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Predictors and measurement of tax management behavior: A conceptual paper

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This study aims to develop a conceptual model demonstrating the predictors and measures for tax management behavior. The study also proposes the mediating role of management accounting systems in the model. A deductive approach was utilized to propose that board effectiveness, managerial competencies, and management accounting systems are predictors of tax management, while strategic responses serve as construct measures for tax management. The underlying mechanisms by which these variables might lead to tax management of both direct and indirect taxes are elaborated using Neo-institutional theory as the major theoretical underpinning. This study indicates that board effectiveness, managerial competencies, and management accounting systems can predict tax management. Moreover, based on Neo-institutional theory, tax management behavior is a response to institutional expectations (demands from tax authorities). This paper provides valuable implications for corporate taxpayers to effectively manage their tax affairs, avoiding fines, penalties, prosecution, and other costs while ensuring sound compliance with laws and regulations. This paper is the first study that explains tax management as a response to tax enforcement pressures. The paper explains tax management using latent variables such as planning, organizing, controlling, and communication, which will be measured using the strategic responses suggested by Oliver. However, this study has some limitations. One limitation is the lack of empirical tests of the proposed model. Another limitation is that only internal organizational dynamics (board effectiveness, managerial competencies, and management accounting systems), are proposed as factors to explain tax management. Other variables related to organizational interests and value commitments could be explored. Additionally, external factors like enforcement measures from tax authorities are likely to affect tax management in organizations.

Key words: Tax management, board effectiveness, managerial competencies, management accounting system.

INTRODUCTION

Tax regulatory requirements exert pressure on all business activities. Such pressure is perceived differently among individual and corporate taxpayers (Batrancea et al., 2021). Individual taxpayers experience pressure as they work to earn enough money to maintain the integrity of their wealth, ensure their well-being, or cover their consumption needs. For corporate taxpayers the pressure experienced is stronger as they have more tax regulatory

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requirements like income tax on their company activities, Value Added taxes on sales and purchases, excise duties, and business rates, and are also required to withhold taxes on specified payments (salaries, dividends professional fees among others). Thus, companies must manage their tax affairs well given the heavy taxing constraints placed on their operations and the aggressiveness in enforcing tax laws by authorities across the globe (PWC, 2008; PWC, 2016). Furthermore, tax regulatory requirements are omnipresent (Batrancea et al., 2021) and companies should strategically respond to achieve the desired level of sustainable performance.

Previous researchers like Hbaieb and Omri (2019) and Beasley et al. (2021) have noted that the management of tax affairs is crucial in organizations. Effective management of tax affairs protects firms from being tax audited and therefore escape additional taxes and penalties (Hbaieb and Omri, 2019). Companies whose tax affairs are effectively managed are likely to avoid such fines, penalties, and other similar risks that may adversely affect company profits, goodwill/reputation, and survival. Similarly, effective management of tax affairs shields companies from incurring legal costs related to the hiring of lawyers and other contingencies when it comes to tax-related court cases. Effective management of tax affairs ensures companies' going concern due to timely fulfillment of their tax obligations and hence the much-needed legitimacy.

This study endeavors to provide a comprehensive explanation of tax management and suggest proper measures for evaluating tax management. Previous studies, proxy tax management with tax avoidance (Minnick and Noga, 2010; Hakim and Omri, 2015; Moore et al., 2017). Tax avoidance involves strategies and activities aimed at reducing taxes, both legally/tax planning and illegally/tax evasion (Hanlon and Heitzman, 2010). However, effective tax management goes beyond simply planning the amount and timing of tax payments. It also involves elements of organizing, controlling, and communicating with internal and external stakeholders (PWC, 2008, 2016). Furthermore, several tax literature studies primarily focus on improving tax compliance (Kogler et al., 2023; Batrancea et al., 2022; Musiimenta et al., 2017) from the perspective of the tax collector. These studies neglect the importance of understanding how taxpayers can effectively manage their tax affairs. As a result, the academic community lacks information on the antecedents of tax management from the taxpayer's point of view.

