 2.3 Internal Audit in Tax Risk Management

Internal audits make an important contribution to risk management by identifying, assessing and mitigating risks within an organization. It plays a critical role in improving organizational performance and resilience by systematically assessing risk management processes and providing actionable recommendations. Internal audits are associated with a perceived reduction in risk and an increase in performance. Audited entities report a greater reduction in risk compared to non-audited entities, highlighting the value of internal audits for risk management (Carcello & Eulerich, 2017).

Furthermore, internal audits contribute to risk management by coordinating with existing risk management structures. This coordination is crucial to align internal audit activities with the organization's risk management strategies (Coetzee, 2016). Internal audits also support the implementation of a risk-based audit, which is essential for identifying and addressing potential risks. This approach increases the reliability and trustworthiness of the audit process, especially in public sector organizations (Almgrashi & Mujalli, 2024).

As part of operational risk management, internal audit plays an important role by controlling the organization's activities and ensuring that they comply with the set standards. This helps to minimize future risks and improve corporate governance (Susilawati et al., 2024). In addition, internal audits raise risk awareness in organizations by highlighting potential risks and recommending urgent action. This proactive approach encourages self-assessment and monitoring of risks by individual work units (Jullianeth & Fitriany, 2024).

Internal audit teams are instrumental in identifying and managing financial risks, thereby protecting an organization's assets and interests. In addition, internal audit is crucial in managing fraud risks by detecting and preventing fraudulent activities, thus improving overall risk management (Abdieva, 2023).

In summary, internal audits improve risk management by reducing perceived risks, improving performance and supporting the implementation of a risk-based audit. They play a critical role in managing operational, financial and fraud risks, strengthening an organization's resilience and governance. Through systematic assessment and alignment with risk management structures, internal audit provides valuable insights and recommendations that help organizations effectively manage and mitigate risk.

Audit planning is inherently goal-oriented and anticipates the needs of the organization by defining objectives, considering available resources and aligning with the organization’s mission. Magupa (2018) identifies three important steps in audit planning: selecting an objective, assessing alternative routes and deciding on a particular course of action to achieve the desired objectives.

In practice, this means identifying and strategically planning processes to address specific issues, such as the desired outcomes and the means to achieve them.

Planning is essential for internal auditing as it enables auditors to perform their duties with efficiency and precision. Pitt (2014), considers audit planning as a strategic platform where auditors initiate, arrange and organize action plans for an audit period and align them with corporate objectives. Moeller (2009) highlights the importance of planning as a fundamental tool for auditors that enables them to address organizational risks effectively and with minimal resources. By promoting integrity, accountability and a forward-looking approach, internal audit can significantly increase its value to the organization's management and stakeholders (Ridley & Chambers, 1998).

Internal audit activities encompass a variety of tasks aimed at adding value to an organization. These tasks are critical in determining the areas that internal audit should prioritize, often in collaboration with risk management departments. The process of prioritizing auditing efforts is at the heart of annual audit planning, which involves developing strategies and methodologies to ensure that audits are conducted efficiently and effectively.

Internal audit planning also plays a critical role in fraud prevention and risks in operations. Auditors who anticipate potential problems and formulate their strategies effectively contribute to the efficiency of the organization. The ability to anticipate, evaluate and formulate measures therefore remains a key success factor for internal auditors.

A major turning point in tax risk management was the introduction of Section 404 of the Sarbanes-Oxley Act (SOX 404), which emphasized the role of internal controls in managing tax risk. One notable observation is that approximately 30% of the adverse opinions filed annually under SOX 404 relate to tax matters. This underscores the need for comprehensive audit planning to effectively manage tax obligations, especially in an era of globalization and rapid regulatory change.

Organizations operating in different geographic regions need to consider a range of tax risks as part of their internal audit plans. These include the assessment of global tax risks that may arise from the outsourcing of services to foreign shared service centers or the restructuring of supply chains. Such initiatives lead to tax liabilities that need to be addressed immediately, even if the tax department is not directly involved. Another major challenge is the knowledge gaps in tax departments, which must constantly keep up to date with the latest regulations and findings in order to avoid compliance issues and financial losses (Ernst & Young, 2013).

