



World Scientific News

An International Scientific Journal

WSN 104 (2018) 299-312

EISSN 2392-2192

Tax management in an enterprise

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ABSTRACT

Every business sets goals for itself in the course of its operations. One of them is to maintain financial liquidity and strive for profit optimization. It is worth noting, however, that in achieving these goals, taxes play a decisive role. One of the problems that arise in managing an enterprise is a considerable tax burden that affects the company's financial problems. However, in the Polish tax law system, there are ways that give the entrepreneur the opportunity to choose the place of running a business, how to settle taxes, and the possibility of deciding on the legal form of economic activity. Each of these choices affects the size of tax burdens and the financial situation of a given enterprise

Keywords: tax optimization, tax planning, tax risk, tax strategy

1. INTRODUCTION

Some time ago, most people did not associate tax optimization. Tax optimization was mainly associated either with a tax fraud or the exclusion of paying taxes. By tax optimization, one should understand the use of standards (in the development and implementation of activities) that are permitted by law. In addition, by reducing the tax burden, these activities seek to intensify the net result of a given economic entity. However, tax planning should be understood as activities that are lawful.

The immediate goal of tax optimization is to initiate actions that will interest in reducing the amount of financial burdens to the best possible level for a given taxpayer. However, everything must be within the limits of applicable law.

Effective tax optimization applies to every area of the company's operation, including a proper analysis of costs, revenues, tax analysis, taking into account possible tax burdens and economic events.

2. OPTIMIZATION IN THE MANAGEMENT OF TAXES

In order to productively implement financial tasks, entrepreneurs are obliged to look for solutions that allow optimization of the income tax amount. [18] Entrepreneurs may take advantage of systemic gaps or legal provisions in force. The company is governed by its own specificity of activity and uses only those methods which will mainly contribute to the reduction of tax risk and effective tax rate. The activities that the company will undertake for this purpose are presented below. [15]

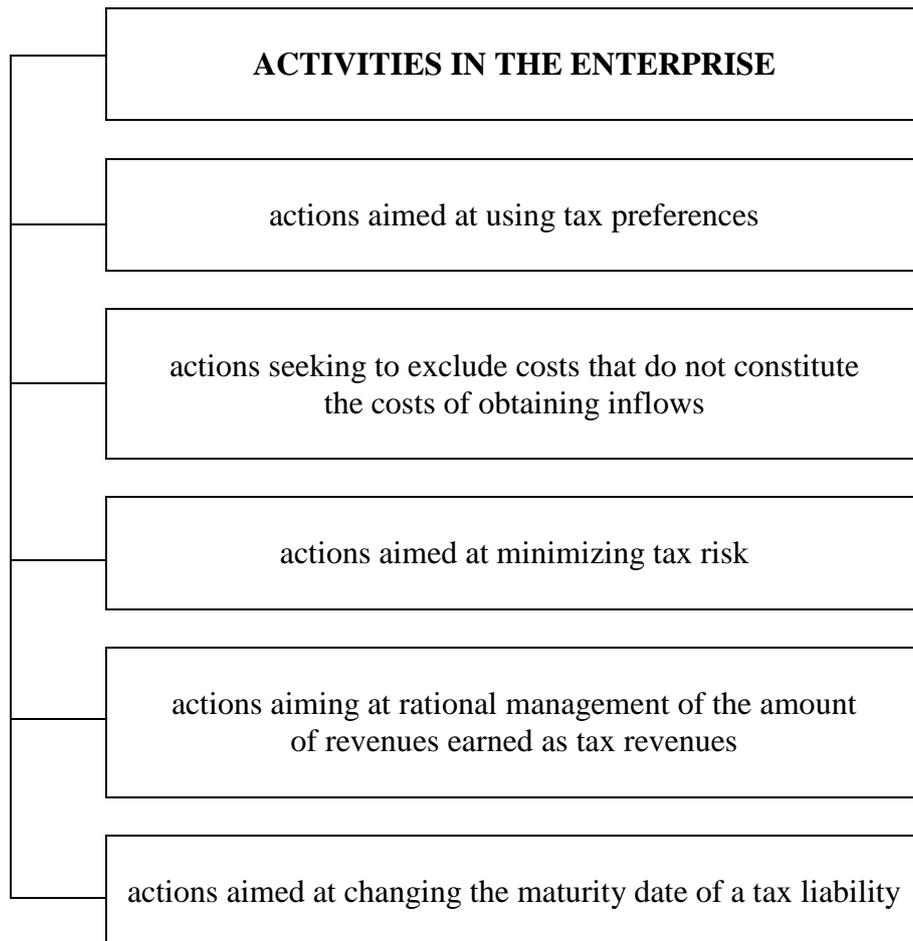


Figure 1. Activities undertaken by the company

Source: Own elaboration

The reduction of unfavorable results of redistribution of earnings by public authorities is considered to be a crucial optimization condition. Meanwhile, the restrictive requirement is the available set of tax instruments and non-tax instruments. [1]