In addition, the majority of studies on tax management employ content analysis methodologies to measure the extent of tax planning in companies. However, these studies have limitations. They do not consider the rationale behind the preparation of annual reports used in the analysis, and errors in the reports could bias the findings. Additionally, using financial ratios to examine tax management fails to capture the behavior and decision processes involved. Moreover, studies like Beasley et al. (2021) and Ftouhi and Ghardallou (2020) call for future researchers to provide precise measures of tax management studies. This study proposes a comprehensive investigation into tax management, using qualitative and quantitative methodologies. Qualitative methods like interviews can provide a clear understanding of key concepts, while quantitative methods enable the collection of large amounts of data and statistical inference procedures. Lamprecht and Guetterman (2019) argue that complex accounting problems like tax management require a combination of both approaches. Overall, this research aims to uncover the direct managerial motivations behind tax management in organizations.

Finally, no study has investigated the association between board effectiveness, managerial competence, management accounting system, and tax management. Yet effective board members can perform their duties and responsibilities such as providing strategic direction, implementing policies, processes, and systems to ensure that tax risks are minimized, and complying with laws and regulations. Available studies on the effect of the board role on tax management have only focused on board attributes like independence, size, meetings, committee, and expertise (Minnick and Noga, 2010; Moore et al., 2017). Also, managerial competence is known for effective tax management especially if management has technical, strategic, social, and personal competencies. For example, managers with technical and strategic competencies can understand and interpret the complex tax laws, and also undertake strategies to reduce taxes and tax disputes between the firm and the tax revenue authorities. This proposition is supported by Huang et al. (2017) whose findings indicate that managerial ability has a positive effect on tax avoidance. Also, Feller and Schanz (2017) in their study titled the three hurdles of tax planning, indicated that successful tax planning is driven by the manager's power through communication, networking, ability, and expertise. However, the board and management need a robust information system that will provide quality information to make informed decisions. Previous studies like Gallamore and Labro (2015) and Oats and Tuck (2019) emphasize the importance of information in tax management decisions. For example, Gallamore and Labro (2015), found that the ability of the firm to avoid taxes is affected by the firm's internal information quality. Whereas Oats and Tuck (2019), posit that systems and processes that integrate tax data with other information systems within the organization significantly impact corporate tax avoidance. Therefore, the management accounting system with elements of broad scope, integration, aggregation, and timeliness generates, processes, and provides tax-related information to avoid penalties for misreporting of tax and late returns payments.

The novelty of this paper is at least twofold. First, we propose the relevant management proxies for measuring tax management, which constitutes an original approach.

This addresses the aforementioned gaps in the existing research on tax management by explaining tax management using latent variables of planning, organizing, controlling, and communication proxies of management which can be measured using the strategic responses suggested by Oliver (1991). Second, we suggest organizational mechanisms that possibly explain variances in tax management. This paper specifies the association between internal organizational dynamics (board effectiveness, managerial competencies, management accounting systems) and tax management. The study further proposes the mediating role of management accounting systems in the model.

Tax management behavior

Based on the Neo-institutional theory, tax management behavior is a response to institutional expectations (demands from tax authorities). Institutional researchers describe Neo-institutional theory as a theory that explains how organizations interact with their environments and how these institutional environments affect, restrain, and modify organizational actions (Frandsen and Johasen, 2013). Tax management refers to decisions and actions that ensure that the taxpayer minimizes tax risks. It is concerned with implementing strategies aimed at both reducing annual tax payable on the firm’s income and monitoring tax implications of corporate activities (PWC, 2008). Hakim and Omri (2015) define tax management as the downward management of taxable income through tax activities to pay a low amount of taxes. Moore et al. (2017), refer to tax management as the extent to which firm managers engage in tax planning to manage the reduction of tax-related cash outflows, tax liabilities, and/or tax expenses. According to Mulyadi and Anwar (2015), tax management is a process of organizing the corporation so that its tax liabilities stay in the minimum position according to the tax code with opportunity cost and political cost. Tax management is an important part of a manager’s activities because taxes represent a significant cost to the companies and, essentially, to the shareholders. Effective management of tax affairs involves actions concerned with filing timely tax returns, having proper books of accounts, and audited accounts, deducting tax at sources, planning future taxes, and managing finances for purposes of paying taxes. For instance, if the organization does not make timely returns of the different taxes, it is charged with fines and penalties which in turn increases the tax expenditure. An increased tax expenditure has negative effects on the company profits, which reduces the shareholder’s wealth. Therefore, tax management involves decisions on how a company approaches tax, its attitude toward planning and tax compliance and the way it balances the pressures of minimizing taxes to enhance shareholder returns while managing risks to its reputation.