The integration of internal auditing into tax risk management plays a critical role in addressing these challenges. By facilitating interdepartmental communication, internal auditors improve transparency and alignment, ensuring that organizations remain compliant while minimizing vulnerabilities. This integration also strengthens the organization's ability to proactively manage tax risk and maintain stability in a rapidly evolving regulatory environment.

Figure1 below summarizes some of the most recent studies on the subject, analyzing the data used, the methodologies applied, the country of reference and the main findings obtained.

**Figure 1: Summary of Studies on Tax Risk and Compliance**

| Authors | Year | Data | Country | Method | Main Conclusions |
|---|---|---|---|---|---|
| **Kounadeas T., Eriotis N., Boufounou P., Donta S.** | 2022 | Taxes and fines assessed in the case of K.E.M.E.P., and K.E.F.O.M.E.P. and foregone profits identified during audits in the case of K.E.D.D.E. | Greece | Regression analysis | Number of audits carried out greatly enhances the fight against tax evasion. |
| **Eberhartinger E., Eßer M.** | 2021 | Questionnaire responses from tax experts of HM firms about perceived tax risk at present time and changes in tax risk due to transactional risk, operational risk, compliance risk, financial accounting risk, management risk, reputational risk, and portfolio risk. | Austria | Statistical Analysis, Mediation Analysis, Robustness Tests | HM firms experienced decreases in tax risk and compliance costs—differences appear to be mediated by an increase in tax certainty. |
| **Nguyen T., Pham T., Truong T., Tran M.** | 2019 | Responds to a hypothetical questionnaire developed for participants to answer about tax compliance. | Vietnam | Regression analysis | Audit probability strongly affects voluntary and compulsory tax compliance. Business ownership affects both voluntary compliance and tax compliance. |

| | | | | | |
|---|---|---|---|---|---|
| **Guzela S., Ozerb G., Ozcan M.** | 2018 | Data were collected online and through paper-and-pencil questionnaires from audit professionals asked about tax compliance, the perception of tax justice, and trust in government. | Turkey | Cronbach alpha test, Regression Analysis | Trust in government has a positive and statistically significant relationship to tax compliance. A perception of tax justice has a positive and statistically significant relationship to tax compliance. |

## 3 Sample and Methodology

This study aims to investigate the extent to which companies and internal audit practitioners implement processes for the management of tax risks and whether effective internal controls are in place to address these risks in large companies in Greece. In particular, the study examines the adequacy of internal auditing controls for corporate income tax (CIT), value added tax (VAT) and transfer pricing applications.

Furthermore, the study examines whether the risks of tax evasion and fraud in these tax areas are effectively managed. It also examines the potential benefits that large entities could realize by implementing robust control systems tailored to these tax fields.

The hypotheses focus on whether internal controls and processes sufficiently mitigate tax risks and whether their optimization would bring significant benefits to organizations.

A quantitative research approach was adopted for this study, utilizing an online survey to collect data from active internal auditors, external auditors and risk management professionals. These individuals provide their services either in-house, under outsourcing contracts or audit engagements or work mainly for large entities in Greece. Although interviews are recognized as a more thorough method of data collection for complex cases, the online survey was chosen for its efficiency and wider accessibility. The research conduct ensured the informed consent of research participants and guaranteed their anonymity.

