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TAX COMPLIANCE RISK AS AN ELEMENT OF THE TAX RISK MANAGEMENT CONCEPT IN AN ENTERPRISE

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Abstract. *Research subject.* Compliance risk in the tax sphere, which is relevant today and provides for a constant increase in the level of voluntary compliance by taxpayers with the requirements of tax legislation by identifying and prioritising the risks of loss of tax revenues and implementing measures aimed at minimising tax risks. The study is based on changes in tax legislation, the introduction of a tax risk management system and indicators of tax efficiency of business entities at the legislative level. *Methodology.* Determination of the theoretical and methodological foundations of the tax compliance risk management system in the activities of enterprises together with innovations in the relevant legislative framework. Identification of the main risks, principles, segments of the tax compliance risk management system. Study of compliance risk indicators as one of the elements of improving the efficiency of tax risk management at the enterprise. The *purpose of the study* is to confirm the need to apply a tax compliance risk management system in the activities of business entities in the context of integration of domestic legislation and the modern economy in accordance with international standards. Determine the principles, segments and criteria of compliance risk introduced by the legislation. Determine the tax compliance risk indicators in accordance with the industry and class of business activity to ensure the appropriate level, which further ensures a reduction in the level of tax control over the entity's activities. *Conclusion.* The paper investigates the interpretation of compliance risk in the tax area as a set of measures for voluntary compliance with tax legislation. Implementation of a tax risk management system (compliance risk management) will ensure consistency and a unified approach to managing tax compliance risks for the State and business entities. The main compliance risks cover the processes from state registration of business entities to the final result - payment of taxes and fees to the budgets of all levels, which covers the process of administering taxes of business entities and is an integral part of business activities. The studied legislative principles of compliance risk based on international risk management standards provide for a comprehensive, flexible, focused and integrated tax risk management system, which at the same time is easy to adapt to the domestic economy. A new vector in the tax risk management system is the use of compliance risk indicators in the form of indicators of tax efficiency of business entities by industry and class of business, which will become the basis of a risk-oriented system in the future. Business entities, in turn, now have the opportunity to analyse these indicators to prevent and minimise tax compliance risks on their own using open data from tax authorities. The above-mentioned indicators and principles of compliance risk are an integral part of the tax risk management system (compliance risk) and their effectiveness depends on their comprehensive application in the activities of business entities and open co-operation with the tax authorities.

Keywords: compliance risk, tax risk at the enterprise, tax compliance, risk management systems.

JEL Classification: D8, G3, G32

1. Introduction

International risk management principles are gradually being introduced into Ukrainian tax legislation. The introduction of tax compliance risk into the activities of enterprises, together with innovations in the relevant legislative framework, is one of the stages of improving the efficiency of tax risk management at an enterprise.

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At the legislative level, the Cabinet of Ministers of Ukraine approved Resolution No. 1218-p "On the Implementation of the Pilot Project on the Functioning of the Tax Risk Management System (Compliance Risks) in the State Tax Service" dated December 27, 2023 to develop modern practices of compliance risk management (tax compliance risks) in accordance with the requirements of the National Revenue Strategy 2030, approved by Resolution No. 854, which defines the mechanism for the implementation and functioning of the tax risk management system (compliance risks) in the State Tax Service, which is the methodological basis and basic document for the practical implementation of the tax reform.

The implementation of the tax risk management system (compliance risk management) will ensure a systematic and unified approach to managing tax compliance risks for both the State Tax Service of Ukraine and business entities, which will help minimise tax risks and improve tax discipline.

The tax risk management system (compliance risk management) is designed to simplify the fulfilment of tax obligations for business entities by defining compliance risk standards, implementing a set of compliance control measures, and counteracting violations of tax legislation and tax behaviour standards.

The objective of the study is to provide an organisational and methodological framework for implementing a tax compliance risk management system at the State level, taking into account the current legislation, and to analyse the relevant indicators of tax compliance risk.

The tax compliance risk for business entities and the state is a new level of compliance with tax legislation, new requirements in the form of tax efficiency indicators, a new attitude to tax control and the image of business entities.

Accordingly, a new era of tax risk management in Ukraine is being built, with clear boundaries and requirements for businesses and their tax behaviour (with a focus on the appropriate level of tax payment).