Strategically responding to tax legal requirements and adapting to the changing tax environment is fundamental for organizational survival and management of its reputational risks (PWC, 2008). Different strategic responses can be adopted by organizations when faced with tax enforcement reforms ranging from committed compliance to non-compliance (McBarnet, 2001; Braithwaite, 2003). According to Oliver (1991), organizations can respond in five ways; comply, compromise, avoid, defy, or manipulate. Previous studies on tax management largely focus only on the avoidance strategy of managing taxes (Moore et al., 2017). Although avoidance can take two forms; legal and illegal known as tax evasion, previous studies proxy tax management with legal tax avoidance (Minnick and Noga, 2010; Hakim and Omri, 2015). Little attention has been given to the other response strategies as suggested by Oliver (1991). Also, studies that have investigated tax management use ratios obtained from financial reports, fail to account for the behavior and decision processes that determine how tax affairs are managed. This study intends to investigate how and what actions are involved in managing tax affairs in an organization using behavior categories of planning, organizing, controlling, and communicating. These behavior categories are latent constructs that cannot be directly observed but are inferred from individual response tactics from Oliver (1991) typology of strategic responses that can be observed.

Planning in tax management involves the activities that a company undertakes in the tax planning process to assess the amount of income taxes to reduce the amount of taxes paid on business profit. Tax planning is explained with all transactions and arrangements that could result in a minimized corporate tax expense and produce a tax benefit to the organization (Hanlon and Heitzman, 2010; Abdul Wahab and Holland, 2012; Hasan et al., 2017a). In understanding tax planning, previous tax researchers consider tax planning to incorporate activities ranging from passive (complying with tax provisions) to aggressive (structuring transactions or activities with a principal aim of reducing the amount of corporate tax payable (Hasan et al., 2017b). The aggressive aspect may be achieved by legal means or acceptable tax avoidance (taking advantage of the loopholes of tax regulations) or means that are not in compliance with tax regulations (which constitutes tax evasion). In this study, we explain tax planning with all activities that involve passive compliance to aggressive tax avoidance. For instance, organizations admit the necessity of conformity to demands but also try to achieve it by buffering themselves or escaping from institutional rules. For example, firms may conceal some incomes by separating tax reporting accounts from financial accounts. Almunia et al. (2024), indicated that 79% of VAT returns reported in Uganda differ in the amounts on their cross-checked invoices. Also, some firms tend to shift business operations to areas that attract more tax exemptions or benefits.

Organizing in management relates to the process of assembling and assigning the human, financial, physical, informational, and other resources needed to achieve goals. As suggested by Mulyadi and Anwar (2015), firms need to organize themselves so that tax liabilities stay in the minimum position according to the tax code with opportunity cost and political cost. Johnston and Brennan (1996) view organizing as the structuring of the physical, political, and cultural setting of actions to achieve the objectives of an organization. They recognize that organizational objectives are archived through interactions between intelligent agents and structured environments. Bunderson et al. (2000), examined the bureaucratic organizing system which views an organization as an efficient and coordinated system organized to pursue a common objective. In a bureaucratic model, organizing involves differentiating work across individuals and units and then integrating the work in the most efficient manner possible. Bunderson et al. (2000) explain that differentiation of work is achieved through the division of labor, the hierarchy of authority, task performance by the most competent specialists, and clear separation of official duties from personal interests and obligations. Integration relates to standardization, formalization, and enforcement of rules policies, and procedures for work performance and reporting relationships. For example, an organization may have different groups of people involved in the smooth running of the tax affairs like the in-house tax function and external advisors (PWC, 2008). The in-house tax function is comprised of people who are dedicated tax specialists and those whose job titles include tax. External advisors are those professionals like tax professionals or lawyers whom the company engages to solve tax affairs. According to PWC (2008), a tax function is appropriately organized if it clearly states how the people are grouped with a focus on areas of taxes (corporate income tax, indirect taxes like VAT and excise duty, property taxes, customs and withholding taxes), their expected deliverables (tax planning, tax accounting, tax compliance, and tax audit defense) and management of the relationships between these groups.

In responding to tax regulations, controlling involves activities that organizations undertake to establish power over expectations and redirect pressures to their advantage (Oliver, 1991). With this response, organizations tend to challenge tax authorities when they feel they are wrongly assessed through objections and appeals. Taxpayers may also mount a campaign with others to demonstrate against particular tax reforms perceived to be extremely unfair like the case of social media tax in Uganda. Controlling may be achieved by undertaking purposeful and opportunistic attempts to co-opt, influence, or control institutional pressures and evaluations (Oliver, 1991). In response to tax enforcement, firms may attempt to have an officer of the revenue authority join the firm as a shareholder or a board member (Musimenta et al., 2017).

