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CONTENTS

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CONTENTS

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Role of reputational risk in tax decision making by large companies

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Abstract

Companies are increasingly expected to contribute to the tax revenue in countries they operate in. This article explores the relationship between reputational risk and aggressive income tax decision making in la

1. INTRODUCTION

Large companies are concerned with the impact of negative publicity on their reputation. Their tax minimisation strategies have been identified by lobby groups and governments as a cause of reduced government capacity, as well as a possible solution to filling an increasing shortfall in income tax revenue collected by governments around the world. This attention potentially places pressure on high profile companies to take a less aggressive tax position than they would otherwise adopt. As highlighted by Forbes in 2013 quoting tax practitioner Hadley Leach, "[t]here has definitely been a trend toward more conservatism among corporations on international tax strategy. We're seeing a huge shift in perception around issues of reputational and audit risk and that's really starting to affect how companies approach tax planning."[3]

Disclosure requirements and community expectations increasingly place pressure on large companies to pay their 'fair share of taxes'. For instance, the recent authority[4] granted to the Australian Taxation Office (ATO) to publish data concerning a company's income tax payments is likely to increase pressure on reputational risk as interested parties will now be able to discover and compare companies' tax contributions. Likewise, Ernst and Young (EY) states in its international '2011–12 Tax Risk and Controversy Survey Report' that in its view "[c]ompanies now face unprecedented scrutiny and reporting of their tax affairs by advocacy groups and the media, often hurting brand reputation and—in the worst cases—shareholder value, even 3J1ona TcmT*

requirements under tax laws.[12] The individuals making the decisions with respect to tax strategy do so as agents of the company.[13] As agents, as long as directors and managers are acting within the limits of their authority, the common law agency principle makes the company accountable for its income tax and penalties. Corporate governance practices may be used to align the interests of the agent with those of the principal to ensure that a company's tax strategy is consistent with corporate goals and risk preferences.[14]

While the goals and objectives of a company should be the primary consideration in directors' and managers' decision-making, directors and managers do not operate in a vacuum. Their scope for defining company goals and objectives is limited by laws and other regulations including accounting standards and professional codes of ethics.[15]

The decision control systems within a large company typically separate management strategy making (initiation and implementation) and control (ratification and compliance monitoring). This separation also acts as a mechanism that regulates the directors' and managers' decision-making scope and ability.[16] The company's board of directors (the Board) has a key role in the ultimate financial performance of the company through its effective control of management decision-making to ensure the interests of shareholders are protected. In fulfilling its role, the Board appoints managers and company officers who together are the decision-makers with respect to the company's acceptable tax risk profile.

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advice of external tax advisers for determining the tax position taken by the company.[19] Times have changed. Now, in identifying tax risk management as a part of good corporate governance practices, directors are required to consider tax risk profiles and the tax implications of business decisions.[20] What is an acceptable tax risk profile for a particular company will ultimately be determined by shareholder objectives reflected in company goals including profit maximisation and perhaps, increasingly, a sense of corporate social responsibility ('CSR').[21] Before discussing our research we note relevant aspects of corporate social responsibility.

2.2 Corporate governance and social responsibility

In Australia, the UK and the US, corporate governance has traditionally focused on the interests of the financial stakeholders, typically shareholders.[22] In line with this, directors and managers seek to minimise taxes payable by a company (within the law) and to the extent that they do not, their actions could be considered inconsistent with shareholder objectives.[23] Increasingly, however, a sense of social responsibility is seen as important to large business and creates an expectation that company decision-makers should also act in a broader social context in making business decisions.[24] The appropriateness of aggressive tax planning

Investments Commission v Macdonald [No 11][28] *(*'James Hardie'*)*. The court in *James Hardie* [29] recognised that directors have moral responsibilities to a variety of stakeholders. The decision demonstrates that directors are required to make decisions after a consideration of the financial implications to the company as well as the moral implications. If this principle is also applied to the question of a director's stance on tax aggressiveness then directors should consider the company's moral requirement to make a 'fair contribution to the tax revenue' in making tax strategy decisions.

