AUDIT • ADVISORY • TAX



GLOBAL TAX ASSURANCE AND RISK MANAGEMENT

DEVELOPING A VISION FOR TAX DEVELOPING A TAX STRATEGY AND TAX POLICY

PROVIDING A VISION FOR YOUR TAX FUNCTION BY DEFINING TAX GOVERNANCE, THE MANAGEMENT OF TAX RISK AND TAX OPERATIONS ACROSS YOUR BUSINESS

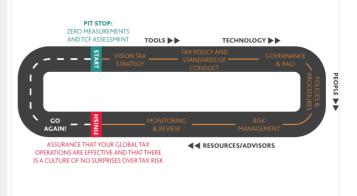
2020

A VISION FOR YOUR TAX OPERATIONS

Tax is increasing on Boards' agendas and all organisations need to take steps to demonstrate a clear vision for their tax operations as well as ensure a culture of 'no surprises' when it comes to tax risk.

Our approach is centred on developing a Board approved Tax Strategy that provides the 'vision' for your current and future operations, and something you may wish to publish internally or externally.

This in turn is supported by a **Tax Policy** that sets out expected standards of conduct in how tax is carried out in your business. The Tax Policy should underpin the principles in your Tax Strategy and include all elements of your **Tax Control Framework** (below).



We believe that the Tax Control Framework ('TCF') and its roadmap - see above - provides the framework for the effective management of tax within an organisation. It is a path that we help our clients follow.

The secret to the success of the TCF is to ensure that the processes and controls underpinning each of the elements above are successfully communicated and adopted across the business. Essentially, this means strong tax governance; clearly defining what is understood as tax risk in the business, setting up tax escalation mechanisms and defining tax accountabilities and responsibilities. This is what our clients seek to articulate in their Tax Strategy and Tax Policy.

DEVELOPING YOUR TAX STRATEGY AND TAX POLICY

We have developed an established approach that will first enable you to clearly articulate your vision for tax within a Tax Strategy and then set out the policies and processes that underpin this Tax Strategy. This will be articulated within your Tax Policy.

1. Development of a Tax Strategy

We define a Tax Strategy as providing the vision for your current and future operations, and something you may wish to publish externally (eg as required in King IV^m or to align to your CSR agenda.)

2. Development of a Tax Policy document

A Tax Policy sets out expected standards of conduct in how tax is carried out in your business - this underpins the principles in your Tax Strategy and typically includes most elements of the TCF

3. Determining your underlying TCF

Once you have articulated your Tax Policy, there may be elements that are aspirational from updating tax compliance processes to formalising effective tax risk escalation mechanisms. Much of this may be already in place within your business and we would determine this as part of Phases 1 and 2 above.





PHASES 1 AND 2

Developing your Tax Strategy and Tax Policy

PHASE 1: TAX STRATEGY

The Tax Strategy provides a vision for how you want your tax operations to be managed within your business. We undertake this for you as part of a first workshop to better understand your business.

Typically this would be 2-3 pages setting out important tax principles, including your tax risk appetite, tax governance, approach to tax planning, relationships with tax authorities etc. It would ideally be aligned to existing CSR principles.

PHASE 2: TAX POLICY DEVELOPMENT

Having a standalone Tax Strategy is not enough. You need to demonstrate that the strategy is integral to the way your business operates and embedded in your daily operations.

This is done by developing an internal Tax Policy, and we define this as a board approved document that sets out 'expected standards of conduct in relation to how tax activities are carried out in the business'.

The development of a Tax Policy provides those with tax responsibilities with the mandate to clearly define and/or make changes in how tax is managed.

The content of the Tax Policy is often 'forward-looking' in the sense that once approved, the tax and finance function has the remit to make changes in the way that tax operates in the business.

EXAMPLE CONTENTS FOR TAX POLICY

INTRODUCTION

- Objective of tax policy document
- Scope, ownership, approval, revision.

TAX STRATEGY

Our published tax principles and what they mean for us. ►

GOVERNANCE

- Tax leadership and tone at the top
- Tax accountabilities and responsibilities
- Delegations of authority.

TAX RISK MANAGEMENT

- Defining tax risk
- Mechanisms for tax risk identification, ► management and escalation
- Tax risk criteria for tax planning decisions. MANAGING RELATIONSHIPS

...with Tax Authorities

- ...with advisors

...with the rest of the business. **PEOPLE AND ORGANISATION**

- Tax organisation
- ►
- Measuring tax performance Career development and training.