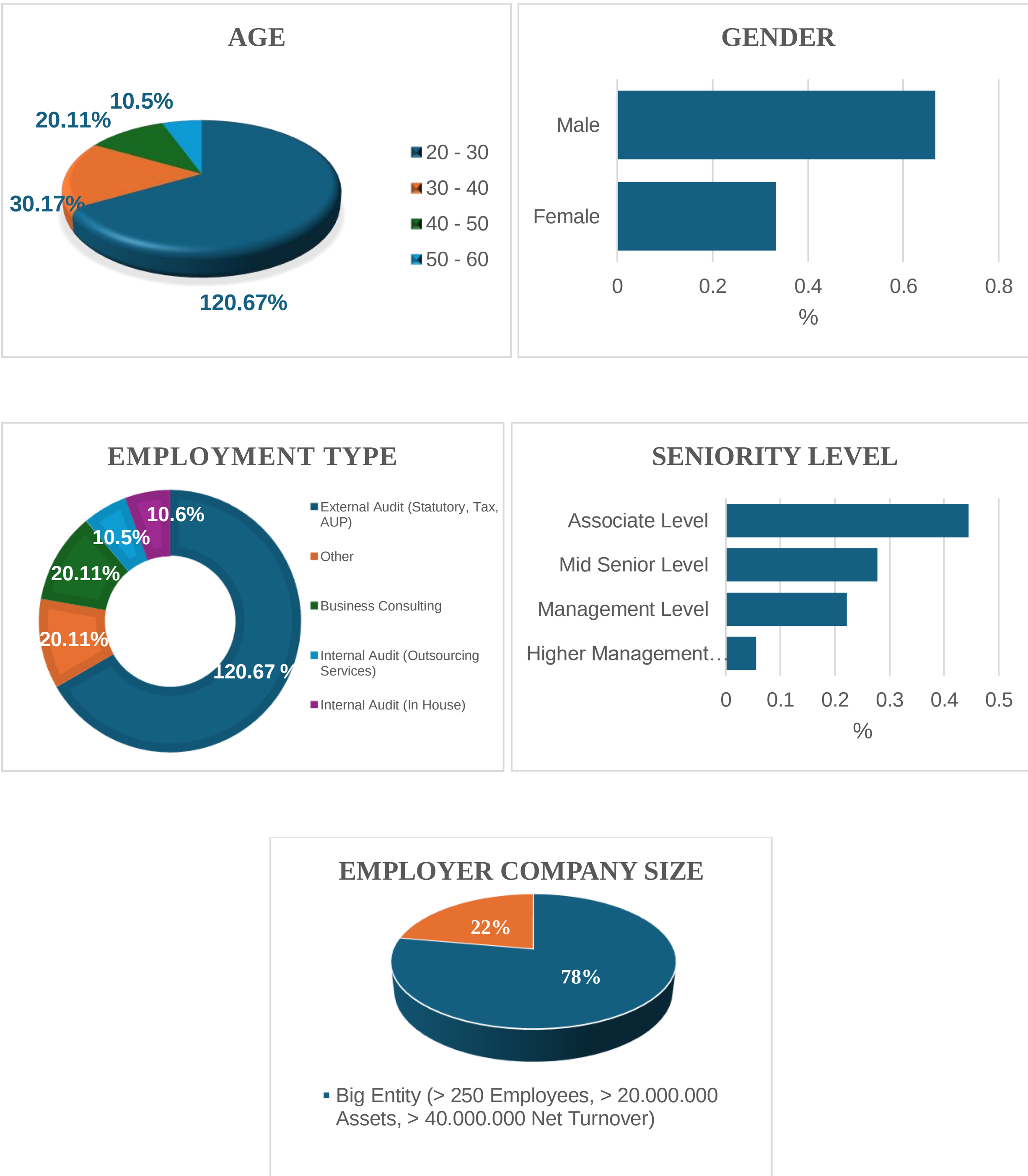
The questionnaire was structured to evaluate both the existence and effectiveness of controls over CIT, VAT and transfer pricing risks. A mixture of 25 questions, both quantitative and qualitative, was used to determine whether client companies were willing to review and update existing controls to address evolving risks. The survey was conducted over a two-month period, from August 1 to September 30, 2022. 181 responses were received, providing a solid database for analysis.