Following the line of thinking articulated by Justice Owen, and the decision in *James Hardie,* it could be argued that a company is expected to contribute to the revenue of a country in which they carry on business so that an aggressive tax position would be considered 'morally' unacceptable. To date no such moral responsibility exists under Australian law.[30]

CSR itself imposes obligations on a company to a variety of stakeholders in addition to managers and shareholders including tax authorities, communities, political groups, customers and the public.[31] For example, Muller and Kolk's research on multinationals operating in India found that taxation in developing countries is seen by multinationals as a CSR issue. Their research concluded that multinationals pay tax at considerably higher effective rates in India than do local companies.[32]

Although no specific legislative provision requires an Australian company to be 'socially responsible' the ASX Corporate Governance Principles require ASX listed companies to "act ethically and responsibly" (Principle 3).[33] Accountability for the consequences of tax decisions is a likely consequence of Principle 3 which requires more than "mere compliance with legal obligations and involves acting with honesty, integrity and in a manner that is consistent with the reasonable expectations of investors and the broader community".[34] That there have been three separate inquiries into CSR in Australia over the past nine years reflects the topical nature of CSR.[35] In addition, the global financial crisis in 2008 added to the pressure on large companies

amount of tax' encourages governments and bodies such as the OECD to look at taxation systems and provides support for a more heavy handed approach to corporate taxation.[47] The recent focus by the OECD on transfer pricing and tax base erosion, for instance, can be traced to a concern that multinational companies do not contribute sufficient taxes worldwide and that the current international tax agreements fail to address the shifting of profits to low tax jurisdictions.[48]

Companies traditionally have not considered the payment of taxes to be an important part of their socially responsible behaviour[49] although the ownership structure of a company may moderate this.[50] Where a company's strategic goals include not just economic or financial goals but do also convey a sense of social responsibility it is expected that the company will place a higher level of importance on tax compliance and tax contributions to government.

Lobby groups including the The Tax Justice Network, Occupy Movement and Uncut UK and Uncut US all push for a larger contribution to tax revenue by big business.[51] Publicised protests against alleged tax avoiders also have the potential to negatively impact on a company's reputation. Increasingly a social responsibility is recognised by companies in Australia and overseas and this may have an effect on a company's tax strategy.[52]

A HMRC report highlights that large UK companies weigh up the potential impact on their reputation when considering whether to take a tax aggressive position.[53] As Christensen and Murphy argue the "[d]irectors now need to recognize that aggressive tax-planning strategies are not compatible with long term sustainability and therefore may not be in the shareholder's broader interests".[54]

Difficulty exists in establishing whether a company is genuinely socially responsible. This in turn limits the ability to use published claims of socially responsible behaviour as indicators of tax aggressiveness. The role of CSR in reducing tax aggressive behaviour by large companies must be evaluated in the context of what Brunsson refers to as 'organised hypocrisy'[55] in which gaps arise between company talk, decisions and action. Sikka also argues that the CSR statements made by many companies are merely symbolic to "satisfy the demands from a critical external environment"[56] and the economic incentives for directors and management to increase

go to reduce its tax liability.[68] Additional regression analysis demonstrates that social investment commitment, company strategy generally and the specific CSR strategy are all part of a firm's CSR activities and have a negative impact on tax aggressiveness.[69] The identification of a negative connection between social responsibility and tax aggressiveness suggests that companies that do address social responsibility are more concerned with ensuring compliance with the spirit of the tax laws than those companies that do not.

2.3 Reputational risk from tax decisions

As we have already noted in relation to Starbucks and other highly visible companies, the link between tax aggressive behaviour and a company's reputation could encourage companies to take a socially responsible approach to tax decision making where it is anticipated that the negative reputational impact outweighs any tax savings from an aggressive tax position. Negative media reporting of high profile multinationals that fail to contribute to the tax revenue in the jurisdiction in which they carry on business are increasingly common, having the potential to negatively impact that multinational's profitability.[70]

Public opinion and perception, both directly and through the voice of the media, is a concern to large companies with 40 per cent of CEOs saying that the media had some influence on their company strategy and a further 12 per cent acknowledging that this influence was significant.[71] In 2013, a US Government Accountability Office (GAO) Report on corporate tax rates highlighted that U.S. corporations paid on average a 13 per cent tax rate in 2010,[72] a fact then widely reported in the media. The PricewaterhouseCoopers (PwC) Annual Global CEO survey, conducted in 2012 questioned 1038 CEOs in 68 countries about tax strategy and corporate reputation and the responses indicated that CEO's felt that corporate taxation has become a matter of public interest.[73]

According to the PwC survey the single biggest danger that CEOs of large companies face in developing tax strategy is reputational.[74] As stated in the PwC report

> [w]e're living in a world of 24-hour news and Twitter, a world where information is amplified and distributed in seconds and, most critically in the case of complicated tax arrangements, where complex issues are brutally summarised. Great damage can be done before a company has a chance to explain [its] position. Public opinion, even if it's based on inaccurate information, is powerful.[75]

Further data that indicates the significance of reputational risk associated with tax decision-making by large companies was reported by ACE Group (one of the world's

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[68] Ibid.