2. Tax Compliance Risk Analysis

The topic of tax compliance and compliance risk has become a focus of scientific research. In particular, research works are aimed at studying the tax risk management system, the impact of legislative changes on tax compliance and the application of tax compliance in the activities of enterprises.

According to the research of scientist V. Kozlova, tax compliance is regulatory, i.e., characterised by significant regulation by the state, and the main purpose of tax compliance is to minimise financial, economic, legal and tax costs arising from violations of tax legislation. In addition, tax compliance ensures compliance with other regulatory requirements (IFRS, ISAs and other standards) that apply to the taxation process in the organisation (Kozlova, 2021).

P. V. Kolomiiets' statements are aimed at the fact that tax compliance is a set of motives and incentives for business entities that encourage them to know, understand and comply with the requirements of tax legislation, legislation on the payment of a single contribution to the obligatory state social insurance and to pay taxes, fees and charges (Kolomiiets, 2020).

In turn, O. Ye. Vlasova notes that there are five areas of tax risk within tax compliance: risk-free area (if taxes are legally accrued and paid, there are almost no risks); minimal risks (minor violations of tax discipline, which entails the payment of fines or penalties); high-risk area (when a violation of contractual discipline is recorded, the company risks only that it will either cover all the costs associated with such contracts or simply receive a profit much lower than expected; critical risk area (the risk of losing not only profit but also failing to receive planned sales revenues); unacceptable risk area (the risk of going bankrupt by paying excessively high tax penalties) (Vlasova, 2019).

In its conclusions, O. O. Osavoliuk defines tax compliance as the fulfilment of all requirements of tax legislation, rules and procedures related to taxation (correct and accurate preparation and submission of tax reports, timely payment of taxes, compliance with the requirements for registration and identification of taxpayers, as well as fulfilment of all other tax obligations) (Osavoliuk, 2023).

At the state level, in pursuance of the National Revenue Strategy until 2030, the Cabinet of Ministers of Ukraine adopted a resolution on the implementation of a pilot project on the functioning of the tax risk management system (compliance risk) in the State Tax Service (The Government Approved the Implementation of a Pilot Project on the Functioning of the Tax Risk Management System, 1).

The Resolution of the Cabinet of Ministers of Ukraine No. 1805-r dated 29 December 2021 approved the Action Plan for the Implementation of the Strategy for Reforming the Public Finance Management System for 2022-2025, one of the points of which is to develop a management strategy for tax compliance with the identification of taxpayer segments and risks for each segment, approaches to mitigating risks and preparing appropriate action plans.

The Resolution of the Cabinet of Ministers of Ukraine dated 25 July 2024 No. 854 "On the Implementation of the Pilot Project on the Functioning of the Tax Risk Management System (Compliance Risks) in the State Tax Service" (The Resolution of the Cabinet of Ministers of Ukraine "On the Implementation of the Pilot Project on the Functioning of the Tax Risk Management System (Compliance

Risks) in the State Tax Service", 2) is fully based on the international standard ISO 31000:2018 "Risk Management. Principles and Guidelines" and is in line with the recommendations of the Organisation for Economic Co-operation and Development.

The Resolution defines the term "tax compliance" as a set of measures taken by a tax authority within the framework of a pilot project to promote voluntary compliance by taxpayers with the requirements of tax legislation and other legislation, control over which is vested in tax authorities, if there are grounds, within the limits and in the manner prescribed by such legislation, by managing tax risks (The Resolution of the Cabinet of Ministers of Ukraine "On the Implementation of the Pilot Project on the Functioning of the Tax Risk Management System (Compliance Risks) in the State Tax Service", 2).

Accordingly, for companies, compliance risk in the tax area means a set of measures for voluntary compliance with tax legislation, which requires clarification.

The main types of risks associated with taxpayers' non-compliance with tax legislation have been identified:

– Registration risk is a case when persons who are obliged to register with a tax authority or register as payers of certain types of taxes are not registered with a supervisory authority or are not registered as payers of the relevant taxes;

– reporting risk is the case when taxpayers submit tax reports late or do not submit them at all;

– payment risk is the case when taxpayers pay taxes, duties, fees late or incompletely or not at all, which leads to the emergence or accumulation of tax debt;

– declaration risk is a case when tax revenues are reduced or may be reduced as a result of incorrect reporting (either by mistake or intentionally) (The Resolution of the Cabinet of Ministers of Ukraine "On the Implementation of the Pilot Project on the Functioning of the Tax Risk Management System (Compliance Risks) in the State Tax Service", 2).