In order to be able to best define a tax strategy, whose main goal is to improve tax regulations, the time of carrying out economic incidents in an enterprise should be considered. Taxpayers can take various strategic attitudes that are carried out in three dimensions. [8]

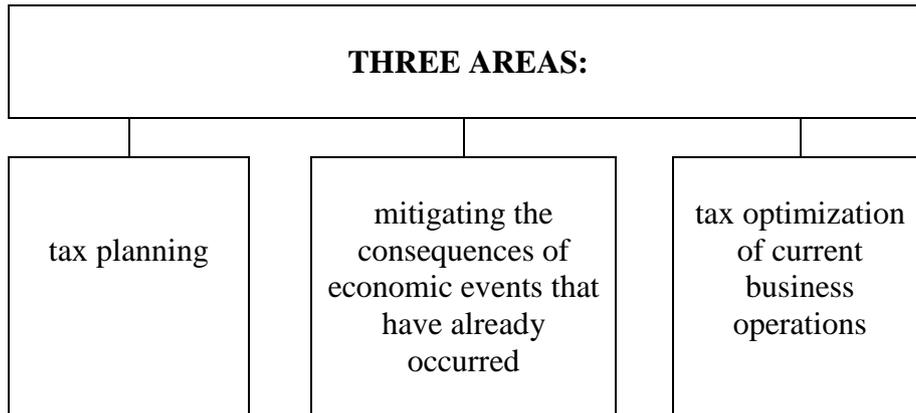


Figure 2. Strategic attitudes of taxpayers in three dimensions.
Source: Own elaboration

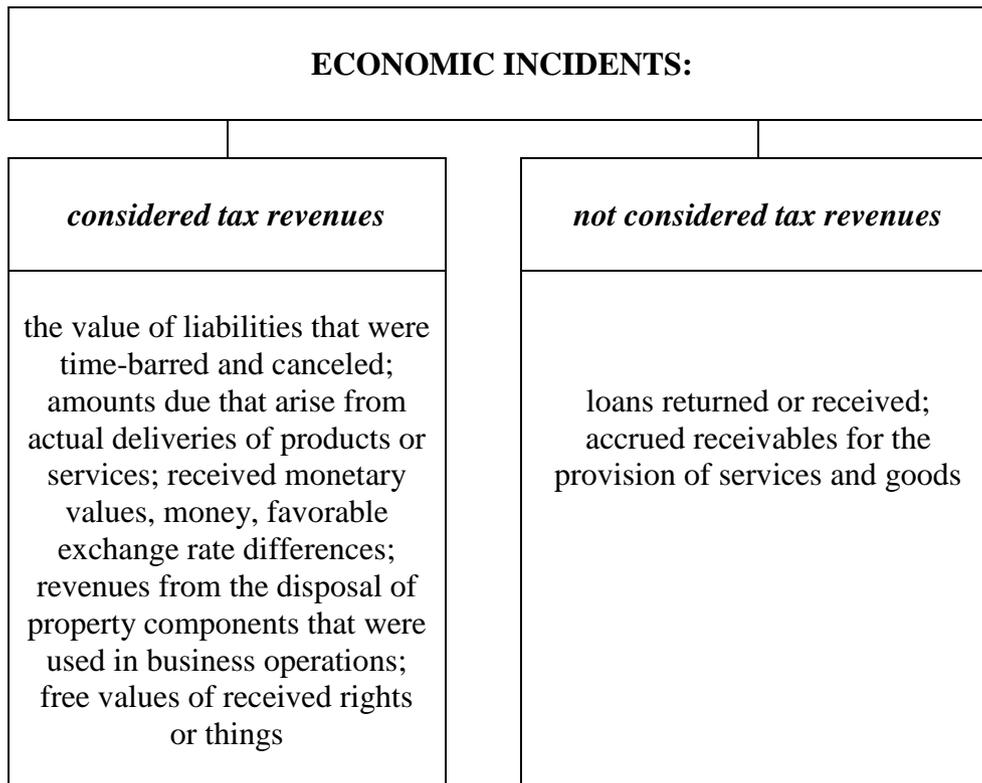


Figure 3. Economic events considered as tax revenues
Source: Own elaboration

An entrepreneur who would like to manage the category of tax revenue should take into account its value, type and the moment the tax obligation arises. The figure below presents a list of tax revenues and economic events that are not included in this group. [1]

The entrepreneur determines the value of the price, which is the value of tax revenue. In addition, it may to a certain extent control the occurrence of income, because the delay of the date of sale allows for postponing the payment date of the advance or tax, and this definitely serves to maintain liquidity. [17] It is also possible to speed up the processing time. This allows you to show the basis for writing off tax deductions and losses. [2]

Taxes also include sound cost management. The costs that have been incurred to obtain inflows are recognized as tax-deductible expenses. Costs are excluded which are not considered costs to achieve tax purposes.