[69] Lanis and Richardson, above n 37, 105.

[70] Kleinbard, above n 41.

[71] PricewaterhouseCoopers, 'Tax Strategy and Corporate Reputation—a Business Issue' (2013) 7.

[72] United States Government Accountability Office, 'C

largest property and casualty insurers).[76] The biggest source of reputational risk for 21 per cent of the 650 risk managers in the ACE survey report was aggressive tax avoidance/tax evasion in the business environment.[77] Similarly, the Thomson Reuters 2012 Australia and New Zealand Tax Survey sought the views of tax directors, corporate tax managers, heads of tax and Chief Financial Officers (CFO) at major companies in Australia and New Zealand and responses indicate that over half of the respondents (56%) were concerned about reputational risk with regard to non-compliance with tax laws and its effect on shareholder value.[78] The 2014 annual global survey of multinational CFOs conducted by Taxand, the world's largest global organisation of tax advisors to multinational businesses, indicates that 76 per cent of multinational CFOs felt that the focus in the media on corporate tax planning activity has had a detrimental impact on a company's reputation.[79] In fact 31 per cent of the Taxand survey respondents felt that the intense media focus on tax planning has had an impact on their approach to tax planning.[80]

Whilst there is no clear and commonly agreed definition of 'company reputation' we use that proposed by Barnett, Jermier and Lafferty being "observers' collective judgements of a corporation based on assessments of the financial, social and environmental impacts attributed to the corporation over time".[81] Because a company's reputation can affect its value and income earning potential, reputational tax risk concerns the impact on the company that may arise from its tax decisions and actions if persons outside the company were to become aware of it.[82]

A potential negative impact on reputation as a result of a company adopting a tax aggressive position was not demonstrated in a pilot study of large companies in the UK in 2007.[83] Few of the respondents were concerned with the public's perceptions of their tax policy and planning behaviour. The authors suggest the lack of concern for negative publicity concerning tax aggressive behaviour could be due to the fact that in

Community expectations also place pressure on governments and revenue authorities to do something about the failure (perceived or actual) of large companies to contribute to the revenue. In 2013, for example, the CEO of Apple was required to testify at the Senate Permanent Committee on Investigations in Washington, explaining why Apple manages to pay so little tax worldwide annually.[86] Other high profile multinationals, for example Amazon (6%), Boeing (7%), General Electric valuable consumer brands use discretion inherent in financial reporting rules to report the benefits of tax planning more conservatively. In contrast Graham, Hanlon, Shevlin transparency of material tax transactions. Australia requires taxpayers to notify the ATO of any reportable tax position[102] and similar provisions exist internationally. Requirements to disclose information to the public are identified by Rice in an econometric study of small companies (assets between $US1 million and $US10 million) as encouraging tax compliant behaviour by a company.

'scare campaign' by the ATO to stop multinationals from shifting profits to countries with lower tax rates'.[110] The increasing importance of social responsibility and the greater community awareness in relation to the tax contribution of large companies through tax reporting and disclosure requirements mean that the reputational risk associated with tax decision making will be a significant tax risk for many companies.[111]

An additional concern identified, as a result of the disclosure of tax paid by large companies, is the risk that the information disclosed "may be misleading and it could do big damage unfairly".[112] Large business, governments and the OECD highlight that the publication of simplified tax figures may give a distorted impression of a company's tax contribution and result in misinformed impressions and decisions.[113] Despite this concern, research commissioned by the Tax Justice Network in Australia, indicates that there is widespread support in Australia to make corporate tax more transparent and almost two-thirds of respondents to the survey in 2014 felt negative about companies such as Apple for using loopholes to avoid tax, increasing substantially from 2013.[114]

As demonstrated by Starbucks, it is anticipated that reputational risks are, for many industries, a substantial concern. Our research proposition is that the complex issue of reputational risk will have an impact on a large company's tax risk management decisions and ultimate tax risk profile.