Communication involves exchanging ideas, messages, or information by speech, signs, gestures, writing, or conduct, among other means. In managing taxes, companies make sure there is effective communication about tax matters with both internal and external stakeholders (PWC, 2008). Internal tax communications (interactions with internal stakeholders) enable an understanding of the group’s key tax risks, involvement in setting the overall tax strategy, and providing oversight so that the controls in place deliver the required strategic outcomes. Tax communication also involves interactions between companies and tax authorities, companies can engage with authorities concerning both tax policies and the creation of law. For example, companies may negotiate openly with tax authorities on the payment terms of their taxes. Onu and Oats (2016) also indicate that tax communications between taxpayers involve giving and receiving information about tax rules and procedures, benefits of complying with tax provisions, warnings and threats to defiant professionals, warnings of penalties, audits, and reputation loss. This study proposes that tax management is explained with latent variables planning, organizing, controlling, and communication proxies of management measured using strategic responses suggested by Oliver (1991).

METHODOLOGY

The methodology used in this study is a review of recent literature on the concept of tax management. This kind of methodology was considered relevant for this study because the study aimed at creating a theoretical model that involves reviewing prior relevant literature (Snyder, 2019). The search for materials includes everything from online resources to article journals and chapters in books. Several databases were identified such as the Web of Science, Emerald Insight, Science Direct, Springer, Taylor and Francis, Wily Online, and Google Scholar. To identify relevant publications based on our research question, we used keywords such as “tax management”, “tax planning”, and “tax avoidance”. This is because previous studies such as Hakim and Omri (2015), Minnick and Noga (2010), and Moore et al. (2017) have used the three terms interchangeably. After a review of prior relevant literature, we can support the proposed measures of tax management and develop hypotheses depicting the role of board effectiveness, managerial competencies, and management accounting systems in tax management.

Board effectiveness and tax management

The impact of board effectiveness on tax management stems from the Neo-institutional theory that asserts that institutional demands compel organizations to make structural changes and hire new types of personnel (board members) with the capacity to internalize the threats from the regulative constituents (Scott, 2008). An effective board of directors can put in place policies, and systems, provide strategic direction, and allocate resources that can influence the management of tax affairs in an organization. Previous studies have investigated the role of the board in explaining tax management (Minnick and Noga, 2010; Moore et al., 2017). In their study investigating whether corporate governance characteristics influence tax management, Minnick and Noga (2010) found that board compensation improves long-term tax management. Minnick and Noga (2010) indicate that the composition of the board significantly predicts the type of tax management strategies. They further indicate that independent boards put much emphasis on foreign tax management while large boards focus on domestic tax management. Moore et al. (2017) also indicated that the classified structure of the board reduces the levels of tax avoidance. Also, Armstrong et al. (2015) using evidence from US firms, found board independence and board financial expertise positively related to lower levels of tax avoidance and a negative relationship with high levels of tax avoidance. However, these studies have given less attention to the effectiveness of the board in explaining tax management. The effectiveness of the board is seen in its ability to perform its roles in organizations (Cornforth, 2001). According to Daily et al., (2003), board roles in an organisation include service, strategic, monitoring and provision of resources. Minichilli et al. (2012), indicated that an effective board can advise management on legal issues and taxation. More so if tax authorities are becoming more aggressive in tax assessments with frequent tax audits, an effective board will provide its advisory services towards protecting the firm from the negative effects of mismanaging tax affairs. Therefore, this study hypothesizes that:

H1: There is a positive association between board effectiveness and tax management

Managerial competencies and tax management

According to Greenwood and Hinings (1996), the neo-institutional theory emphasizes the importance of having a sufficient understanding of the new conceptual destination before implementing change in an organization. The organization should have managers with the skills and competencies required to interpret and respond to tax regulatory demands to manage their taxes. Bharwani and Talib (2017) classified competencies into four broad groups: cognitive, technical, social, and personal competencies Studies that directly examine the association between managerial competencies and tax management are scarce. However previous studies provide empirical evidence on the effect of managerial attributes on tax avoidance (Dyreng et al., 2010). While studying the effect of executives on tax avoidance, Dyreng et al. (2010), indicated that managerial fixed effects influence tax avoidance. Huang et al. (2017) found that managerial ability has a positive effect on tax avoidance indicating that able managers are less likely to engage in tax avoidance activities. They also indicate that managerial ability moderates the association between environmental uncertainty and tax avoidance. In their study titled Three Hurdles of Tax Planning, Feller and Schanz (2017) interviewed 19 persons and indicated that successful tax planning is driven by the manager’s power through communication, networking, ability, and expertise.