Tax depreciation is considered a kind of tool that is used to create costs at an appropriate level. When building costs, the taxpayer does not incur any expenses other than those which he had to incur when purchasing the asset subject to depreciation. Tax and legal amortization are subject to legal and intangible assets included in the Personal Income Tax Act as well as fixed assets. It is the taxpayer who decides which depreciation method is best for him. [16]

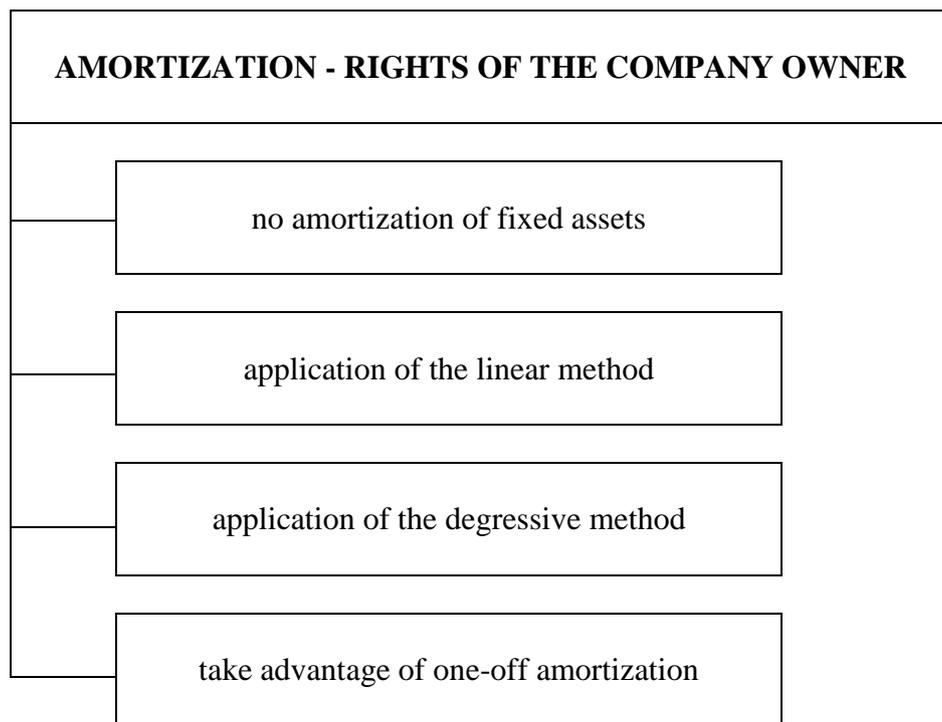


Figure 4. Rights of the entrepreneur

Source: Own elaboration

Depreciation can be owned or co-owned by a taxpayer purchased or manufactured, complete and suitable on the day of their acceptance for use, machines, equipment, means of transport, premises, buildings, buildings that are independent property, as well as items that are used for related purposes with conducted business activity, or items that have been handed

over for use under a lease, lease or other contract, and the duration of their use is planned for a period longer than 12 months.

There is also a chance of using non-amortization of fixed assets and taking into account the expenses for their purchase as the costs of obtaining inflows. It is a chance to create an instant cost. In terms of depreciation, tax management is important when using parameters that increase the amortization rate, while choosing the regularity of amortization write-offs and depreciation methods. In the degressive method, the index at increased depreciation rates is not higher than 2.0. Write-downs are calculated from the initial value. In each subsequent year, this value is reduced by write-offs that have been made in previous years. This method is aimed at enterprises that want to reduce the tax base, and also show relatively high inflows.

If the depreciation rate is reduced, the taxpayer has the right to reduce the depreciation rate at any rate for each fixed asset. It is important that there is no restriction on the amount of the rate reduction.

One of the methods is also the option of applying own depreciation rates. Depreciation charges are made throughout the depreciation period - from the initial value in the same payments. However, such a situation is possible if depreciation is subject to fixed assets, which were previously used for a minimum of 6 months, or were improved, and the costs for this improvement amounted to 20% of the initial value. A one-off depreciation write-off consists in qualifying expenses for acquiring a fixed asset to the costs of obtaining inflows. Each taxpayer should decide on this method, which in his opinion allows him to pay the lowest possible tax.

The optimization tool is also an opportunity to implement bad debt into tax costs. The principle of accepting amounts due as a tax effect is an essential element of financial risk for the investor. If the creditor does not comply with the obligations, the taxpayer does not recover the funds included or the tax he has previously incurred.