The survey focused on collecting demographic and professional data from participants, including their experience with the three targeted tax fields (CIT, VAT and transfer pricing tax areas).The demographic and professional characteristics of the sample, as presented in Figure 2 below, provide important insights into the results of the survey and help contextualize the data. More specifically:

- ***Age.*** Most participants were professionals between the ages of 20 and 30, representing 67% of the sample. This group reflects the younger demographic of professionals actively working in the auditing and risk management fields. Participants in the 30-40 age group accounted for 17%, while 40–50 and 50–60-year-old participants accounted for 11% and 5% respectively. The predominance of younger participants underscores the dynamic and evolving nature of the field among emerging professionals.
- ***Gender.*** The male participants made up about two thirds of the sample, while the female participants accounted for the remaining third. This gender distribution reflects the general trend in the industry, where male professionals often dominate in the areas of auditing and risk management.
- ***Employment type.*** A significant proportion of participants (67%) were employed in external auditing, including statutory audits, tax audits and agreed-upon procedures (AUP). This group is particularly relevant to the study as the nature of their work requires a comprehensive understanding of tax compliance and risk management. The remaining participants were spread across other fields, including management consulting (11%), internal auditing (outsourcing services, 11%), internal auditing (in-house, 6%) and other related professions (5%).
- ***Seniority Level.*** Most participants held associate-level positions, which accounted for 45% of the sample. Mid-senior- level professionals made up 25%, while management level professionals made up 20%. Senior management level participants accounted for only 10%. This distribution suggests that a significant proportion of respondents are in operational roles, which is consistent with the technical and process-oriented focus of the study.
- ***Employer Company Size.*** The majority of participants (78%) were employed by large entities, defined as organizations with more than 250 employees, assets of more than 20 million euros and an annual turnover exceeding € 40 million. The remaining 22% worked for medium-sized entities, which are defined as organizations with up to 250 employees, assets under € 20 million and a turnover of less than €40 million. The predominance of participants from large entities ensures that the study also captures insights from organizations with more complex tax compliance and risk management requirements.

These demographics highlight the relevance of participants' backgrounds to the objectives of the study and ensure that the results reflect a diverse and representative understanding of tax risk management practices.

**Figure 2: Sample Characteristics**



The questionnaire also included specific questions designed to evaluate participants’ perspectives on tax risks and internal controls. These questions were tailored to explore the presence of CIT, VAT and transfer pricing risks within the participant’s employer organization or client base, past losses or negative impacts associated with incidents in these tax fields, the existence of internal controls to address these risks, the perceived preparedness of the organization or client to manage these risks, and the willingness of organizations or client to update existing controls to address evolving risks.The survey questions provided detailed insights into participants’ professional experience and their organizations' or clients' practices in managing tax risks. Key questions included whether participants perceived risks related to CIT, VAT or transfer pricing, whether their organizations had experienced tax loss incidents and how effective existing controls were.

Survey responses were analyzed to identify patterns and correlations between the presence of internal controls, prior incidents of tax loss and the perceived readiness of organizations to address tax risks. Demographic and professional data were also analyzed to assess how factors such as experience, seniority and company size influence tax risk management practices.

This approach provided a comprehensive understanding of the way large Greek companies manage tax risks and the potential improvements they could achieve by optimizing internal controls. The findings are discussed in the following sections, with a focus on the implications for internal audit practices and tax risk management strategies.

# 4 Results

## 4.1 Corporate Income Tax

The regression analysis for questions related to corporate income tax (CIT) reveals significant insights into the relationship between previous incidents, the presence of controls and the willingness of companies to address tax risks. As evidenced in Figure 3 below, there is a positive correlation between the occurrence of past incidents and the implementation of controls, suggesting that companies that have faced tax problems are more likely to take action to mitigate future risks. However, a negative relationship between perceived risk and preparedness points to a broader problem: many companies fail to anticipate and proactively prepare for future risks. This highlights a reactionary approach to tax risk management, where controls are only put in place after incidents occur. Figure 3 demonstrates the relationship between past CIT-related incidents, perceived risks, and the existence of controls.