Levenson et al. (2006) state the importance of managerial competencies in determining both individual and organizational performance. Orobia et al. (2020) document a positive association between managerial competencies and financial performances of small businesses in Uganda. In another study, Orobia et al. (2023) provide evidence that the competence of accountants explains variances in integrated reporting practices in Uganda. This implies that managerial competence is an important factor in explaining organizational outcomes. Given that managers play a role in tax planning or tax avoidance from literature, this study proposes that managerial competence positively affects tax management.

H2: *There is a positive association between Managerial competencies and tax management*

Management accounting systems and tax management

From the neo-institutional theory, technological resources like the management accounting system cause and facilitate the organizational practices that enhance efficiency and legitimacy through the providing information needed to meet the requirements of conformity to institutional pressures (Greenwood and Hinings, 1996). Management accounting system is an organizational mechanism that facilitate management decision-making through formalized routines and procedures, utilizing computers, technical staff, and financial modeling (Moores and Yuen, 2001). They influence managers' behavior to achieve organizational objectives and provide sophisticated information for effective operational decisions (Bouwens & Abernethy, 2000). Management accounting system with elements of broad scope, integration, aggregation and timeliness (Bouwens & Abernethy, 2000) generates data, processes, and provides tax-related information to avoid penalties for misreporting of tax and late returns payments. Therefore, an effective management accounting system could enhance tax planning, monitoring, controlling, and communicating tax compliance activities thus resulting in better management of tax affairs. Empirical evidence on the association between Management accounting systems and tax management is uncommon. However, existing literature suggests that the availability of quality information facilitates tax management. Gallamore and Labro (2015), investigated the effect of the internal information environment on tax avoidance using evidence obtained from content data of 134 firms in Morocco. They found that the ability of the firm to avoid taxes is affected by the firm’s internal information quality in terms of accessibility, usefulness, reliability, accuracy, quantity, and signal-to-noise ratio of the data and knowledge collected, generated, and consumed within an organization. A study by Oats and Tuck (2019), posits that systems and processes for example management accounting systems that integrate tax data with other information systems within the organization impact corporate tax avoidance. For example, the broad scope dimension of management accounting systems provides financial information that facilitates accurate tax assessment and non-financial information about taxation which facilitates effective management of tax.

In another literature, the interactive use of management accounting systems is positively associated with strategic change (Naranjo-Gil and Hartmann, 2007). Naranjo-Gil and Hartmann (2007) further opine that the use of management accounting systems influences organizational strategic change towards prospector positions. Also, the broad scope design of management accounting systems is positively related to strategic change for organizations moving towards prospector positions. Prospector positions emphasize innovations and rapid responses to environmental demands in this case tax environmental remands. From the above discussion, this study suggests that management accounting systems can determine tax management and therefore hypothesize that:

H3: There is a positive association between management accounting systems and tax management

Managerial competencies and management accounting system

Managerial competence can influence the development, implementation, and use of management accounting systems. Kraemmergaard and Rose (2002) in their study on managerial competencies for Enterprise Resource Planning (ERP) journeys used evidence from a longitudinal study of a Danish production company. They found that different managerial competencies are required at different stages of the ERP system. According to Leonard-Barton and Deschamps (1988), managers can influence the extent to which an innovation is adopted and used by other members of an organization. Further, they indicate that individual characteristics (skills, attitude, need, and performance) mediate the nature and degree of perceived managerial behavior on the use of an innovation. This could imply that managers have the ability and skills needed for the adoption and implementation of innovations like the use of management accounting systems in collecting and analyzing information for decision-making. Previous studies like Naranjo-Gil and Hartmann (2007) provide evidence that education and expertise in management are associated with the interactive use of management accounting systems. However, Naranjo-Gil and Hartmann (2007) found no association between top management team heterogeneity and the broad-scope design for management accounting systems. It can be argued that the competence of managers determines their need for management information and its interpretation and analysis for decision-making. We expect that managerial competencies can influence the implementation and use of management accounting systems. This study, therefore, hypothesizes that:

H4: There is a positive association between managerial competencies and tax management