In turn, the tax credit gives the chance to postpone the date of payment of income tax. A taxpayer who first took up a business may take advantage of postponing the date of payment in the tax year. The loan taken must be settled within five years. However, each tax year the taxpayer is obliged to pay 20% of the amount due. To be able to take advantage of this relief you must be a small entrepreneur. [14]

Another element allowing tax optimization is the right to reduce the tax base by the costs allocated to innovative technologies as well as the right to deduct tax loss. [11] Within five years, the amount of the reduction can not be higher than 50% of the amount of the deficit. The decision related to the amount of take-offs in future years depends on the taxpayer. [1]

3. AVOIDING AND REPEATING FROM TAXATION

In recent years, escaping taxes has become quite popular. The situation occurred due to the fact that almost all entities that are obliged to bear tax burdens are interested in reducing the tax burden. [9] The law prohibits taxpayers from evading taxes and avoiding taxes.

In tax avoidance, the taxpayer uses gaps in legal provisions. However, these types of behavior are not easy to recognize, because the steps that have been taken to avoid taxation do not usually constitute a direct violation of the law and are not noticed by the tax authorities. Their recognition often requires the tax authorities to take non-standard actions or actions that

deviate beyond the procedural possibilities. Taxpayers who strive to avoid tax are aimed at achieving a pre-determined economic goal.

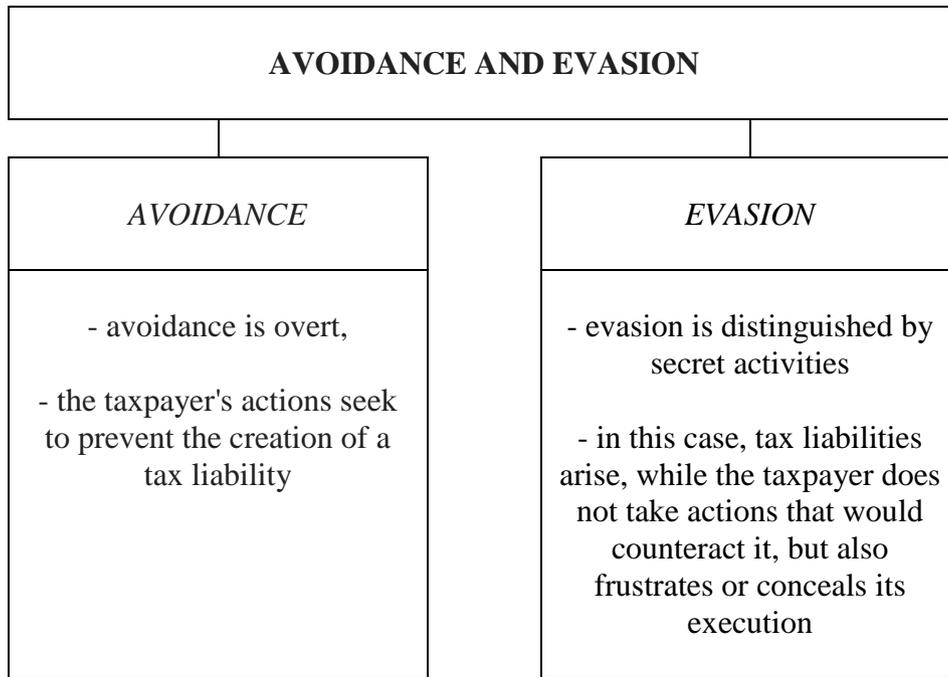


Figure 5. The difference between tax evasion and avoidance.
Source: Own elaboration

When investigating the fact of tax optimization, one can not ignore the dates of avoiding and evading taxes. Evasion of paying taxes is a procedure that is aimed at reducing or not paying the amount due to the state. Taxpayers use legally banned tools for this procedure. In this case, the owner of the company derives tax profit by using unlawful activities in the form of securing the receipt of income, improper administration of books. Often, such an entrepreneur uses blank invoices. [4] The purpose of tax evasion is to reduce liability for taxation in a false way. Enterprises tailor specific situations to specific conditions, the ones that are best for them. The best method to avoid paying taxes is to refrain from obligations that cause tax burdens.

Avoidance is not concealed, while evasion is secret activities aimed at concealing undesirable assumptions. [3] The obligation is not regulated in any way in the event of tax evasion. However, the taxpayer hides or prevents collection of these taxes. In turn, if we are talking about avoiding paying taxes, then in this situation, the taxpayer performs all activities that do not allow the tax burden to arise. Tax avoidance usually takes the illegal form by concealing the tax object, arranging insolvency, concealing the invoices and falsifying the eligibility. [7]

The most common method of tax fraud is to hide material objects that should be taxed. However, the least favorable consequences in terms of economic and fiscal are the total abandonment of the activity subject to payment of tax. [5] Unfortunately, there are rare cases

when taxes are so large that it is not profitable to maintain a business and is not able to provide a different, legal type of tax payment limitation [4].

