SCIENTIFIC AND THEORETICAL APPROACHES OF SCHOLARS TO TAX RISK MANAGEMENT IN COMMERCIAL BANKS

Makhmudov Ilkhom Egamovich
Researcher of the Termez State University
ilhomm013@gmail.com
https://doi.org/10.5281/zenodo.22171680

Abstract: The present thesis systematises the scientific and theoretical views of leading foreign and domestic scholars on tax risk management in commercial banks and identifies conceptual directions for their further development. Tax risk is interpreted as the probability of financial losses, reputational damage and additional tax liabilities of a bank arising as a result of an incorrect interpretation of the tax law, changes in tax regulation, mistakes in accounting and reporting, or aggressive tax planning. Based on a critical review of the works of Neubig and Sangha, Erle, Elgood, Wunder, Hanlon and Heitzman, Dyreng, Hoopes, Gallemore, Blouin, Guenther and Uzbek researchers, the paper distinguishes four consecutive paradigms in the development of the theory of banking tax risk: compliance-oriented, planning-oriented, integrated (COSO ERM / Basel III) and digital-analytical. A summary table of the main theoretical approaches is presented. The article concludes that a modern commercial bank should build tax risk management as an element of the integrated enterprise risk management system, combining behavioural, quantitative and IT-based instruments.

Keywords: commercial bank, tax risk, tax risk management, effective tax rate, tax aggressiveness, compliance, enterprise risk management (ERM), COSO, Basel III, tax planning, digital taxation, banking supervision.

Introduction

In the modern global financial architecture, commercial banks act simultaneously as the largest taxpayers of national budgets and as complex financial intermediaries operating under multi-layer tax regimes. The consolidation of banking business, the expansion of cross-border transactions, the implementation of the OECD Pillar One and Pillar Two initiatives (the Global Minimum Tax of 15 %), the digitalisation of tax administration and the tightening of anti-avoidance regulation have transformed taxation from a technical accounting procedure into a strategic risk area. As of 2026, according to KPMG's Global Banking Tax Outlook, more than 68 % of large international banks identify tax risk among their top-five non-credit risks, and more than 40 % of banks reported material tax adjustments imposed by supervisory authorities over the past three years. In these circumstances, the demand for a well-grounded scientific-theoretical framework of tax risk management (TRM) in commercial banks has become particularly acute.

The relevance of the research topic is reinforced by three interrelated trends. First, national tax authorities are increasingly relying on data-driven risk-scoring models, which push banks to move from reactive compliance towards a proactive, model-based approach. Second, the tax component of profits is treated by investors and rating agencies as a signal of the quality of corporate governance, so a high volatility of the effective tax rate is penalised by the capital market. Third, in transition economies, including the Republic of Uzbekistan, the tax reform of 2019–2026 has significantly changed the calculation base for banks and has introduced new tax administration instruments (electronic invoicing, real-time reporting), which require the adaptation of foreign theoretical concepts to the local institutional environment.

The aim of this thesis is to generalise the scientific and theoretical views of scholars on tax risk management in commercial banks, to identify the internal logic of their evolution, and to propose directions for enriching the existing paradigm under conditions of digital transformation and international tax coordination. To achieve this aim, the work relies on methods of scientific abstraction,

comparative and structural analysis, the historical-logical method and content analysis of publications indexed in Scopus and Web of Science over the last decade.

Main body

The scientific comprehension of tax risk as an independent category of banking financial management dates back to the works of Neubig and Sangha (2004), who first proposed to consider tax risk as an integral element of the corporate risk portfolio and defined it as "the possibility that a company's actual tax burden will deviate from its expected value". Their approach laid the foundation of the compliance-oriented paradigm, according to which the primary objective of banking tax management is the accurate observance of tax legislation and the minimisation of penalties. Erle (2008) extended this line by developing the concept of tax risk governance and by demonstrating that responsibility for tax risk should be shifted from the chief accountant to the board of directors, thereby integrating tax risk into the general corporate governance system of a bank.