Board effectiveness and management accounting systems

Board effectiveness can play a bigger role in the implementation of systems in an organization like the management accounting system. The board of directors is responsible for maintaining complete control over all operations inside an organization (Minichilli et al., 2012), hence, they implement control measures such as management accounting systems. The board of directors' duties also include assessing management and company performance, which calls for the purchase of information systems that give them access to fast and accurate data for decision-making. Nkundabanyanga et al. (2021), found that board role performance has a positively significant effect on the implementation of accounting systems, specifically environmental management accounting. Based on the above discussion, this current study suggests that an effective board can influence the implementation and use of management accounting systems that provide information for decision-making. Therefore, the study hypothesizes that:

H5: *There is a positive association between board effectiveness and management accounting systems*

The mediating role of management accounting systems

Combining the aforementioned propositions that delineate direct relationships among managerial competencies, management accounting systems, and tax management, we propose that collective management accounting systems mediate the link between managerial competence and tax management. Managers with technical, strategic, social, and personal competencies should positively influence the implementation and use of management accounting systems (Naranjo-Gil and Hartmann, 2007) that provide relevant information for the effective management of taxes (Gallamore and Labro, 2015). The mediating role of management accounting systems has previously been indicated in management studies. For example, Naranjo-Gil and Hartmann (2007) indicate that management expertise positively impacts on strategic change through the interactive use of management accounting systems. Furthermore, Thanh and Nguyen (2021) document the mediating role of management accounting systems in the link between cross-functional cooperation and organizational performance. Cross-functional cooperation is indicated by social competencies like the ability to have frequent communication, good social relationships, informal interactions, and strong ties among employees (Thanh and Nguyen, 2021). This study suggests that competent managers influence tax management using management accounting systems that provide aggregated, integrated, and timely information for decision-making about organizational tax affairs.

Existing literature has not examined whether management accounting systems mediate the link between board effectiveness and tax management. Gill et al. (2005) indicated that an effective board uses a sound decision-making process focusing on factual information to perform its duties. Such factual information is produced by an information system able to provide information that is broad scope in nature, as well as aggregated, integrated, and timely information. Nkundabanyanga et al. (2021) indicate that the board ensures that companies have appropriate accounting systems in place to track information for disclosure purposes. Nkundabanyanga et al. (2021) found that environmental management accounting systems mediate the link between board role performance and environmental performance disclosure. Therefore, we expect that for effectiveness in monitoring, evaluating, and establishing policies and strategies for effective management of tax affairs, the board utilizes information from the management accounting systems for making decisions. This study, therefore, proposes that management accounting systems mediate the association between board effectiveness and tax management. Therefore, this study hypothesizes that:

H6: Management accounting system mediates the relationship between managerial competencies and tax management
H7: Management accounting systems mediate the relationship between board effectiveness and tax management

Control variables

This study proposes some variables to be controlled for since according to Bartov et al. (2000), failure to control for confounding variables could lead to falsely rejecting the hypothesis when in fact it should be accepted. Therefore, this study suggests controlling for auditor type, firm size, firm age, profitability, and ownership structure. Previous studies have investigated the association between company characteristics like profitability, firm size, firm age, and ownership structure with dimensions of tax management (Feller and Schanz, 2017; Graham et al., 2014; Khan et al., 2017; Gaaya et al., 2017). According to Feller and Schanz (2017) and Graham et al. (2014) firm size and profitability are key determinants of tax planning. Several studies found that ownership structure is positively associated with tax management (Khan et al., 2017; Gaaya et al., 2017). In terms of firm age, no evidence has been so far documented on whether firm age affects the management of tax affairs. It can be argued that older firms have accumulated resources sufficient for tax management and are concerned about their reputation, therefore are likely to manage their tax affairs to avoid tax risks such as reputation loss.

RESULTS AND DISCUSSION

Proposed measures of tax management

Several reasons call for proper measures of tax management. First, it is important to distinguish tax management from corporate tax avoidance. Corporate tax avoidance only focuses on minimizing corporate tax payable on the company’s income ignoring the management of all other tax heads and other tax regulatory requirements. the features of tax management. Effective management of tax affairs aims to ensure accurate tax reporting, minimize tax liabilities, and maintain compliance with tax laws and regulations. Thus, the a need to evaluate the company’s tax management with measures that incorporate strategic planning, organization, and optimization of the company's affairs intending to minimize their tax liability within the legal framework.