In turn, tax concealment is aimed at unreliable accounting in an inauthentic manner. Such conduct prompts authorities to verify tax in terms of taxes paid in accordance with the tax declaration. Inaccurate classification is intended to hide the real situation with the help of false legal conditions. Such illegal practices are assisted by individual mechanisms for estimating the value of transactions using market prices [12].

Nevertheless, in practice it is difficult to establish a tangible line between tax avoidance and evasion. All actions give the taxpayer benefits. The common property of these illegal activities is that in both situations the taxpayer seeks to maximize income and profits. Unfortunately to the disadvantage of the budget. Revenue to the budget will be reduced.

Despite the fact that tax evasion and tax avoidance tend to reduce the tax burden, evasion is an act of abandonment, and avoidance is an act.

It should be remembered that tax evasion is always immoral and illegal. Repeal should be defined as behavior that seeks to unlawfully exclude the tax burden by not disclosing the resulting real state tax.

On the other hand, tax avoidance is an action that does not belong to the moral, but is in accordance with the provisions of applicable law.

4. TAX RISK

Tax risk is a specific type of risk. It is connected with the economic activity conducted by the taxpayer, as well as with the occurrence of unwanted consequences that come from ceasing in the area of business environment, regulations, as well as decisions taken by the enterprise.

Tax risk management is primarily an intended, planned and regular process. This process is an element of business entity management, which aims to minimize tax risk, and strives to initiate activities aimed at maximizing tax burdens. The doubts regarding the tax consequences of both current and subsequent business operations are considered to be the merits of tax risk.

Tax risk is associated with reducing amounts due and, as a result, with unused tax prospects or imposing sanctions. The consequence of tax risk is the occurrence of adverse effects on the part of the taxpayer. These effects can be both non-financial and financial.

The non-financial consequences should be understood as the risk associated with further business continuity, loss of creditworthiness, privileges, and reputation. By contrast, the financial effect should be understood as the obligation to bear costs intended for risk management, the missed opportunity for tax savings, as well as the obligation to incur unplanned costs due to penalties or tax. [14]

The goal of risk management is to reduce the extent of unfavorable incidents while taking into account all potential measures that are applied in a risk situation, as well as those that are expected before the risk arises. [10]

Risk management involves taking such measures that will be able to protect the taxpayer so that he or she does not incur a major start than previously assumed. It can be said that risk management is reducing the consequences of those threats that already occur, as well as reducing the possibility of further threats appearing. [14]

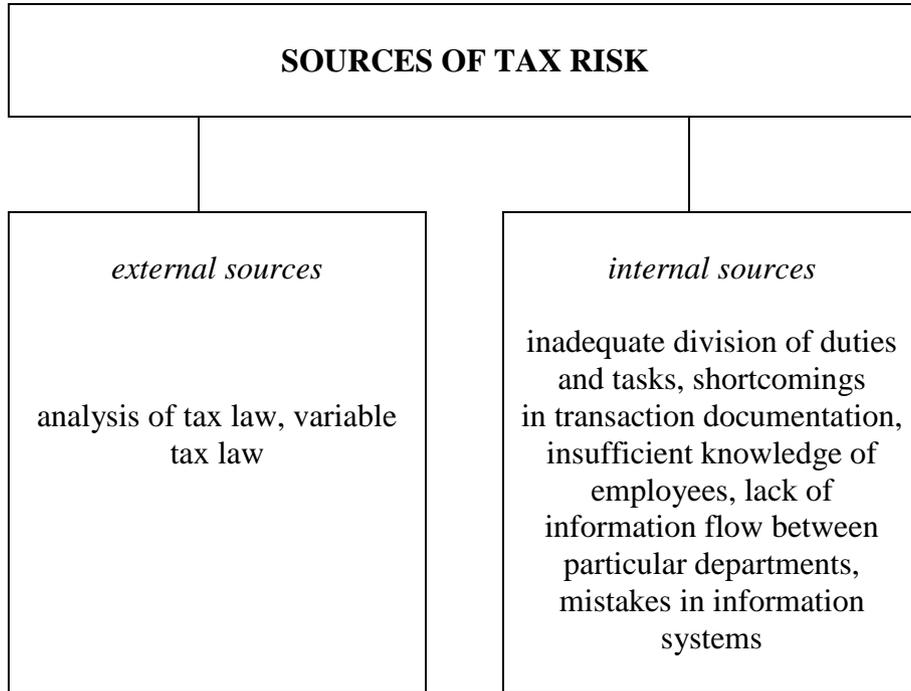
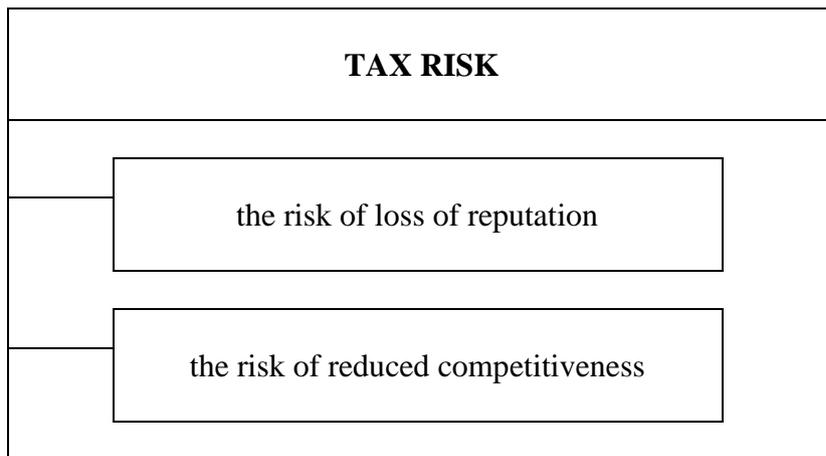