PROCESES AND CONTROLS

- Compliance and reporting obligations ►
- Data management and document retention ►
- Use of technology.

TYPICAL APPROACH

PHASE	TYPICAL OBJECTIVES	EXAMPLE TOOLS AND OUTPUTS
Phase 0: Impact and implementation plan workshop	 Confirm scope and timetable Share examples of Tax Strategy and Tax Policy documents Determine stakeholders and shared objectives. 	 Implementation plan Draft Tax Strategy Skeleton plan of what your Tax Policy could look like Proposed contents for Tax Policy
Phase 1: Revisit your Tax Strategy and determining tax mandate	 Determine the mandate of your tax function Complete Tax Policy Workbook to determine current and desired tax control framework for inclusion in your Tax Policy. 	 Completed Tax Policy Workbook Desk top review of existing documentation to determine support for Tax Policy
Phase 2: Developing Tax Policy and comms plan	 Develop and finalise content and narrative within Tax Policy Delivery of your Tax Policy document to board and wider as appropriate. 	 Tax Policy for approval Board paper on Tax Policy Comms to wider teams Implementation plan
Phase 3 (optional): Determining your Tax Control Framework and Tax Risk Framework	 Benchmarking to aspirational Tax Policy Recommendations for improvements to existing Tax Control and Risk Framework Development of Tax Risk mechanisms Global regulatory support 	 Tax Operations Assessment Tool Tax Risk and Opportunity questionnaire Review of existing tax processes and controls + recommendations Support in enhancing existing controls



PHASE 3 (OPTIONAL AND AGREED AFTER PHASES 1 AND 2)

Determining your Tax Control Framework

JOURNEY TO LEADING PRACTICE

Depending on the aspirational nature of your Tax Policy document, you may find value in implementing some 'quick wins' and tax process enhancements to meet updated tax objectives.

Central to this is often the development of an effective tax risk management framework across the business. We believe a straightforward approach to enhancing tax risk governance will demonstrably improve the identification, assessment and management of tax risk across the business, ensuring an environment of 'no surprises'.

TAX RISK MANAGEMENT

A typical approach for enhanced tax risk management:

- Carry out a holistic tax risk review to identify any immediate risk areas. This can include the use of tax risk questionnaires and 'traffic light' outputs (as on right). The results of this review frame how you prioritise and respond to high risk areas and develop the building blocks to strengthen your Tax Risk and Control Framework
- Identification of opportunities and recommendations. This includes quick wins in terms of enhancing your tax compliance, finding opportunities to take advantage of tax incentives and exemptions as well as managing common risk areas from VAT to independent contractor status issues
- Building blocks: Depending on the results of the above, implement tools processes and technologies to improve your tax risk and control framework across the business.

