

Corporate Tax Planning: Recognition, Measurement and Analysis – A Review and Synthesis

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Abstract

Corporate tax planning and related concepts including ‘tax avoidance’, ‘tax aggressiveness’ and ‘tax risk’ have entered into the terminology of management science, economic policy and law. This paper performs a review and synthesis of the extensive research literature and provides guidance for analysis of corporate information to determine the extent of tax planning and analyse related risk. The paper also suggests topics for further research. Corporate tax planning has become politically sensitive and public awareness over the past decade has been raised and excited by expanding press coverage particularly of multi-national enterprises’ tax practices. The concerns among many tax jurisdictions about the potential for tax avoidance by multinational corporations has prompted the OECD’s BEPS initiative and anti-avoidance legislation such as the General Anti-Abuse Rule ‘GAAR’ (2013) in the UK. Identification and analysis of corporate tax planning requires recognition and measurement usually based on proxy measures of tax planning. The proxy measures are derived from information in the published financial reports including specific financial statements and disclosures but this inevitably lacks the detail of the corporate tax returns that are not publicly available. The research literature has concentrated on quantitative measures of tax avoidance most commonly effective tax rates and book tax differences although there is less analysis of narrative disclosures that is a potential topic for future extensive research to assess the extent of tax aggressiveness and tax risk associated with corporate entities including multinational corporations. There are challenges from a user perspective in understanding the tax information in financial statements including disclosures. Understanding these user challenges and identifying deficiencies in the quality or extent of tax disclosures is important for accounting standard setters.

Keywords: tax aggressiveness, tax avoidance, tax sheltering, corporate tax planning, tax risk.