Figure 6. Sources of tax risk
Source: Own elaboration

The risk which depends on the actions of the entity may consist in the wrong determination of the moment the tax obligation arises or the entity fails to recognize the tax obligation. [1] There may also be an irregularity in determining the amount of the tax benefit, as well as the cessation of billing. [13] The risk associated with tax management lies in the greater taxation of economic operations as opposed to taxation, which is theoretically possible as a result of stopping tax management or making wrong decisions. Tax risk can also be discussed taking into account the consequences. This situation is presented in the drawing below. [14]



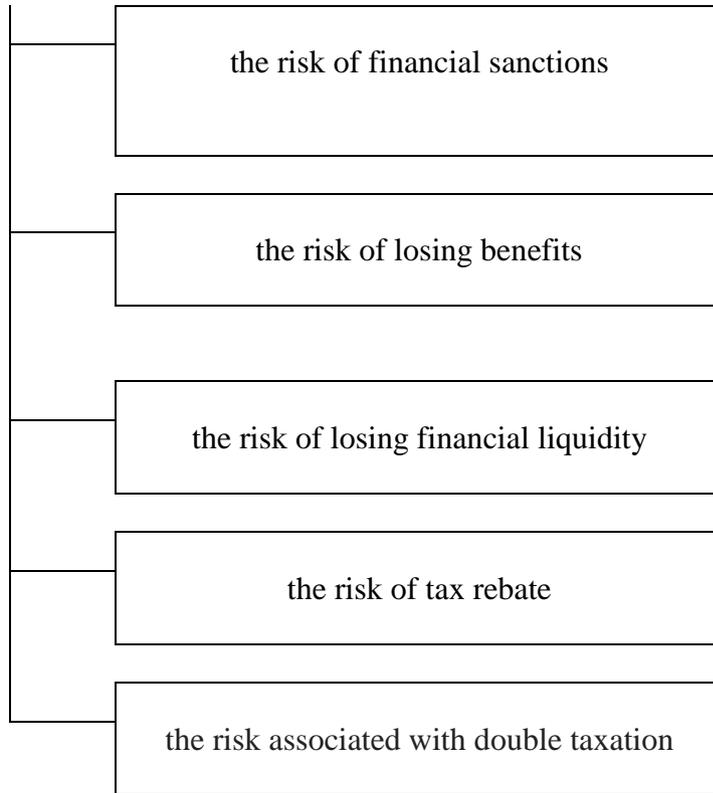
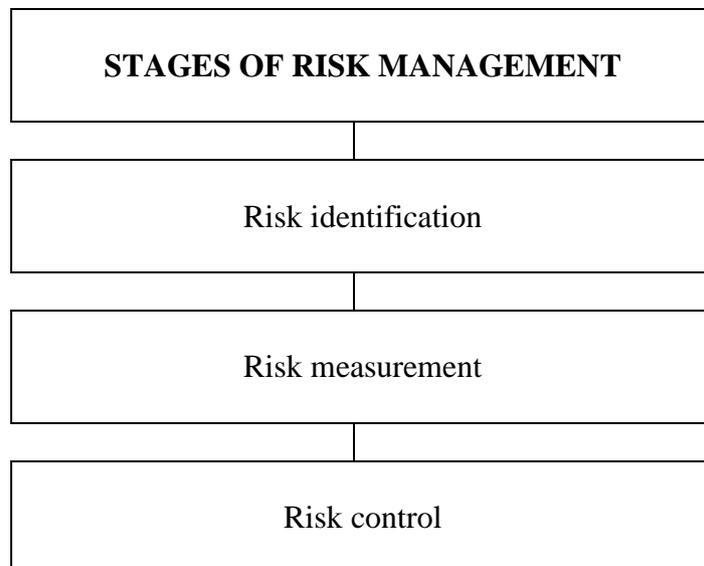


Figure 7. Tax risk
Source: Own elaboration

If the company intends to strive to efficiently counteract adverse consequences of tax risk, it should focus on the implementation of appropriate practices related to tax risk management. It is worth noting that this is a long-term process, not a one-off operation. The stages of risk management are presented below.