3. Research proposition

This article considers the research proposition that the impact of a large company's tax aggressiveness on its reputation is a significant tax risk, and a comprehensive tax risk management system should include an evaluation of reputational risk. Further it is proposed that the consideration of reputational risk by a company's tax risk management system will result in a company adopting a lower level of acceptable tax risk. Other recent research looking at the relationship between reputational risk and tax decision making was discussed in section IIC and supports this research

4. RESEARCH METHODS POPULATION AND DATA COLLECTION

The empirical research consisted of two phases: the initial qualitative phase followed by a quantitative phase.[116] In the first, the relationship between tax risk management and tax compliance was explored through in-depth interviews. The responses to interview questions were then analysed, and key themes and relationships were isolated. These were then used to formulate specific research questions that were tested quantitatively using data collected in a survey of large companies in Australia during the second phase.

4.1 Phase One In-depth interviews

In-depth interviews were conducted with tax managers from 14 large Australian companies.[117] Each in-depth interview included 19 open-ended questions relating to tax risk and tax decision-making (See Appendix 1). A tax partner with a 'Big 4' international accounting firm was also interviewed during this first phase to obtain his view on the tax risk management practices of large company clients and the impact of those practices on tax compliance behaviour. The views of the tax partner provided an additional insight into the approach to tax risk management by large Australian companies.

Participation in the in-depth interviews was voluntary. Interviews were conducted face-to-face or via telephone between October 2009 and June 2010. The responses to open-ended questions were analysed by coding responses then isolating key concepts to develop themes and relationships.[118] Ultimately, the themes and relationships identified were used to build a range of specific research questions to be tested empirically during Phase Two.

4.2 Phase Two—Survey instrument

In Phase Two a survey (See Appendix 2) was conducted to collect information about tax risk management practices in Australia and the variables that have an effect on a

[116] David L Morgan, 'Practical Strategies for Combining Qualitative and Quantitative Methods: Applications to Health Research" (1998) 8(3) *Qualitative Health Research* 362; Abbas Tashakkori and Charles Teddlie, *Mixed Methodology: Combining Qualitative and Quantitative Approaches* (Sage Publications, 1998); Abbas Tashakkori and Charles Teddlie (eds), *Handbook of Mixed Methods in Social and Behavioural Research* (Sage Publications, 2003).

[117] Large company for the purposes of this research includes both listed and unlisted companies with a turnover exceeding $250million. The Australian Tax Office (ATO) 'Large Business Group' includes business groups with a turnover exceeding AUD250 million and it is this group that the ATO focuses on in correspondence and publications concerning the need to adopt a tax risk management system. For the purposes of this research a 'large company' is defined as a company with a turnover exceeding AUD250 million, as it is this subset of companies that contribute significantly to company tax revenue in Australia (58%) and are the target of the ATO tax risk management initiative. According to 'Australian Taxation Statistics 2009–2010' Chapter 3 Box 3.2, Table 3.3 and Table 3.9, companies with a turnover exceeding AUD250 million constitute 0.1 per cent of the total number of company taxpayers in Australia yet contribute 58 per cent of company tax revenue. Inconsistent with the definition used for the purposes of this research, the ATO defines a 'large company' as a company with a turnover between AUD100 million and AUD250 million and a 'very large company' as a company with a turnover in excess of AUD250. The decision to use the threshold of AUD250 million in this research, as opposed to the AUD100 million used by the ATO, is justified based on the ATO focus on tax risk management practices of companies with a turnover exceeding AUD250 million and the fact that according to 'Australian Taxation Statistics 2009–2010' Chapter 3 Table 3.9 companies with a turnover between AUD100 million and AUD250 million contribute only .05 per cent of company tax revenue and the indication in preliminary research is that company group is unlikely to have put in place a comprehensive tax risk management system.

[118] Juliet Corbin and Anselm Strauss, *Basics of Qualitative Research* (Sage Publications, 3rd ed, 2008) 160.

large company's ability to manage tax risk. Company 360, a database of Australian companies, was used to obtain the contact details of Australian companies with a turnover exceeding AUD250 million.[119] The CFOs of all companies identified, (approximately 1,200 companies) were sent the survey instrument by mail in December 2011 and January 2012. A postal survey, as opposed to an email survey was used as only the postal address of CFOs of large Australian companies was available on the Company 360 database. This survey constitutes a cross-sectional population survey rather than a sample survey as the survey instrument was sent to all Australian companies in the sample.