These types of tax risks are the foundation of the tax compliance risk for taxpayers within the framework of prevention, minimisation and acceptance of tax risks at the enterprise. It is the legally established risks that build the tax risk management system at the enterprise.

The article defines the main principles of the taxpayer management system introduced into the risk management system of the State Tax Service at the time of implementation of the pilot project, and accordingly offers an interpretation of these principles for business entities (Table 1).

Table 1
Importance of the basic principles of the risk management system

Principle	Legislative definition	Definitions for enterprises
Integrated tax risk management	The principle of tax risk management, which provides for the experimental integration of approaches to its management into the activities of structural units.	The activities of the business entity are controlled by all levels of the State Tax Service and are concentrated directly in the territorial divisions, with the possible involvement of compliance managers of the tax service directly working with the company.
Structuring and comprehensive management of tax risk	The principle of tax risk management, which provides for a systematic and comprehensive study of all aspects of a taxpayer's activities in fulfilling tax obligations.	The main focus is on the "appropriate" fulfilment of tax obligations by the enterprise, achieving the level of industry average "tax efficiency" – paying taxes at the prescribed level.
Adapted tax risk management	The principle of tax risk management, which provides for the continuous adaptation and optimisation of risk management processes in accordance with changes in the external and internal environment.	Constant updating of tax risk indicators (monthly changes in the level of industry average "tax efficiency").
Inclusive (comprehensive) tax risk management	The principle of tax risk management, which provides for the comprehensive and timely involvement of stakeholders in the implementation of the pilot project, which helps to increase the level of awareness and validity of tax risk management.	Interaction with the State Tax Service on an ongoing basis.
Dynamic tax risk management	The principle of tax risk management, which allows timely anticipation and appropriate response to changes and events in the internal and external environment that affect the emergence, change or disappearance of tax risks during the implementation of the pilot project.	The readiness of the enterprise to intervene in the administration processes in the course of business activities to adjust the "tax efficiency" indicators.
Continuous improvement of tax risk management	Continuous improvement through training and experience gained during the pilot project.	Continuous improvement through training and experience to meet the requirements of voluntary tax compliance.

Source: compiled on the basis of (The Resolution of the Cabinet of Ministers of Ukraine "On the Implementation of the Pilot Project on the Functioning of the Tax Risk Management System (Compliance Risks) in the State Tax Service", 2)

The Order of the State Tax Service of Ukraine No. 813 dated 04.10.2023 approved the "Concept of the Functioning of the Tax Risk Management System", which implements and defines a comprehensive and unified approach to managing risks of compliance with tax legislation and other legislation for which the State Tax Service is responsible, integrating it into the structure, activities and processes of the service organisation (Progress Report on the Implementation of the Action Plan for the Implementation of the Public Finance Management System Reform Strategy for 2022-2025 for 9 months of 2023, 3).

The goal of the "Concept of the Functioning of the Tax Risk Management System" is to enhance taxpayers' tax awareness by warning them about risks, enabling taxpayers to independently eliminate risks, and directing tax control toward the activities of taxpayers who systematically violate tax legislation. This is achieved through the implementation of a tax risk management system that involves identifying, assessing, and establishing risks, as well as taking timely response measures to address or minimize the factors that have caused or may cause risks, along with mitigating the consequences of such risks (Progress Report on the Implementation of the Action Plan for the Implementation of the Public Finance Management System Reform Strategy for 2022-2025 for 9 months of 2023, 3).

The main advantage for business entities is the establishment of relations with tax authorities in the framework of tax administration and the availability of indicators and factors of possible tax risks that can be predicted, identified, assessed and eliminated independently in the course of business activities.