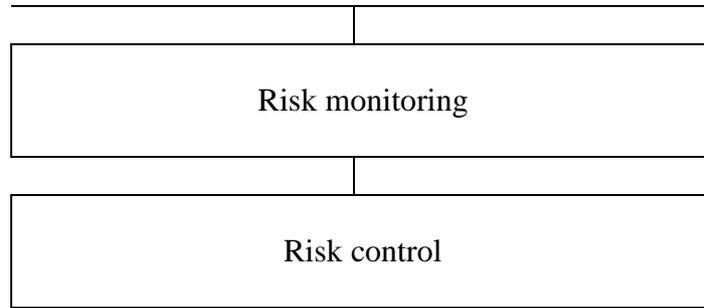
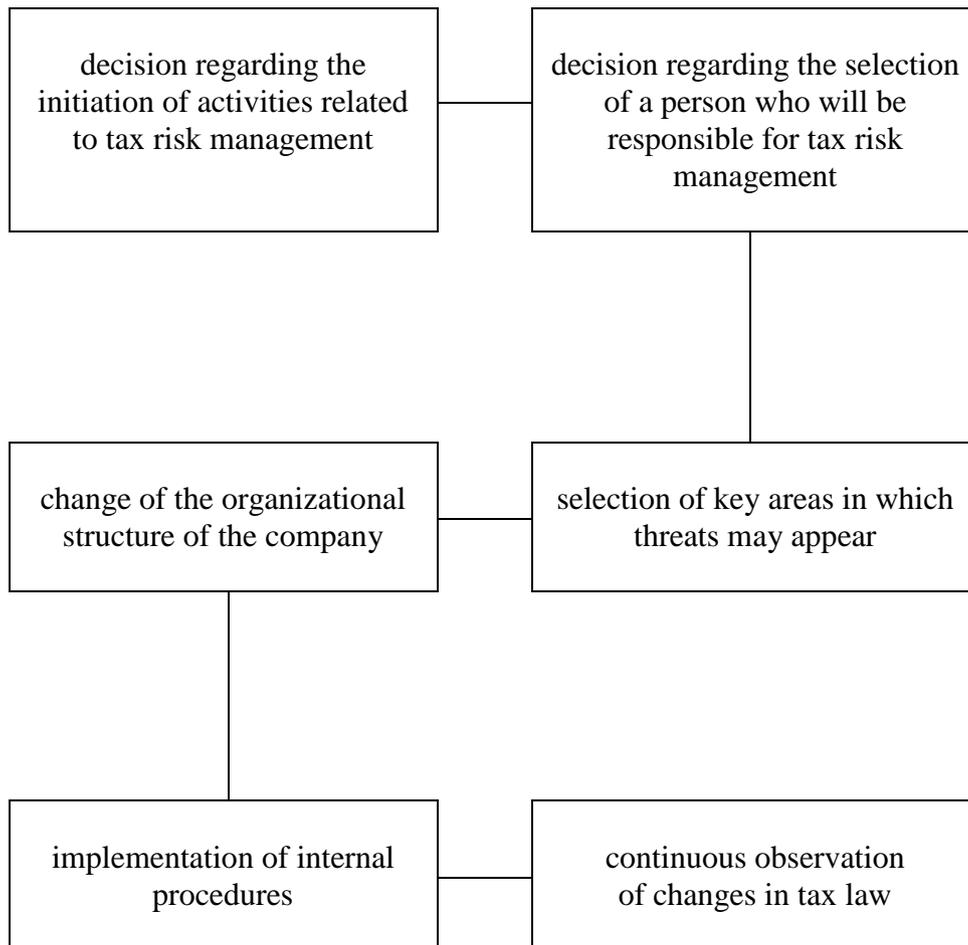


Figure 8. Stages of risk management

Source: Own elaboration

As the company grows, the risk management process should change. The individual stages related to creating an effective tax risk management system in the company are presented below.