**Figure 3: Regression Analysis Results for Corporate Income Tax (CIT)**

| Regression Statistics for Corporate Income Tax | | | | | | |
|---|---|---|---|---|---|---|
| **Statistic** | **Value** | | | | | |
| Multiple R | 0.563094428 | | | | | |
| R Square | 0.31707335 | | | | | |
| Adjusted R Square | 0.305345474 | | | | | |
| Standard Error | 0.49352134 | | | | | |
| Observations | 180 | | | | | |
| **ANOVA for Corporate Income Tax (CIT)** | | | | | | |
| **Source** | **df** | **SS** | **MS** | **F** | **Significance F** | |
| Regression | 3 | 1.990.528.948 | 6.635.098.498 | 2.723.836.752 | 1,61E-09 | |
| Residual | 176 | 4.287.249.824 | 0.243593709 | | | |
| Total | 179 | 6.277.777.778 | | | | |
| **Coefficients for Corporate Income Tax (CIT)** | | | | | | |
| **Variable** | **Coefficients** | **Standard Error** | **t Stat** | **P-value** | **Lower 95%** | **Upper 95%** |
| Intercept | 237.935.201 | 0.165645114 | 144.255.009 | 1,21E-27 | 204.915.178 | 269.869.923 |
| Did your employer have losses or other negative impacts related to Corporate Income Tax in the past? | 0.035100287 | 0.063213242 | 0.555267395 | 0.579461473 | -0.08965321 | 0.19853794 |
| Does your employer have potential CIT related risks? | -0.770075307 | 0.09237915 | -8.285.717.487 | 2,89E-10 | -0.95473478 | -0.586641136 |
| Does your employer have controls in place to address Corporate Income Tax risks? | 0.083810888 | 0.058043127 | 1.525.411.677 | 0.12895148 | -0.024621263 | 0.1924304 |

## 4.2 Value Added Tax

Figure 4 below illustrates the relationship between VAT-related risks, past incidents, and the existence of controls. The regression analysis for VAT-related questions similarly shows a positive relationship between the existence of controls and the ability of companies to manage risks effectively. However, the data also reveals a significant gap in planning for risks that do not appear as immediate threats. This suggests a lack of forward-thinking in managing VAT risks. Additionally, a negative relationship between the existence of controls and their effectiveness points to the failure of companies to update their systems in line with evolving tax frameworks. This finding underscores the importance of regularly revising and modernizing tax controls to remain effective in a dynamic tax landscape.

**Figure 4: Regression Analysis Results for Results for Value-Added Tax (VAT)**

| Regression Statistics for Results for Value-Added Tax (VAT) | | | | | | |
|---|---|---|---|---|---|---|
| **Statistic** | **Value** | | | | | |
| Multiple R | 0.6202583 | | | | | |
| R Square | 0.3896955 | | | | | |
| Adjusted R Square | 0.3750569 | | | | | |
| Standard Error | 0.5278789 | | | | | |
| Observations | 180 | | | | | |
| **ANOVA for Results for Value-Added Tax (VAT)** | | | | | | |
| **Source** | **df** | **SS** | **MS** | **F** | **Significance F** | |
| Regression | 3 | 30.956.522 | 10.318.841 | 37.030.733 | 1,33E-15 | |
| Residual | 176 | 49.043.478 | 0.2786561 | | | |
| Total | 179 | 80 | | | | |
| **Coefficients for Results for Value-Added Tax (VAT)** | | | | | | |
| **Variable** | **Coefficients** | **Standard Error** | **t Stat** | **P-value** | **Lower 95%** | **Upper 95%** |
| Intercept | 12.347.826 | 0.1767992 | 69.840.971 | 5,60E-08 | 0.8853634 | 15.837.019 |
| Does your employer have potential VAT related risks? | -0.4666667 | 0.0862023 | -54.136.244 | 2,00E-04 | -0.6367898 | -0.2965435 |
| Did your employer have losses or other negative impacts related to VAT in the past? | -0.0896595 | 0.0852601 | -10.198.966 | 0.3091774 | -0.2552203 | 0.0813073 |
| Does your employer have controls in place to address VAT risks? | 0.8956522 | 0.0907663 | 98.676.684 | 1,48E-15 | 0.7165217 | 10.747.827 |