Previous studies have used effective tax rates to evaluate tax management as used to evaluate tax avoidance/ planning, evasion, and aggressiveness because all these terms are used interchangeably. But scholars like Beasley et al. (2021) as well as Ftouhi and Ghardallou (2020) call for more clear measures as the effective rates do not explain the direct motivations behind tax management. Also, such effective tax rates are obtained from financial reports whose purpose for preparation may not be known and may have errors that may bias findings from such studies. The authors proposed the following measures for tax management.

Planning

This involves all activities that a company undertakes in the planning process to assess the amount of income taxes to reduce the amount of taxes paid on business. Such activities may involve analyzing tax implications of all budgeted expenditures, systematically searching for information about tax regulatory requirements, shifting operations to locations where tax incentives are more, and implementing tax minimization strategies proposed by tax professionals among others.

Organizing

Organizing in management relates to the process of assembling and assigning the human, financial, physical, informational, and other resources needed to achieve goals. As suggested by Mulyadi and Anwar (2015), firms need to organize themselves so that tax liabilities stay in the minimum position according to the tax code with opportunity cost and political cost. This may involve structuring the human resources responsible for handling company tax affairs (PWC, 2008), and having discussions about preventing tax reporting errors.

Controlling

This relates to activities that organizations undertake to establish power over expectations and redirect pressures to their advantage (Oliver, 1991). For example, companies make efforts to cooperate with tax authorities, may attempt to influence public perceptions on the fairness of different taxes, meet elected politicians to attempt to control the regulations on tax matters and go to court whenever they are not satisfied with the assessment from tax authorities.

Communication

Tax communication relates to the interactions between the organization and the tax authority as well as other stakeholders about tax matters (Onu and Oats, 2015). Communicating tax matters involves activities like discussing with tax professionals the best way to comply with tax regulations, consultations with other businesses and employing their most successful past strategies, negotiating openly with tax revenue authorities to obtain a mutually agreeable solution, and promptly responding to messages from tax authorities.

Proposed predictors of tax management

The purpose of this paper was to develop a conceptual model demonstrating the predictors and measures for tax management behavior. The study also proposes the mediating role of management accounting systems in the model. This paper described the concept of tax management and adopted Oliver (1991) strategic responses to measure the latent variables of planning, organizing, controlling, and communicating aspects of management involved in tax management behavior. This paper also developed hypotheses describing the association between board effectiveness, managerial competencies, management accounting systems, and tax management behavior in organizations. All these variables reflect internal organizational dynamics as suggested by Greenwood and Hinings (1996). Thus, the overall conceptual framework (Figure 1) emerging from the hypotheses specified in this paper indicates the effect of internal organizational factors and tax on management behavior in companies.

The hypotheses developed in this paper depict a comprehensive set of relationships between board effectiveness, managerial competencies, management accounting systems, and tax management behavior, through which this paper contributes to the existing literature on tax management. This is indicated in the following models:

Model 1: $TM = \beta_0 + \beta_1 AGE + \beta_2 SIZE + \beta_3 AUD + \beta_4 PROF + \beta_5 OWN + \varepsilon$

Model 2: $TM = \beta_0 + \beta_1 AGE + \beta_2 SIZE + \beta_3 AUD + \beta_4 PROF + \beta_5 OWN + \beta_6 BOD + \varepsilon$

Model 3: $TM = \beta_0 + \beta_1 AGE + \beta_2 SIZE + \beta_3 AUD + \beta_4 PROF + \beta_5 OWN + \beta_6 BOD + \beta_7 MC + \varepsilon$

Model 4: $TM = \beta_0 + \beta_1 AGE + \beta_2 SIZE + \beta_3 AUD + \beta_4 PROF + \beta_5 OWN + \beta_6 BOD + \beta_7 MC + \beta_8 MAS + \varepsilon$

where, TM is tax management, AGE is firm age, SIZE is firm size, AUD is auditor type, PROF is profitability, OWN is ownership structure, BOD is board effectiveness, MC is managerial competence, and MAS is management. Accounting system, β is the constant and ε is the error term.

