

# Research And Analysis on Tax Risk Management of Enterprises Proposed for IPO

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**Abstract.** In recent years, IPO has become one of the important financing methods for many enterprises, and IPO listing has brought more resources and opportunities for many enterprises. However, some enterprises to be listed on the IPO lack the awareness of risk avoidance and do not do a good job in tax management, which leads to negative impacts on the IPO listing and even failure of the IPO listing, which can be seen from the fact that enterprises deal with the tax-related issues is a key factor for the success of the listing on the IPO, and it is very important to carry out effective tax risk management. Effective tax risk management is of great importance. This paper analyses the tax risk problems of IPO enterprises by studying the tax risk problems of today's IPO enterprises and puts forward suggestions for tax risk management of IPO enterprises, as well as puts forward the outlook for future research.

**Keywords:** IPO companies; IPO listing; tax risk management.

## 1. Introduction

### 1.1. Research Background

In the first half of 2023, the Chinese mainland remained an important region for IPO, accounting for 28 percent and 50 percent of the global IPO volume and fundraising amount, respectively. Public data shows that the Shanghai Stock Exchange and Shenzhen Stock Exchange raised US\$19.2 billion and US\$12.8 billion respectively, while the New York Stock Exchange, Abu Dhabi Securities Exchange, and Nasdaq Stock Exchange ranked third to fifth respectively (Juchao Information-GEM IPO Prospectus). 2023 was characterized by a complex and volatile macro-economic environment, with continued political instability at the margins. Factors such as inflationary pressures and rising interest rates have also affected the consolidated market leading to further weakness in IPO financing. What's more, during the corporate IPO review process, regulators may make inquiries on business, financial, and legal matters, with tax-related issues frequently queried. By analyzing the situation of tax-related issues in IPO inquiry letters from January to December 2022, we can understand the performance and characteristics of tax-related issues in IPO inquiries, so that enterprises will be aware of the importance of tax compliance, on the other hand, it can also help relevant institutions to understand in-depth the legal and social issues of tax-related issues, and the main risks have a certain reference significance for the future IPO listing of enterprises.

### 1.2. Literature Review

This paper focuses on the risk of IPO enterprise tax issues, some IPO enterprises are easy to ignore, legal, political, environmental, and other issues, and lead to unfavorable situations, some special IPO enterprise companies may hold the characteristics of their high-tech, need more money to develop, in the development of the same time, the need to pay attention to the surrounding politics, the legal background, the environment, and so on, in the best opportunity and the best time to choose. Going public is the best choice for financing, but there are times when it can be rejected by the Securities and Futures Commission because of financial and tax issues. Yu Liuxi (2020) found that the main reasons for IPO companies failing to pass the audit, sustained profitability, financial accounting

treatment, irregular operation, and related transactions are the main reasons for IPO companies declaring to be rejected [1]. Yang Shuyong (2021) found that the main reasons for the failure of IPO enterprises sustained profitability, tax-related issues, financial accounting issues, accounting, and standardized operation of the problems accounted for a particularly high proportion of the main problems that have been plaguing the IPO enterprise companies. Tax issues and financial accounting issues have a direct relationship, once the IPO enterprise because of the financial accounting problems there are significant risks, then there will inevitably be tax non-compliance [2]. Xue Wenli (2023) found that tax risk management, reducing risk and taking risk identification, analysis and control, and other coping strategies to manage the activities of tax risk is an important component of the management of the internal control of the enterprise, which involves a wide variety of business activities, the risks arising from the effective control of the management of these risks, you can ensure that the long-term development and sustained development, not only to help better predict the future but also to improve the efficiency of business operations and reduce financial risks [3]. So in terms of enterprise failure, based on different backgrounds and political environments, for domestic IPO enterprises, domestic scholars' suggestions are more reference value. For IPO failure research literature, most of them are based on analyzing the data with failed cases, to obtain the reasons and take precautions, China's proposed IPO enterprises, do not pay attention to daily tax risk management at the same time, but do not pay attention to the IPO audit will focus on The tax problems that the IPO audit will focus on are not paid attention to, which leads to the enterprises being troubled by the tax problems in the market.

### 1.3. Research Content And Significance

The structural framework of this paper is as follows: Chapter 1 firstly introduces the background and motivation of the study, followed by the purpose and importance, and finally describes the research methodology and the research ideas for the topic. Chapters 2 to 4 provide a detailed overview of the literature on tax risk management of IPO enterprises, starting from the conceptual exposition of IPO and tax risk issues and focusing on analyzing the multiple factors of tax risk and management strategies of the proposed IPO enterprises; Chapters 5 and 6 put forward the relevant recommendations on tax risk management of IPO, and provide a comprehensive summary and outlook.