In accordance with legislative changes, the State Tax Service of Ukraine publishes a list of tax risks and tax risk management measures on its web portal for external stakeholders, including taxpayers; conducts targeted communications with experts, business associations, taxpayers, etc. (Progress Report on the Implementation of the Action Plan for the Implementation of the Public Finance Management System Reform Strategy for 2022-2025 for 9 months of 2023, 3)

The compliance risk management system can be used not only to develop tax compliance in the State Tax Service of Ukraine, but, with some adaptation, to develop tax compliance as a subsystem of the overall compliance system of taxpayers (Kurilov, 2024).

The level of tax compliance of businesses is directly related to the level of trust and understanding of the tax system and its administration. The majority of taxpayers want to comply and will do so if they are provided with the information they need to do so (Kurilov, 2024).

The main part of compliance risk management at an enterprise is compliance risk segmentation, which involves taking into account modern legal requirements and markers proposed by the state as compliance indicators, namely:

– Segments of taxpayers (individuals, individuals with high incomes; small, medium and large businesses; non-profit organisations, and so forth);
– main obligations (registration; reporting; filing; payment);
– main taxes (value added tax; income tax; personal income tax; unified social tax);
– sectors of economic activity;
– territorial location.

Accordingly, the above is of fundamental importance for building a tax risk management system at an enterprise (Table 2).

3. Analysis of Compliance Risk Indicators

Taking into account the above changes in tax legislation, it is planned to introduce relevant compliance risk criteria within each business area, within taxes and fees, mandatory payments and general compliance with the requirements of the current legislation. It is envisaged that, at the legislative level, the relevant indicators of compliance

Table 2
Building a tax compliance risk management system

Fundamentals of tax risk management	Actions of the State Tax Service of Ukraine	Actions of enterprises
Allocation of all tax risks by main types	Registration risk; reporting risk; payment risk; declaration risk	
Unifying the rules for determining tax risk	Creation of tax risk passports	
Centralisation of tax risk identification and mitigation measures	Establishment of an Expert Commission in the State Tax Service	Creation of units / departments / sectors / compliance risk managers at the enterprise
Systematic development of strategies to mitigate tax risks and their implementation across the entire STS vertical	General plan; segmental (sectoral) plans (individual sectors of the economy, segments of taxpayers)	General compliance risk plan; sectoral plans (by type of tax)
Self-evaluation of the effectiveness of the work carried out - periodic evaluation of the effectiveness of measures is envisaged	At the end of the Pilot Project, its results will also be evaluated	Assessing the results of compliance risk, adjusting the tax risk management concept according to the results obtained

Source: compiled on the basis of (Information Letter No. 6/2024: The State Tax Service is Implementing an Experimental Project, 7) with tax liabilities will be available to companies for consideration in their activities and will be of a recommendatory nature. However, given the policy direction of the National Revenue Strategy, these voluntary compliance rates for businesses will become the "overall average tax liability" (Table 3).

These indicators of tax efficiency of business entities are the first to be determined at the state level for the period July 2023 – June 2024 as indicators of business entities' performance separately by industry and taxation method without tax risks.

Accordingly, business entities that have different indicators from the above have tax risks of doing business from the point of view of the legislation. The tax consequences of not achieving the tax efficiency indicators include increased tax control, increased tax burden and tax expenses.

At the state level, the operation of the tax risk management system is determined for business entities by the following principles:

– Transparency. Unification of criteria makes the process of tax risk assessment clear to all market participants. This enables businesses to identify possible problems in advance and avoid them.
– Minimising interference. Automated tax risk assessment reduces the number of audits. The tax authorities will only interact with taxpayers if significant violations are detected.
– Efficiency. The system allows to quickly identify risks through automated algorithms, which speeds up the monitoring and response process.
– Unified approach. Unification of the rules ensures equal conditions for all payers, regardless of industry or business size, which creates a fair market environment (Unification of Rules for Tax Risk Assessment, 6).

Taking into account the published official information on the compliance risk norms, business entities can independently pay, adjust and redirect tax liabilities in accordance with the defined norms.

