
## MANAGING TAX RISK: THE CORPORATE GOVERNANCE WAY

The modern business environment is one that is dynamic and characterized by uncertainty. These uncertainties pose various risks which if left unchecked, can affect the realization of the goals of a corporate. The major corporate goal, from a finance perspective, is to maximize the wealth of the shareholders.

Among the many a risks that corporate entities face, is tax risk. This risk which is a consequence of the positions corporations take in their interpretation and application of the different tax laws. Tax risk is mainly inherent in compliance and transaction activities of corporates. Unmanaged risks in most cases affects the returns on investments which in turns affects the wealth maximization potential of a corporate. Therefore, not having a policy on risk, is one of the easiest route to the downfall of any corporate regardless of its size. In addition, having a zero tolerance to risk is not a viable option considering the principle of risk and reward.

Therefore, it is imperative that certain levels of risk should be accepted to ensure that corporates take up opportunities for instance in new markets, products or even investments. To govern this, a sound policy on tax risk management is essential.

In most companies, risk management is embedded in the corporate governance framework. However, these conventional frameworks, especially in Kenya, have times and again failed to provide with clarity a strategy for the corporate to manage its tax risks.

The upside of actively managing tax risks will not only ensure sustained wealth maximization but also enable corporates to identify opportunities which can be maximized. This is especially so in an era of globalization where opportunities for growth are numerous. One way of managing tax risk is developing a tax governance framework as a part of the corporate governance framework. The tax framework will therefore be under the mandate of the board which is tasked with the overseeing role over the corporate activities.

The tax governance framework should at least have a clear tax strategic direction for the corporate, enumerate all corporate tax risks and provide a control framework for internal tax reporting.

**Developing a robust tax governance framework**

To develop a robust governance framework for managing the tax risks we propose the following approach:

- Assess current strategy and goals of your corporate,
- Conduct a comprehensive review to identify the tax risks and opportunities,
- Develop a tax risk policy and risks register,
- Design a tax governance framework which consider the above inputs,
- Ensure all parties to be responsible are informed and equipped,
- Implement the framework, and
- Review the governance framework periodically and assess for opportunities to exploit (within the law).

In order to sustain shareholder wealth maximization, companies must be proactive in management of their tax risks. Through effectively using the tax governance framework, identification of opportunities and synergies will be effortlessly achieved. In conclusion, various risks emanating from the compliance or transaction activities of the corporate will be mitigated.

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