To maximise the response rate and minimise the potential for bias in responses, the survey responses did not identify the respondent company and accordingly respondents remained anonymous. A follow-up survey was sent to all potential participants three weeks after the first survey mail out to ensure participation in the survey was maximised.[120] The survey instrument included both closed and open-ended questions. A range of techniques were employed to minimise bias.[121] Coded data was entered as a dataset into SSPS, producing statistics for analysis.

Based on the Company 360 database, 36.7 per cent of Australian companies in the population are public companies and 63.3 per cent are proprietary (referred to as 'private' in this article). One hundred and twenty three responses were received to the Phase 2 survey. Of these, 35.8 per cent were from people working in private companies and 64.2 per cent were from those working in public companies, as shown in Table 1.

Table 1: Population and respondents by company type

	Population %	Respondents %
Private company	63.3	35.8
Public company	36.7	64.2
Total	100.0	100.0

The fact that the majority of respondents were public companies is consistent with the ATO statement in the 'Compliance Program 2011–2012' that "the majority of entities in the large business sector are public companies".[122]

There is a noticeable difference between the response rates for public and private companies. The response rate calculated for private companies is 44/737 = 6.0 per cent while the response rate for public companies is 79/427 = 18.5 per cent. While the response rate is lower than other Australian tax compliance mail surveys,[123] this

[119] For the purposes of this research a 'large company' is defined as a company with a turnover exceeding AUD250 million, as it is this subset of companies that contribute significantly to company tax revenue in Australia (58%) and are the target of the ATO tax risk management initiative.

[120] Floyd J Fowler, Survey Research Methods: 1 (*Applied Social Research Methods*) (Sage Publications, 2009) 59; Don A Dillman, *Mail and Internet Surveys: The Tailored Design Method* (John Wiley, 2nd ed, 2007).

[121] Ibid, 59.

[122] ATO, 'Compliance Program 2011–2012' <http://www.ato.gov.au/content/downloads/cr00284023compliance.pdf>, 24.

[123] Ken Devos, 'An Investigation Into Australian Personal Tax Evaders—Their Attitudes Towards Compliance And The Penalties For Non-Compliance' (2009) 19(1) *Revenue Law Journal* Article 2

survey can be distinguished on the basis that the potential respondent is the individual in a large company responsible or familiar with the company's tax risk management practices. Previous Australian tax compliance mail surveys relate to individual tax compliance and the potential respondent was the individual taxpayer.[124] The response rate may also be low because surveys may not have reached the appropriate individual in the company.

Although the response rate is low there is

5.1 Results relating to reputational tax risk management

All interviewees commented on the importance of the company's reputation and believed that any negative publicity concerning tax compliance[127] would affect the company's profitability. All noted that the company and its senior management would be most concerned if it was perceived as non-compliant with the tax laws or considered to have taken an aggressive tax position. No interview participant indicated that they take an aggressive tax position, but rather, that they made every effort to comply. They identified one of the key motivators for taking a conservative approach to tax compliance as being their concern for the company's reputation. This concern was clearly articulated by the Board and filtered down to the operational tax decision makers.

Four interview participants stressed the importance of maintaining their reputation as good company taxpayers and further stressed that the potential impact on a company's reputation of any negative publicity concerning possible aggressive arrangements actually resulted in the company accepting a lower level of acceptable tax risk. Three interview participants felt that the importance of the company's good reputation is a key motivator in establishing a tax risk management system to identify tax risks.