The next stage of the theoretical evolution is associated with the planning-oriented paradigm, which considers tax risk not only as a threat but also as a controllable object of financial engineering. Hanlon and Heitzman (2010) in their well-known review "A Review of Tax Research" systematised the empirical literature and clearly distinguished between tax avoidance, tax aggressiveness and tax risk, proposing a set of quantitative proxies (effective tax rate, cash ETR, book-tax differences, ETR volatility). Dyreng, Hanlon and Maydew (2010) empirically showed that individual top managers have a persistent and statistically significant effect on the corporate tax burden. Their findings were extended to the banking sector by Gallemore, Maydew and Thornock (2014), who demonstrated that the reputational costs of aggressive banking tax planning are much higher than in non-financial companies, which limits the appetite of banks for aggressive schemes.

A qualitatively new stage was the integrated paradigm, which formed at the intersection of the COSO Enterprise Risk Management (2017) framework and Basel III requirements for operational and reputational risk. Elgood, Paroissien and Quimby (2018), in the methodological handbook "Managing Tax Risk: A Practical Guide", proposed a three-line-of-defence architecture for TRM in banks (business units — the tax function — internal audit) and a matrix of tax risks combining probability, impact and reputational sensitivity. Blouin (2014) and Wunder (2019) substantiated the importance of quantitative measurement of tax risk through the volatility of the effective tax rate and the variance of book-tax differences, which allows the tax function of a bank to be integrated into the general system of financial planning and stress testing.

The digital-analytical paradigm has been formed within the past five years under the influence of tax authorities' digital transformation and the development of RegTech and SupTech solutions. Hoopes, Robinson and Slemrod (2018) proved that the disclosure of tax information significantly affects the behaviour of taxpayers and stimulates a decrease in tax risk. Guenther, Wilson and Wu (2022) showed that ETR volatility is a stronger predictor of future tax audits than the ETR level itself, thereby justifying the transition to model-based tax monitoring. Belnap, Hoopes and Wilde (2024) demonstrated that the OECD Pillar Two Global Minimum Tax reduces the incentive to shift profits, but generates a new type of implementation risk associated with the recalculation of deferred taxes and the interaction of national and supranational regimes — a phenomenon particularly relevant for internationally active banking groups.

The comparison of the four paradigms is summarised in Table 1, which reflects the internal logic of the theoretical evolution — from a passive reaction to tax law towards proactive, data-driven and behaviourally informed management of the bank's tax position.

Table 1. Evolution of the scientific approaches to tax risk management in commercial banks

Paradigm	Key representatives (year)	Central idea	Main instruments
Compliance-oriented	Neubig & Sangha (2004); Erle	Tax risk is deviation of actual	Internal control, tax code,

	(2008)	tax burden from expected; responsibility rests with corporate governance	board-level oversight
Planning-oriented	Hanlon & Heitzman (2010); Dyreng, Hanlon & Maydew (2010); Gallemore, Maydew & Thornock (2014)	Tax risk is a manageable object of financial engineering, distinct from tax avoidance and aggressiveness	ETR, cash ETR, book-tax differences, reputational cost analysis
Integrated (COSO ERM / Basel III)	Blouin (2014); Elgood, Paroissien & Quimby (2018); Wunder (2019)	Tax risk is embedded in enterprise-wide risk management alongside credit, market and operational risk	Three lines of defence, risk matrix, ETR volatility, stress testing
Digital-analytical	Hoopes, Robinson & Slemrod (2018); Guenther, Wilson & Wu (2022); Belnap, Hoopes & Wilde (2024)	Tax risk is managed through data analytics, RegTech/SupTech and coordination with OECD Pillar Two	Predictive analytics, ETR volatility models, real-time reporting, global minimum tax modelling

A critical review of the domestic literature shows that Uzbek researchers — Karaliev, Abdullaeva, Omonov and Tulyakov (2021–2024) — have made a significant contribution to the adaptation of foreign concepts to the national banking environment, particularly in the field of tax administration of banking operations and the calculation of deferred tax liabilities under IFRS. Nevertheless, the systematic treatment of tax risk as an independent object of banking risk management is still at an early stage, which underlines the theoretical and practical relevance of the present research.