Tax Operations As Location: Company name: Completed by:		ol - assessment			BDO
1.Tax strategy and tone a Tax is not considered a high profile issue with little senior management focus and not included in business decisions. Tax activities are predominantly compliance focused.		29% Improvements required		Good practice	Tax is seen as a business partner and has a high profile in the business. Tax is a priority area for local serior management, and included in all major business decisions.
2. Tax governance and ta Tax accountabilities and responsibilities not clearly defined. No formal mechanisms for identifying tax risk. Management of tax risk is reactive.	x risk managemen Major gaps	31% Improvements required		Good practice	Tax risk is embedded within wider business procedures. Accountabilities and responsibilities over all tax activities clearly defined.
 Tax lifecycle: manager High risk of error, voluntary disclosures and recurring audits as a result of ineffective tax controls over local tax compliance & reporting processes. 	nent of tax compli	iance and reporting proc 55% Improvements required	ess	Good practice	Efficient and cost effective tax compliance and tax accounting processes. No recent significant audits or risks of error and misstatement. Full documentation to support compliance processes.
4. Tax value - optimising Non optimised tax position and unknown potential tax savings. Tax risk appetite not defined or understood locally.	tax Major gaps	Improvements required	75%	Good practice	A local focus on seeking out optimal tax positions in terms of tax savings (e.g., RBD, Tax depreciation etc).
5. Managing Transfer Pric Little understanding or focus on transfer pricing . Little or no documentation in place to support intercompany transaction prices. Little appreciation of what could give rise to PE risk in how this should be escalated.	ing and PE risk	50%		Good practice	Centrally understood Transfer Pricing policy in place. Local teams aware and adhere to transfer pricing policy. Robust policy policy of the policy of the policy of the intercompany transaction. Readiness for BEPS. Process in place over PEs.
6. Tax capabilities and us Tax processes not automated and overly manual. Cont R resource restraints deprioritise tax. No tax metrics.	e of technology an Major gaps	Improvements required		Good practice	Allocated local budget and resources to manage tax operations and tax risk. Tax processes automated. Local tax NPIs
7. Corporation tax risks Unsupported judgements in CT returns. Little appreciation of risks in the business that could rise to CT exposure.	Major gaps	Improvements required	77%	Good practice	Established CT compliance process. Little risk of CT exposure due to corporate structure etc. Data provides sufficient detail to support positions and provide optimisation opportunities.
8. Indirect Tax risks Little appreciation in the business of the activities that could give rise to VAT risks. Little or no formal controls over VAT processes.	Major gaps	Improvements required	70%	Good practice	Established VAT compliance process. Little risk of VAT exposure due to business operations etc. Data provides sufficient detail to support VAT positions.
9. Customs risks Little appreciation in the business of the activities that could give rise to Customs . Little or no formal controls over Customs processes. No clarity for who is accountable for Customs.	Major gaps	improvements required	72%	Good practice	Established Customs process. Little risk of Customs expoure due to business operations etc. Data provides sufficient detail to support Customs politions.
10. Excise risks Little appreciation in the business of the activities that could give rise to Excise risk. Little on no formal courted over Excise tax processes. No clarity for who is accountable for Excise.	Major gaps	Improvements required		Good practice	Established Excise process. Little risk of Excise exposure due to business operations etc. Data provides sufficient detail to support Excise positions.
11. Employment Tax risk: Little appreciation in the business of the activities that could give rise to Employment tax risks. Little or no format controls over Payroll or Employment Tax processes.	s Major gaps	61% Improvements required		Good practice	HR have a strong understanding of what can create tax risk and escalates this as required. Little risk of Engloyment tax exposure within business operations etc.
12. Senior Accounting Off Little or no work to provide upport in advance of S40 certification. Poor bench- mark signing that other organisations are doing to reflect what HMRC see as what good looks like for S40.	ficer Major gaps	Improvements required		Good practice	S4O risk review across all taxes supported by an annual testing programme to provide support in advance of S4O certification.
 Commercial substance Significant risk relating to the economic substance for the group's corporate structure that may require it in material tax exposures and/or reputational issues. 	e risk High risk	Medium		82% Low risk	Organisation is very unlikely to be imacted by regulatory and tax authority focus relating to the commercial substance for tax purposes.
 Corporate Criminal O Limited or no knowledge of the new CCO legislation. Concerns that the business is not able to demonstrate that there are processes or publicle in place to prevent tax evasion by associated persons. 	ffences - assessme High risk	ent of awareness only 64 Medium	X	Low risk	Senior management fully aware & informed of the new (CO legisiation. Business is confident that they can demonstrate that here are policies in place to prevent tax evasion by associated persons.
15. Tax profile and reput Organisation is at high risk of an adverse Interest in its tax operations by external stakeholders and this could affect brand profile and/or have a cost impact.	ation High risk	47% Medium		Low risk	Organisation is very unlikely to be the target of adverse press attention and/or is very unlikely to impact business operations or brand if tax operations were reviewed by external parties.



BDO TOOLS AND OUTPUTS

EXAMPLE TOOLS

BDO have established tools and methodologies to assist in the development of your tax policy and tax strategy. This includes:

- Tax Policy Workbook
- RACI matrix (right)
- Tax Risk questionnaires
- Tax Risk Registers, including the Tax Risk Assurance Matrix
- Summary tax risk assessment schedule (below)
- Database of internal and external tax policy documents
- Example board papers.