The success of IPO is of great significance to the IPO Company itself and the whole industry, but the tax of IPO runs through the whole IPO industry, through which the IPO Company can expand its business scope, enhance the ability of corporate financing, reduce the corporate debt ratio, and attract more investors and increase the brand value. In the listing process of IPO companies, tax-related issues have always been the focus of IPO audit, directly related to the success or failure of the proposed IPO companies listed on the stock exchange, and play an important role in the listing of the enterprise IPO [4]. However, IPO enterprise audit will involve a variety of tax risks. This paper will practice the application of the trend of China's self-testing reform and development, and from the actual results of the problem analysis, to find out the tax risks, to give a reasonable explanation, and to reduce the difficulties because of the tax problem to the market, reduce the risk of delisting. Finally, targeted suggestions and solutions are given to provide a reference for the management of the proposed IPO enterprises.

## 2. Overview Of IPO And Tax Administration

### 2.1. Definition And Process Of IPO

IPO stands for Initial Public Offering, which is the first time a private company issues shares to the public to be listed and traded on a stock exchange [5]. Through an IPO, a private company can raise capital and publicly transfer its equity to a large number of investors. There are five steps in an IPO, which are the preparation stage, the underwriting stage, the offering stage, the listing and trading stage, and the subsequent management stage. It is important to note that the IPO process may vary

from country to country and region to region, and specific regulations and procedures may also vary [6]. In addition, IPO is a complex process that requires the company to work closely with professional organizations and advisors and to comply with relevant laws, regulations, and market rules.

## **2.2. Concept And Importance Of Tax Risk Management**

Tax risk management is critical for businesses. It covers compliance, tax planning, and planning, and aims to ensure that businesses minimize tax risks and optimize tax benefits while complying with tax laws. Non-compliance can lead to legal and financial risks such as tax penalties, fines, and reputational damage. Through sound tax planning, companies can reduce their tax liabilities by the law, improve the efficient use of capital, and increase profitability. At the same time, active management of tax risks helps to build a good corporate image and reputation and enhance trust and cooperation with stakeholders. Therefore, enterprises should attach great importance to tax risk management and take appropriate measures to cope with potential tax risks to ensure sustainable development.

## **2.3. Tax Risks Faced By IPO Companies**

IPO companies face a variety of tax risks. Firstly, tax compliance is a key issue, including accurate filing and payment of various taxes and compliance with relevant tax regulations. Secondly, companies may face risks such as capital gains tax, share incentive tax, and stamp duty during the IPO process. In addition, tax planning by enterprises needs to be handled prudently to avoid being regarded as illegal tax avoidance. Tax audits and investigations are also potential risks faced by IPO companies, and tax authorities may review the company's financial data and tax returns. Therefore, IPO companies should pay attention to tax risk management, work with professional tax advisors to ensure compliance, and develop tax strategies to minimize potential tax risks.

## **3. Types And Factors Of Tax Risks Of IPO Proposed Enterprises**

### **3.1. Regulatory And Compliance Risk**

IPO companies face tax risks, which include regulatory and compliance challenges. Tax regulations require companies to comply with tax laws and regulations and to file and pay taxes accurately. Violations of tax regulations may result in penalties, interest, and other legal consequences. In addition, companies need to comply with regulatory requirements for specific taxes, such as value-added tax, income tax, and cross-border tax provisions.

Compliance risk involves tax planning and tax avoidance practices. Tax planning is legal behavior designed to minimize a business's tax liability. However, illegal tax avoidance practices are unlawful and can result in fines and criminal charges. Therefore, businesses need to comply with legal and ethical standards when undertaking tax planning to avoid illegal behavior. Tax audits and investigations are also potential risks, and tax authorities may audit businesses to verify the accuracy and compliance of their tax returns. If violations are found, businesses may face penalties, interest, late fees, and reputational damage.

To address these regulatory and compliance risks, companies should have a robust tax compliance system in place to ensure accurate filing and payment of taxes. Co-operate with professional tax consultants to keep abreast of and comply with tax regulations and carry out compliant tax planning. Focus on tax risk management, conduct internal audits and compliance checks, as well as train employees to raise tax awareness and compliance consciousness. Through these measures, companies can minimize tax risks, maintain a good tax reputation, and ensure continued business development.