## 4.3 Transfer Pricing

Figure 5 below highlights the relationship between transfer pricing-related risks, past incidents, and the existence of controls. The results show a strong correlation between the presence of controls and a company's ability to effectively manage tax risks. Specifically, tax risk controls such as transfer pricing policies and CIT compliance mechanisms were found to significantly improve a company's preparedness and resilience. These controls provided a structured framework for identifying and remediating potential vulnerabilities and ensured that companies could effectively mitigate emerging tax threats. However, as with CIT and VAT, organizations lacked proactive planning for future risks. Having controls in place significantly improved a company's preparedness to deal with emerging threats, highlighting their importance to corporate tax governance.

**Figure 5: Regression Analysis Results for Results for Transfer Pricing**

| Regression Statistics for Results for Transfer | |
|---|---|
| **Statistic** | **Value** |
| Multiple R | 0.891506096 |
| R Square | 0.794783118 |
| Adjusted R Square | 0.791285103 |
| Standard Error | 0.341468155 |
| Observations | 180 |

| ANOVA for Results for Transfer Pricing | | | | | |
|---|---|---|---|---|---|
| **Source** | **df** | **SS** | **MS** | **F** | **Significance F** |
| Regression | 3 | 7.947.821 | 2.649.277.061 | 2.272.097.496 | 2.83E-60 |
| Residual | 176 | 2.052.169 | 0.116600501 | | |
| Total | 179 | 100 | | | |

| Table 3: Coefficients for Results for Transfer Pricing | | | | | | |
|---|---|---|---|---|---|---|
| **Variable** | **Coefficients** | **Standard Error** | **t Stat** | **P-value** | **Lower 95%** | **Upper 95%** |
| Intercept | 0.30364323 | 0.07568 | 401.206.583 | 8,99E+00 | 0.154277 | 0.45292 |
| Does your employer have potential Transfer Pricing related risks? | -0.349355217 | 0.05978 | -5.842.266.497 | 2,47E-03 | -0.46735 | -0.21316 |
| Did your employer have losses or other negative impacts related to Transfer Pricing in the past? | 0.222157093 | 0.05028 | 417.724.477 | 1,74E+00 | 0.129213 | 0.321402 |
| Does your employer have controls in place to address Transfer Pricing risks? | 0.993552169 | 0.042719 | 232.581.026 | 1,45E-50 | 0.909246 | 107.789 |

## 5 Conclusions

This study reveals significant shortcomings in how companies deal with increasing tax risks. The results of the regression analysis and other findings from the survey show that many companies are failing to proactively manage tax risks and are instead taking a reactive approach after incidents have occurred. The statistics on tax fraud and the results of this study highlight the need to take immediate action to plan for future tax risks, rather than focusing solely on mitigating the consequences of past incidents.

In the past, tax planning was primarily a quantitative process. However, the evolving regulatory landscape now requires the inclusion of qualitative elements in tax planning. To adapt, organizations need to adopt a holistic model that integrates both quantitative and qualitative aspects of tax management. While operational business plans are critical, their success depends on companies' ability to meet the new regulatory requirements.

To maximize a company's chances of success, an automated and sophisticated internal tax audit plan must be developed. This plan should ensure that tax departments and internal audits are appropriately involved in the decision-making process before major initiatives are undertaken. The assessment of tax laws and regulations must be thorough and proactive.

To mitigate significant incidents of tax fraud and litigation, tax risk management must demonstrate consistent performance through the integration of advanced tools and methodologies, such as predictive analytics, automated compliance systems and ongoing training for employees. These measures not only streamline processes but also ensure compliance with evolving regulations and proactively mitigate risk. Companies should also consider integrating a tax compliance code of conduct into their corporate governance arrangements. This integration would promote accountability and foresight in managing tax risk and ultimately support sustainable growth and compliance.

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