	Group (EMEA) Tax BIAICII		Group (EMEA) Finance				Local country teams				centre				Non-tax groups (to specify)				External providers					
	R	A	С	1	R	А	С	1	R	A	С	1	R	A	С	1	R	A	C	1	R	A	С	Т
Tax Governance											_													
Establish scope of tax operations for the group/sub-group																								
Establish tax principles and expected standards of conduct																								
Develop 'day-to-day' tax policies and procedures for business																								
Monitor tax legislation and policy																								_
Tax Administration	—	<u> </u>															<u> </u>	<u> </u>						_
Establish tax authority relationship												-										+	-	-
Establish tax advisor relationships	+	-			_					-	-					-		-				+	+	-
Maintain documentation retention	+	-			_					-						-		-				+	+	-
Maintain tax master data	+	-			_					-						-		-				+	+	-
		-		_		_					_	_				_	-		_			_		_
Managing Tax Risk																						Т		_
Develop tax risk strategy and risk compliance framework																								
Establish tax risk appetite for the group																								
Identification of tax risk across the business																								
Monitor, prioritise and report tax risk																								_
Develop response to tax risk																								_
Develop internal controls for tax																								_
Monitor tax risk mitigation																								_
Tax Planning and Transaction Support	-										_	_				_	_		_			_	-	_
Trake anning and mansaction oupport		-															-					_	_	-
Manage Corporate Income Tax Accounting and Reporting																								_
Manage Corporate Income Tax Compliance																								-
Manage Indirect Tax Compliance	r									1														

	ENTITY 1	ENTITY 2	ENTITY 3	ENTITY 4	ENTITY 5	ENTITY 6	Average
Tax Strategy and Tone at the Top	39%	66%	43%	75%	89 %	39%	59 %
Tax Risk Management and Governance	74%	68%	69 %	67 %	87%	71%	73%
Tax Lifecycle: tax compliance	94%	58%	86%	80%	96%	58%	79 %
Tax planning: optimising tax	86%	83%	-	60%	75%	47%	70%
Transfer Pricing	100%	60%	88%	60%	45%	55%	68%
Tax Resources: capabilities and tech	67 %	40%	78%	40%	74%	49%	58 %
Corporation Tax risks	100%	85%	88%	77%	88%	88%	88%
Indirect Taxes risks	92 %	76%	86%	79 %	84%	72%	82%
Employment Taxes risks	88%	93%	93%	80%	70%	80%	84%
Commercial Substance	39%	100%	87 %	42%	17%	78%	61%
Tax Profile	79 %	71%	86%	66%	42%	63%	68%
Overall score	78%	73%	80%	66%	70%	64%	72%

ASSURANCE OVER COMPLIANCE

One of the tools we use is the Tax Risk Assurance Matrix (TRAM) - below - that has been designed to capture and assess the current state of assurance for the main processes within the relevant taxes.

In developing or enhancing your underlying processes and controls to support the work you are doing on the Tax Policy, we would recommend this approach to benchmark your existing tax compliance risk and control environment.

Resource/ Experience / Training 4	Internal Process	Written Policy/ Processes 4	ce Initial Review 4	Second Review	HMRC	External Audit	rnal Assura External Advice/ Software	ance Internal Audit	Testing	Score	Benchmark
Experience / Training	Process Controls	Policy/ Processes	Review	Review		Audit	Advice/		Testing		
4	5	4	4	3							
				5	3	1	5	1	3	33	30
4	3	2	3	0	0	2	5	0	1		20
3	4	4	5	3	0	0	0	5	3	27	20
3	3	0	4	3	5	0	0	0	1	19	10
2	3	0	0	0	0	0	2	0	0	7	10
	3	3 3	3 3 0	3 3 0 4	3 3 0 4 3	3 3 0 4 3 5	3 3 0 4 3 5 0	3 3 0 4 3 5 0 0	3 3 0 4 3 5 0 0	3 0 4 3 5 0 0 0	3 0 4 3 5 0 0 0 1 19



CREDENTIALS

Client case study

THE ISSUE

The client was a decentralised group with significant operations. In response to King IV^m, our client wanted to use the development of a transparent and responsible Tax Strategy as a chance to redefine how tax operates in the business and to improve the profile of tax in the organisation. This was in response to an expanding business and due to changes in the tax team as well as a desire to review the mandate of tax and some frustrations at not getting tax included in business strategy decisions.

VALUE WE PROVIDED

We first developed a set of tax principles to be approved by the Board. This has now been published online and in the Integrated Report. This was then supported by an internal Tax Policy document (also Board approved) which clarified expected standards of conduct over tax operations across the business.

The Board were very enthusiastic about this work, enabling the CFO to demonstrate she had strong control over tax activities and provided a business case for tax spend and a reallocation of tax responsibilities across the business.

OUTPUTS

- Tax Strategy ready for publication
- Board approved Tax Policy including clarity over accountabilities and responsibilities
- Board paper setting out need for tax input into strategic business decisions.



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FOR MORE INFORMATION:

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