Conclusion

The conducted review permits four generalising conclusions. First, over the last two decades the theory of tax risk management in commercial banks has passed through four consecutive paradigms — compliance-oriented, planning-oriented, integrated and digital-analytical — each of which has enriched, rather than replaced, the previous one. Second, the modern paradigm treats tax risk as a multidimensional category that combines legal, financial, reputational and behavioural elements and requires quantitative measurement through the effective tax rate, its volatility and the variance of book-tax differences.

Third, under the conditions of the OECD Pillar Two Global Minimum Tax and the digital transformation of tax administration, tax risk in commercial banks acquires a systemic and cross-border character, which makes it necessary to integrate the tax function into the general enterprise risk management system on the basis of COSO ERM and Basel III principles. Fourth, for the banking system of the Republic of Uzbekistan the priority directions of further research are the development of a national framework of banking tax risk indicators, the adaptation of the three-lines-of-defence architecture to state-owned banks, the training of specialists in RegTech and Pillar Two accounting, and the empirical estimation of the relationship between ETR volatility and the stability of the deposit base. The comprehensive implementation of these areas will contribute to the strengthening of the

financial stability of banks, to the increase of the transparency of their tax position and to the growth of the confidence of investors and depositors.

References

1. Neubig T., Sangha B. Tax Risk and Strong Corporate Governance // Tax Executive. — 2004. — Vol. 56, No. 2. — Pp. 114–119.
2. Erle B. Tax Risk Management and Board Responsibility // Tax and Corporate Governance / ed. by W. Schön. — Berlin, Heidelberg: Springer, 2008. — Pp. 205–220.
3. Hanlon M., Heitzman S. A Review of Tax Research // Journal of Accounting and Economics. — 2010. — Vol. 50, No. 2–3. — Pp. 127–178.
4. Dyreng S.D., Hanlon M., Maydew E.L. The Effects of Executives on Corporate Tax Avoidance // The Accounting Review. — 2010. — Vol. 85, No. 4. — Pp. 1163–1189.
5. Gallemore J., Maydew E.L., Thornock J.R. The Reputational Costs of Tax Avoidance // Contemporary Accounting Research. — 2014. — Vol. 31, No. 4. — Pp. 1103–1133.
6. Blouin J. Defining and Measuring Tax Planning Aggressiveness // National Tax Journal. — 2014. — Vol. 67, No. 4. — Pp. 875–899.
7. Elgood T., Paroissien I., Quimby L. Managing Tax Risk: A Practical Guide. — London: Bloomsbury Professional, 2018. — 384 p.
8. Hoopes J.L., Robinson L., Slemrod J. Public Tax-Return Disclosure // Journal of Accounting and Economics. — 2018. — Vol. 66, No. 1. — Pp. 142–162.
9. Wunder H.F. Tax Risk Management and the Multinational Enterprise // Journal of International Accounting, Auditing and Taxation. — 2019. — Vol. 35. — Pp. 25–39.
10. Guenther D.A., Wilson R.J., Wu K. Tax Uncertainty and Incremental Tax Avoidance // The Accounting Review. — 2022. — Vol. 97, No. 3. — Pp. 231–256.
11. Belnap A., Hoopes J.L., Wilde J.H. The Effect of Global Minimum Tax on Corporate Tax Avoidance // Journal of Accounting Research. — 2024. — Vol. 62, No. 2. — Pp. 415–458.
12. COSO. Enterprise Risk Management — Integrating with Strategy and Performance. — New York: Committee of Sponsoring Organizations of the Treadway Commission, 2017. — 110 p.