### **3.2. Transnational Tax Risks**

IPO companies face cross-border tax risks when they operate in multiple countries. This means that enterprises need to comply with the tax regulations of different countries and deal with complex

tax issues [7]. For example, international tax rules and double taxation agreements may affect an enterprise's tax obligations and tax liabilities. In addition, transfer pricing is an important issue that involves determining reasonable prices in cross-border transactions to avoid tax disputes. These tax issues are complex for businesses and require working with a professional tax advisor to develop a compliant tax strategy. Enterprises also need to pay close attention to changes in international tax regulations, as well as reviews and investigations by tax authorities in various countries. In summary, IPO companies must carefully address tax risks in their multinational operations and ensure compliance with the tax laws and regulations of each country to avoid possible penalties and legal issues, and to ensure the sustainable development of their business.

### **3.3. Impact Of Business Structure And Organizational Form On Tax Risk**

The business structure and organizational form of an IPO business can have a significant impact on tax risk. Tax risk may increase if the enterprise has multiple branches or is involved in multinational operations. Different organizational forms are subject to different tax rules, such as corporate income tax and personal income tax. Cross-border business involves complex issues such as international tax rules, double taxation agreements, and transfer pricing. Therefore, companies need to work with professional tax advisors to ensure compliance and minimize tax risks. Establishing robust internal controls and compliance procedures is essential to ensure the accuracy and compliance of tax returns. It is also necessary to train employees and raise tax awareness and compliance consciousness so that they understand the tax regulations and perform as required [8]. In summary, companies should carefully manage tax risks, ensure compliance, and work with professionals to avoid penalties and legal consequences and build a solid foundation for continued business growth.

## **4. Methods And Strategies Of Tax Risk Management For IPO Enterprises**

### **4.1. Establishment Of A Favorable Tax Risk Management Environment**

To do a good job of tax risk management, the proposed IPO enterprise must attach great importance to enterprise tax, the enterprise management needs to realize the important role of tax risk management on the enterprise listing and development, and set up an all-round and multi-angle awareness of tax security [9]. Secondly, it is also indispensable to improve the organizational structure of the enterprise, the proposed IPO enterprise should make every effort to establish and improve the enterprise's internal control system and compliance management system, including the enterprise departments to do a good job of clear division of responsibilities, auditing and supervision mechanism, the enterprise needs to carefully review its organizational structure can effectively prevent the tax risks faced in the future. At the same time, it is necessary for the proposed IPO enterprise to set up a specialized department for the tax-related risks that are the focus of the IPO audit, and to effectively improve the capacity of the relevant tax department through compliance training and communication mechanisms, etc., to ensure the transparency and compliance of tax matters [10]. In addition, the proposed IPO enterprise should pay close attention to the changes and trends in tax regulations, establish a monitoring mechanism for tax regulations, obtain the latest information on tax regulations regularly, and keep in close contact with the tax department to adjust the tax strategies and compliance measures promptly, which can ensure the compliance and transparency of the enterprise in tax matters.

### **4.2. Strengthening Corporate Tax Due Diligence And Risk Assessment Capabilities**

Many proposed IPO-listed enterprises do not do a good job of identifying tax risks for the enterprises themselves and are unable to effectively reduce IPO listing failures and other problems caused by tax-related issues. Therefore, all proposed IPO enterprises need to carry out regular tax surveys and risk assessments, to gain a comprehensive understanding of the enterprise's tax risk situation. This can be done by reviewing tax documents and records, developing a self-inspection form for tax-related risks of key IPO review items, identifying potential risks and problems, and

taking corresponding corrective and improvement measures. It is possible to establish relevant tax departments within the enterprise, set up positions for tax-related risk control, hire professionals to engage in tax work, file tax returns on time, strictly comply with relevant national tax laws and regulations, and regularly train and examine the professional knowledge of the tax and accounting personnel, and regularly study and build tax policies and tax incentives applicable to the enterprise, to increase the sensitivity of tax personnel to the Tax risk sensitivity, reduce the occurrence of enterprise tax-related risk behavior [3].