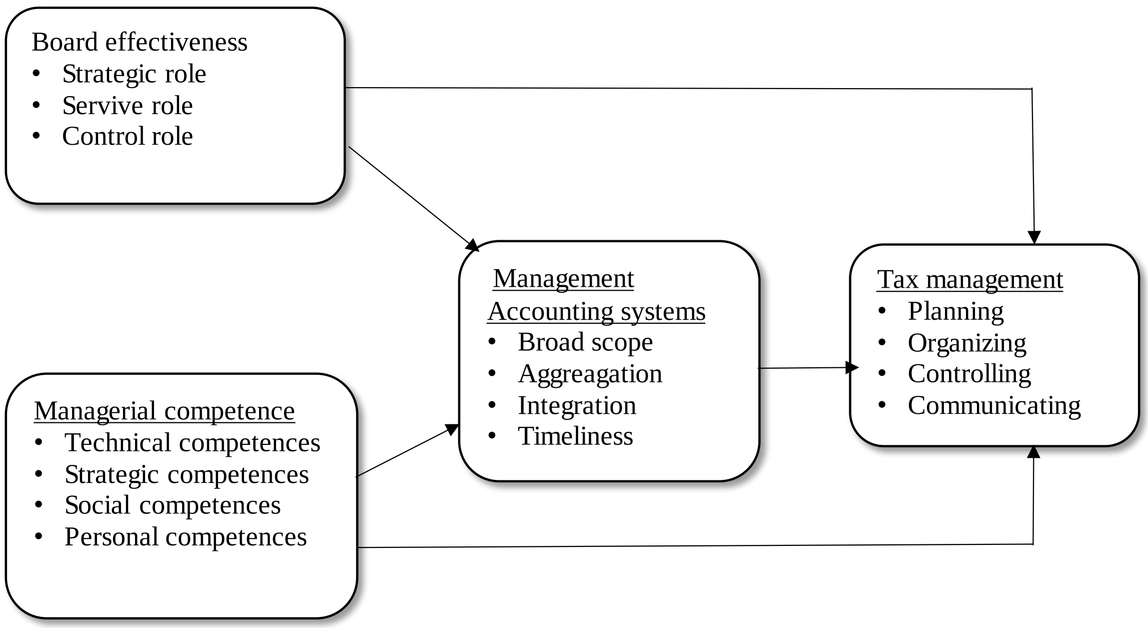

Figure 1. Conceptual framework.
Source: Author's own design based on review of literature.

Model 1 represents the effect of control variables which are firm age, firm size, auditor type, profitability, and ownership structure on tax management. Models 2, 3, and 4 depict the relationships between board effectiveness, managerial competencies, management accounting systems, and tax management behavior.

Conclusion

This study emphasizes the need to explain tax management behavior in response to tax regulatory obligations. The term tax management should not only be looked at as tax avoidance, this is because tax management is broader and requires responding to tax regulatory pressures whilst reducing tax liabilities. Therefore, its measurement should be enriched with concepts relating to planning, organization, record-keeping, compliance, and optimization of various aspects of taxation which this study has intentionally done.

Effective management of tax affairs aims to ensure accurate tax reporting, minimize tax liabilities, and maintain compliance with tax laws and regulations. This study proposes that tax management is explained with latent variables planning, organizing, controlling, and communication proxies of management measured using strategic responses suggested by Oliver (1991). Consequently, the gap of not having clear measures of tax management within the current literature is filled.

This study has also specified hypotheses that depict direct relationships between board effectiveness, managerial competencies, management accounting systems, and tax management behavior. The paper further specified hypotheses depicting indirect relationships indicating the mediating role of management accounting systems in the proposed model. Therefore, this paper provides a comprehensive representation of the likely influence of organizational factors specifically board effectiveness, managerial competencies, and management accounting systems on tax management behavior.

To policymakers, effective tax management positively impacts the performance and survival rates of business and the overall economic development of a country. In this regard, policymakers should develop programs that are geared towards enhancing effective management of tax affairs. Such programs should emphasize the sensitization of business managers about the importance of having tax affairs well managed. Policymakers should design competence training programs that equip taxpayers with the necessary competencies and knowledge on effective tax management.

Despite the proposed measures and predictors of tax management, this study has some limitations. The study is not able to discuss all factors that could explain variances in tax management. The focus of this paper was on internal organizational factors: board effectiveness, managerial competencies, and management accounting systems; therefore, future research can carry out conceptual work specifying the effect of external factors on tax management behavior. For example, tax enforcement measures like the frequency of tax audits, sanctioning activities, and procedural justice can be external factors that future research can explore. Future research can also specify a set of relationships between tax management behavior and other internal organizational variables reflecting organizational interests and value commitments. Finally, research could be carried out to examine the empirical evidence for the hypotheses specified in this paper.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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