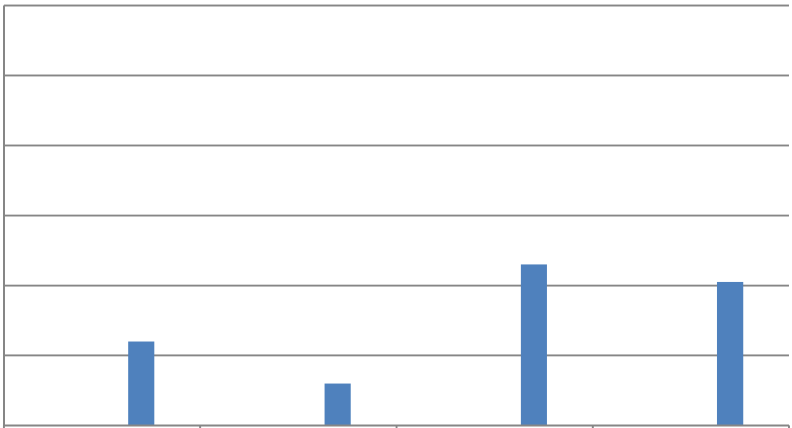
Survey Question 7 asked respondents whether certain factors increase or create tax risk for the company in carrying on its business activities including uncertainty and complexity in the tax laws, complexity of business transactions, staff turnover, staff not following guidelines, time and cost constraints, limited information flow to relevant staff, level of concern for reputation, size of the transaction, growth of the business, global nature of the business and economic environment. Figure 1 summarises the results for the relevant factors.

The results set out in Table 5 demonstrate that 73.5 per cent of respondent companies felt that the tax risk management system resulted in the lowest level of tax risk (Survey Question 23e). While 10.3 per cent disagreed with the view that the tax risk management system results in the lowest level of tax risk the remaining 16.2 per cent were undecided.

The open-ended component to Survey Question 6 enabled respondent companies that have statements and/or guidelines on what constitutes a tax risk to elaborate on the nature of those statements and/or guidelines. A respondent's definition of tax risk tended to focus on transaction risk, that is, the tax risk associated with specific transactions that the company enters into including "UTBs subject to a value threshold'.[128] Some used the FIN48 criteria for UTB to determine the existence of a tax risk.[129]

A number of respondent companies refer to policy guidelines that they use to determine the existence of a tax risk including not only transactional risk (the risk associated with specific transactions that a company enters) but also operational risk (the risk associated with the application of tax laws to the day to day operations) and compliance risk (the risk of failing to comply with all the various compliance requirements in the tax law). Only five respondent companies indicate that tax risk also includes the potential impact of more generic tax risk such as the impact on a company's reputation of negative publicity relating to tax aggressive decision making.

Figure 2: Individuals involved in determination of acceptable tax risk



	Not at all	Verylittle	Tosome extent	Toa great extent
CFO	1	1	19	102
CEO	5	27	70	21
Board	2	20	81	20
Taxmanager	16	3	8	96

Figure 3: Individual who make the determination of acceptable tax risk

Tables 7 and 8 show the extent to which the shareholders determine the acceptable level of risk. The shareholders in only 23.6 per cent of respondent companies were involved in the determination of the acceptable level of tax risk to at least some extent. The shareholders make only a small contribution in establishing the level of tax risk

Table 9: The tax risk profile of companies participating in the survey (SQ9)

	Frequency	Per cent
Very low	21	17.1
Low	53	43.1
Moderate	38	30.9
High	10	8.1
Very high	1	0.8
Total	123	100.0

The tax risk profile of respondent public companies (listed and unlisted) and private companies were analysed. The detailed cross tabulation set out at Table 10 below indicates that public companies are more likely to have a very low or low tax risk profile and private companies are more likely to have a moderate to very high tax risk profile.

Table 10: Cross tabulation company type and tax risk profile

Company type		Tax risk profile - Grouped responses (Survey Question 9)		
		very low/low	moderate/high/ very high	Total
Private company	Count	21	23	44
	Per cent private company	47.7%	52.3%	100.0%
	Per cent tax risk profile	28.4%	46.9%	35.8%
	Per cent of total	17.1%	18.7%	35.8%
Public company	Count	53	26	79
	Per cent public company	67.1%	32.9%	100.0%
	Per cent tax risk profile	71.6%	53.1%	64.2%
	Per cent of total	43.1%	21.1%	64.2%
Total	Count	74	49	123
	Per cent all companies	60.2%	39.8%	100.0%
	Per cent tax risk profile	100.0%	100.0%	100.0%
	Per cent of total	60.2%	39.8%	100.0%

The following section of this article discusses the research results detailed in this section looking specifically at the role of the tax risk management system, tax risk profile, reputational risk and tax aggressive decision making.