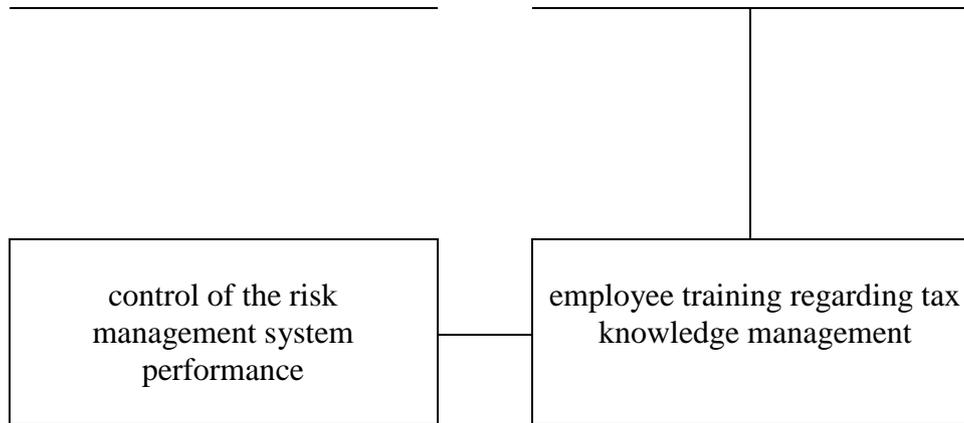


Figure 9. Individual stages of building a tax risk management system in an enterprise

Source: Own elaboration

When considering a decision related to the introduction of a risk management system, it should be noted that this decision should take proper form. [8] To be able to properly organize tax problems in the enterprise, the decision should have the director's management or be distinguished by the nature of the resolution. The enterprise can distinguish tax issues such as: appointing people who will be responsible for tax management in a given company, implementation or change of existing procedures in such a way that they highlight tax issues as well as possible change of the company's organizational structure.

In creating effective risk management it is important to present areas related to tax risk. This enables the persons responsible for risk management to be sensitized to a specific area of the company's activity. One should not forget about the constant examination of changes that occur in regulations in a specific area, court decisions and tax analyzes. [14]

In addition to appointing persons responsible for tax risk, the company should also implement appropriate practices. Do not focus on extensive activities, because after some time you forget about them or use them in the wrong way. We are dealing with an increase in tax risk. [14] In order for the implemented procedure to be effective, it should be written in the form of a simple instruction, which imposes specific behaviors on specific persons.

The proper management of tax knowledge is important. This knowledge consists in guaranteeing constant monitoring of changes in both tax regulations and analyzes. The training system provided for employees and a periodic check checking the correct functioning of the system is also extremely important. Usually verification consists in providing answers related to a given area of activity in an enterprise. A properly functioning system ensures an increase in the value of the company and its competitiveness.

5. SUMMARY

An enterprise is considered as an organizational unit that has been separated in terms of both economic, legal and organizational. An enterprise is created so that the entrepreneur can increase his assets. Increasing competition as well as the dynamism of changes taking place in

the market economy make it necessary to manage the company in the best possible way. However, business management is not a simple task. It is not only a difficult task, but also a responsible one. Firmly managing an enterprise should not be based on irrational decision making. Currently, the business environment is intricate and, moreover, it is changing very fast. That is why it is so important to have and use reliable knowledge about business management. It should be noted that the impact of taxation on financial effects that are obtained by individual economic entities is clear, clear and understandable. Profits which have been worked out by a given enterprise are reduced by taxation with turnover taxes and by taxation with income taxes. A large part of your earnings must be transferred to tax offices.

Undoubtedly, it can be said that taxes are a significant burden for entrepreneurs. In addition, they require entrepreneurs to make sensible decisions related to tax policy. However, tax policy should not be returned to evasion or avoidance [15-26].

Both the large competition and the current market mean that companies have to look after themselves, they can not afford either the lack of knowledge of applicable law or breach of these laws. Using the allowed optimization solutions allows you to change the due date of due tax, and also allows you to evade the payment of certain tax charges due to the proper classification and settlement of costs. However, in order for this to happen, one should remember not only about the proper planning of optimization but also its systematic implementation. Thanks to the application of optimization, the enterprise reduces the risks that arise from tax risk, minimizes tax costs and contributes to an increased market advantage.

Knowledge of tax instruments is necessary for their correct application. This knowledge depends, among other things, on specific company goals. The ability to manage taxes relies on the ability to economically benefit from reachable potentials. Tax optimization, sound tax risk management, selection of the best form of taxation as well as up-to-date making of business arrangements in the enterprise affect productive tax management. The legislator gives the entrepreneur the opportunity to choose the form of taxation. At the same time, he blames the risk of making decisions that should be the result of multiphase interpretations.

Business management entails the possibility of tax risk. For sound management of risk, each company should focus on clarifying the competencies and responsibilities of its employees as best as possible. In addition, the entrepreneur should strive to regularly manage the tax knowledge of his employees and create specific, transparent assumptions related to the exchange of information that are necessary for accurate analysis of tax obligations.

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