#### **4.3. Improvement Of Enterprise Communication Transmission Mechanism And Tax Planning**

Enterprises proposing IPOs need to strengthen internal information exchange and emphasize effective and real-time communication between their tax department and other departments to avoid tax risks from spreading to other departments or even the listing of the IPO [11]. Secondly, enterprises also need to pay attention to strengthening communication with other departments outside the enterprise, to understand the relevant regulations and systems of the tax management department in time to avoid making mistakes, and to cooperate with tax professionals, such as professional tax analysts or accounting firms, to obtain professional and accurate tax management advice and suggestions, and to help the enterprise formulate reasonable strategies and compliance measures to cope with the tax risks and make timely decisions on the potential risks of enterprise taxation. Make timely adjustments and changes to the potential risks of corporate tax. At the same time, a specialized tax planning team or committee can be set up, comprising tax experts and senior management, to formulate tax planning strategies, assess risks, and promote implementation. In addition, the proposed IPO Company can work with a professional tax advisor, who can provide professional tax advice and recommendations to help the company solve complex tax issues, conduct strategic tax planning and optimization, reduce tax risks, and improve tax efficiency [12]. Finally, regular tax due diligence is conducted to identify potential problems and resolve them promptly, while paying close attention to changes in tax regulations and adjusting planning and compliance measures to ensure compliance and transparency. Through these comprehensive measures, proposed IPO companies can perform better tax planning and risk management and improve their chances of lasting success.

### **5. Recommendations**

#### **5.1. Standardize The Operation Of Tax-related Risk Prevention**

IPO-listed enterprises should pay attention to the standardized operation of the enterprise. For example, some enterprises believe that internal control can be implemented as long as there is effective monitoring of enterprise funds, but this practice ignores the long-term development needs of the enterprise. In the enterprise, if there is no perfect tax risk management system, then it is easy to a variety of tax risks. Enterprises to be listed should correct previous tax-related risks in a timely manner to prevent further expansion of tax risks and irreversible consequences. The tax offenses that have already occurred in the past should be remedied promptly, make up for the delinquent taxes, pay the late payment fees imposed, and actively rectify themselves following the requirements of the tax authorities [1]. If necessary, IPO enterprises should hire professionals to analyze and assess the relevant situation and give preventive advice, at the same time, IPO enterprises in the prevention and management of tax risks, need to take into account the enterprise's self-interests, in the case of not violating the state law, as far as possible in the case of lawfulness to reduce the enterprise's tax burden, to maximize its interests [13]. Tax compliance is crucial for IPO enterprises to go public, and to avoid negative impacts on performance, IPO enterprises can achieve their goals by developing a standardized management system.

## 5.2. Finance And Accounting Tax-Related Risk Prevention

The standardization of enterprise finance and accounting departments is the key to enterprise tax risk prevention. The enterprise finance department should formulate a strict and unified tax system to regulate the tax treatment when the enterprise encounters tax-related problems, to avoid the disconnection between finance and tax and business due to irregular business processing, for example. The finance and accounting departments of IPO enterprises should pay attention to the self-examination of tax-related risks and set up early-warning indicators of tax risks, to avoid unnecessary financial losses due to the error of information to the enterprise. In addition, the staff of the tax department of the enterprises to be listed should also update and understand the tax policies related to the IPO listing of enterprises. To grasp the conditions that need to be met by the enterprises listed on the tax side of the IPO, only to know the relevant tax policies as well as the theoretical policies internalized in the palm, so that familiarity breeds mastery, and try to avoid the tax risks that may occur in the IPO listing of enterprises and help the enterprises successfully listed.

## 6. Conclusion

### 6.1. Key Findings

This paper through the review of a large number of related literature and network information, found that most IPO enterprises in the tax always face a variety of different degrees of tax risk, to be IPO enterprises should strengthen the concept of enterprise tax risk management, improve the scientific process of enterprise tax risk control to control their tax risks, and at the same time, to be IPO enterprises need to improve their ability to identify tax risks, and be properly solved. In addition, if the proposed IPO enterprise relies on the embellishment of corporate financial reports or enjoys tax incentives in violation of the law from time to time, it will also bring great tax risks to the IPO enterprise. As for cross-border IPO enterprises, they will face cross-border tax risks, and the unreasonable management of some IPO enterprises will bring negative impacts to the listing of IPO enterprises. If the enterprise has other tax problems, it needs to actively communicate with the competent tax authorities to obtain proper treatment or relevant approvals, to minimize the impact of these tax problems on the IPO of the enterprise. Tax compliance is crucial for IPO enterprises to go public, and unreasonable tax planning may result in IPO enterprises not being able to go public and may affect investor confidence in the IPO enterprise and have a negative impact.

### 6.2. Future Studies

This paper analyses the tax risk management of IPO enterprises based on IPO tax risk concepts as well as theories and conducts a detailed study on tax risk factors and their management strategies. Finally, this paper hopes that the in-depth study of tax risk management of IPO enterprises, can help the proposed IPO enterprises to comprehensively understand where their tax risks lie, improve the accuracy of decision-making and the precision of financial data, help the enterprises to reduce the risks and unnecessary losses, and improve the success rate of IPO listing. This paper does not closely integrate the specific process of IPO listing with the tax risk problems that can be encountered, and this deficiency still needs to be improved in future research.

## Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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