6. IMPLICATIONS

The results presented here demonstrate that, whilst a company's tax aggressiveness can have an impact on a company's reputation (as discussed in this article at section 2), most tax risk management systems used by large Australian companies do not systematically identify reputational risk as one of the tax risks that needs to be managed. That is the definition of tax risk used by large Australian companies does not include reputational risk yet a large majority of companies recognise their concern for reputation increases or creates tax risk.

Although a tax risk management system results in a lower level of acceptable tax risk it may not ensure that tax decision-makers are informed of the potential negative impact on reputation of a particular tax position taken. A company that has a comprehensive tax risk management system that identifies reputational risk will make more informed and potentially less aggressive tax decisions than a company that does not have a comprehensive tax risk management system that recognises reputational risk. The CFO and tax manager are most involved in the determination of the level of acceptable tax risk whilst shareholders have very little involvement. The results in relation to shareholders indicate that despite the increasing discussion and identification of CSR as a shareholder concern reflecting community values, few large companies consider the shareholders' views or preferences in relation to tax aggressiveness. This suggests that shareholders do not send clear messages concerning the level of tax aggressiveness they believe to be acceptable, and do not demonstrate an interest in 'their' company's income tax strategy *ex ante*. Currently it appears to be lobby groups that send messages to keep large companies accountable.

Private companies accept a higher tax risk profile than public companies and this result may be due to the fact that private companies are less exposed to share price fluctuation, requirements to disclose financial information and reputational risk generally. Research by Rice supports the relationship between company type and tax aggressiveness.[131] Rice identified that tax compliance is positively correlated with being a publicly listed company and attributed this to the managers being more likely to be independent of the shareholders, and as a result under less pressure to reduce taxes.[132]

7. CONCLUSION

Given the importance of the large company taxpayers to revenue collections globally, it is believed that this research makes an important contribution. Notwithstanding, there is considerable scope for further research into the area of corporate tax strategy and the interconnected issues of tax risk management systems, reputational risk, CSR and increased tax disclosure requirements. The importance of reputational risk for large companies suggests that companies will most easily avoid adverse publicity about their tax if they systematically and routinely flag and address reputation as a tax risk and factor the need to be accountable to the public into their tax strategy.

8. APPENDICES

Appendix 1: In-depth interviews

Interviewer: Catriona Lavermicocca, PhD student, UNSW

This research project forms part of the data collection for the purposes of completion of a PhD in Taxation at the Australian School of Taxation (ATAX) at UNSW. The title of the PhD thesis is 'Tax Risk Management as a Corporate Governance Issue in Australia and the Impact on Income Tax Compliance by Large Company Taxpayers'.

Proposed questions for in-depth interviews concerning tax risk management:

17. What do you consider to be the impact of tax risk management systems on the determination of the acceptable level of tax risk?
18. Is the organisation more or less tax risk averse (or has there been no change) after the introduction of a tax risk management system?
19. To what extent does the organisation consider corporate social responsibility issues and if it does, does that include a consideration of the organisation's tax compliance profile?

1) Please indicate your company type

Public company F Private company F
If your company is a public company is it listed on the Australian Securities Exchange?
Yes F No F

2) In which of the following industries does th

3) What is your position in the company?

Chief Financial Officer F
Tax Director F
Chief Executive Officer F
Tax Manager F
Assistant Tax Manager F
Other F Please specify ……………………………………………..…….

4) To what extent are the following persons involved in the determination of the acceptable level of tax risk with respect to a transaction or series of transactions?
Tax risk - *any event, action, or inaction in tax strategy, operations, financial reporting, or compliance that adversely affects either the company's tax or business operations or results in an unanticipated or unacceptable level of monetary, financial statement or reputational exposure.*

a) CFO To a great extent F To some extent F Very little F Not at all F
b) CEO To a great extent F To some extent F Very little F Not at all F
c) Board of Directors To a great extent F To some extent F Very little F Not at all F
d) Tax manager To a great extent F To some extent F Very little F Not at all F
e) Shareholders To a great extent F To some extent F Very little F Not at all F
f) Corporate group policy To a great extent F To some extent F Very little F Not at all F
g) Other F Please provide detail ……… ……… ……… ……… ……… ……….