Table 3
Average indicators of tax efficiency of business entities by type of economic activity

Class of economic activity	Tax efficiency			Payment level		Average monthly salary
	VAT, %	CIT, %		ST (group III)	PIT	
	07.2023 – 06.2024	2023	07.2023 – 06.2024	07.2023 – 06.2024	2023	Q2 2024, UAH
Cultivation of cereals (except rice), legumes and oilseeds (section A, class 01.11)	1,87	2,27	0,84	8,09	-	11 057
Hard coal mining (section B, class 05.10)	7,82	0,18	2,52	-	-	10 702
Meat production (section C, class 10.11)	2,02	0,35	0,86	5,29	0,67	8 751
Electricity generation (section D, class 35.11)	4,34	1,41	1,58	13,29	13,4	15 384
Collection of hazardous waste (section E, class 38.12)	7,77	0,92	0,13	10,55	-	18 456
Construction of residential and non-residential buildings (section F, class 41.20)	2,88	0,5	0,63	4,33	0,96	8 655
Trade in cars and motor vehicles (section G, class 45.11)	1,37	0,49	1,1	4,64	0,35	22 911
Freight road transport (section H, class 49.41)	3,06	0,71	0,92	1,28	0,82	9 714
Operation of hotels and similar temporary accommodation facilities (section I, class 55.10)	2,71	0,68	0,93	3,69	1,73	8 180
Other activities in the field of information technology and computer systems (section J, class 62.09)	11,2	1,94	1,06	0,62	3,13	10 090
Financial leasing (section K, class 64.91)	0,82	0,7	1,42	-	-	42 984
Leasing and operation of own or leased real estate (section L, class 68.20)	6,54	0,95	1,67	7,29	3,87	9 680
Activities in the field of engineering, geology and geodesy, provision of technical consulting services in these areas (section M, class 71.12)	7,5	1,27	1,97	2,58	5,17	9 239
Market research and public opinion polling (section M, class 73.20)	11,52	1,6	0,98	0,82	2,31	24 854
Defence activities (section O, class 84.22)	5,62	0,77	0,39	0,73	-	16 474
Higher education (section P, class 85.42)	13,46	1,28	1,88	5,98	-	15 270
General medical practice (section Q, class 86.21)	5,66	0,83	1,35	6,98	4,59	10 145
Activities of sports clubs (section R, class 93.12)	2,24	0,33	1,76	3,76	2,11	35 310
Repair of communication equipment (section S, class 95.12)	1,66	7,54	5,89	1,38	2,89	8 046

Source: compiled on the basis of (Territory of High Tax Confidence, 5)

4. Conclusions

The implementation of international standards in Ukraine took a long time, but it contributed to the adoption of the most relevant legislative changes at the time. The tax risk management system, which includes compliance risks, plays an important role for business entities in ensuring compliance with the laws and standards of international co-operation, social behaviour and, as a result, makes a significant contribution to the economic and financial stability of business entities. Thus, the newly developed tax risk management system for business entities helps to increase the level of compliance, is able to prevent and minimise violations of tax legislation, and reduces the burden on tax administration for business entities.

It is determined that for enterprises, tax compliance means a set of measures for voluntary compliance with tax legislation.

The tax risk management system (compliance risk management) is designed to simplify the fulfilment of tax obligations for business entities by defining compliance risk standards, implementing a set of compliance control measures, and counteracting violations of tax legislation and tax behaviour standards.

The study conducted on the introduction of unified standards for determining tax risks provides for the same risk assessment criteria for all business entities, regardless of size and industry. The risks will be assessed in four main areas: registration, reporting, declaration and payment of taxes. The tax efficiency of business entities is becoming a key element in the analysis of tax risks in terms of tax evasion, understatement of tax liabilities and the use and spread of tax avoidance schemes.

The use of the tax sphere in the administration of compliance risk by business entities will become both a new challenge and an effective tool for taxation, planning and forecasting in the overall tax risk management system.

The first list of business entities that meet the compliance risk assessment criteria will be approved no later than the last business day of November and published on the fifteenth business day after its approval (December 19, 2024) (Territory of High Tax Confidence, 5). Consequently, further research prospects are to analyse the effectiveness of the tax risk management system, taking into account the quarterly recalculation of tax compliance risk indicators.

The issue of the objectivity of calculating the criteria for assessing compliance risks and individual tax efficiency indicators remains open and requires further research.

Tax compliance risk is a modern approach to monitoring and assessing tax risks, in particular through the automation and unification of risk assessment indicators. For the state, it means increasing the level of compliance with tax obligations by taxpayers, and for business entities, it means reducing interference by tax authorities in the process of conducting business.

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