5) To what extent do the following persons in your company <u>ultimately make the final decision</u> on the acceptable level of tax risk with respect to a transaction or series of transactions?

a)	CFO	To a great extent F	To some extent F	Very little F	Not at all F
b)	CEO	To a great extent F	To some extent F	Very little F	Not at all F
c)	Board of Directors	To a great extent F	To some extent F	Very little F	Not at all F
d)	Tax manager	To a great extent F	To some extent F	Very little F	Not at all F
e)	Shareholders	To a great extent F	To some extent F	Very little F	Not at all F
f)	Corporate group policy	To a great extent F	To some extent F	Very little F	Not at all F
g)	Other F Please provide detail				

6) Does your company have <u>statements and/or guidelines</u> on what constitutes a tax risk?

Yes F No F

If yes, what constitutes a tax risk according to your company's statements and/or guidelines?..

7) Please indicate the extent to which each of the following factors increase the level of tax risk your company is exposed to in carrying on its business activities.

a)	Uncertainty in the application of the income tax law To a great extent F To some extent F Very little F Not at all F
b)	Complexity of the income tax law To a great extent F To some extent F Very little F Not at all F
c)	Complexity of business transactions To a great extent F To some extent F Very little F Not at all F
d)	Staff turnover To a great extent F To some extent F Very little F Not at all F
e)	Staff not following guidelines To a great extent F To some extent F Very little F Not at all F
f)	Time and/or cost constraints To a great extent F To some extent F Very little F Not at all F

g) Limited inform97og529.56 509.36 .484vi(9.64 ref52great extent)Tj/TT19 1 Tfgreat

8) How important is compliance with the income tax laws to your company?

12) Considering the following factors

13) Are the current systems and/or procedures used

For the purposes of this survey systems and/or pocedures that identify and manage tax risks

17) The current tax risk management system ensures compliance with the income tax laws by your company.

Strongly agree F Agree F Undecided F Disagree F Strongly disagree F

If you agree, describe ways in which the current tax risk management system ensures compliance with the income tax laws by your company.

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If you disagree, why do you believe the current tax risk management system does not ensure compliance with the income tax laws by your company?

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18) The current tax risk management system results in the identification of potential non-compliance with the income tax laws that would not otherwise be identified by your company.

Strongly agree F Agree F Undecided F Disagree F Strongly disagree F

If you agree, describe ways in which the current tax risk management system identifies potential non-compliance with the income tax laws that would not otherwise be identified by your company.

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If you disagree, why do you believe the current tax risk management system does not identify non-compliance with the income tax laws that would not otherwise be identified by your company?

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19) If you disagree with the statement at 18) above you can continue to 20).

If you agree with the statement at 18) above, does your company act to ensure potential non-compliance with the income tax laws identified by your current tax risk management system do not occur?

20) The current tax risk management system results in the identification of opportunities to minimise your company's income tax liability that would not otherwise be identified.

Strongly agree F Agree F Undecided F Disagree F Strongly disagree F

22) The current tax risk management system ensures that the following persons are informed concerning the tax risks that your company is exposed to

a)	Directors
	Strongly agree F Agree F Undecided F Disagree F Strongly disagree F
b)	Tax decision makers
	Strongly agree F Agree F Undecided F Disagree F Strongly disagree F
c)	Chief Financial Officer
	Strongly agree F Agree F Undecided F Disagree F Strongly disagree F
d)	Chief Executive Officer
	Strongly agree F Agree F Undecided F Disagree F Strongly disagree F
e)	Chairman of the Board
	Strongly agree F Agree F Undecided F Disagree F Strongly disagree F
f)	Other person Please specify ……… ……… ……… ………

23) The current tax risk management system results in:

a)	Better documented tax risks
	Strongly agree F Agree F Undecided F Disagree F Strongly disagree F
b)	More informed tax decision making
	Strongly agree F Agree F Undecided F Disagree F Strongly disagree F

c)

24) Has your company been the subject of an adjustment to taxable income as a consequence of audit by the ATO relating to any of the last three financial years?

Yes F No F

If yes, was the company aware of a tax risk associated with the issue that gave rise to the adjustment by the ATO before the audit commenced?
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25) Are you aware of a transaction or series of transactions in respect of which the income tax treatment adopted by the company was subsequently found to be incorrect relating to any of the last three financial years?

Yes F No F

If yes, were you aware of any tax risk associated with that transaction or series of transactions when the transaction or series of transactions was entered into?
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The survey is now complete.

Thank you for participating