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EMEA TMC
client conference
Tax policy,
governance and
transparency

The Crystal, London
9-10 June 2015



Agenda

Increasing focus on tax governance and risk

The components of effective tax governance

Case studies part 1: setting the tax policy

Case studies part 2 : embedding tax policy framework

Case studies part 3 : communicating the tax policy/position

Conclusions

Increasing focus on tax governance and risk

1

Tax is now a strategic concern

- Unilateral and multi-lateral legislative change
 - Effective tax rate (ETR) and cash tax impact uncertain
 - Broader stakeholder focus
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2

Regulators are more demanding

- Board engagement, oversight
 - Attention to controls, systems
 - Proactive review, disclosure and action
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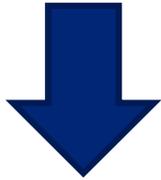
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More is being promised

- Mechanisms needed for delivering outcomes
- Those responsible need to get comfortable
- Expectations to comply and explain approach

The components of effective tax governance

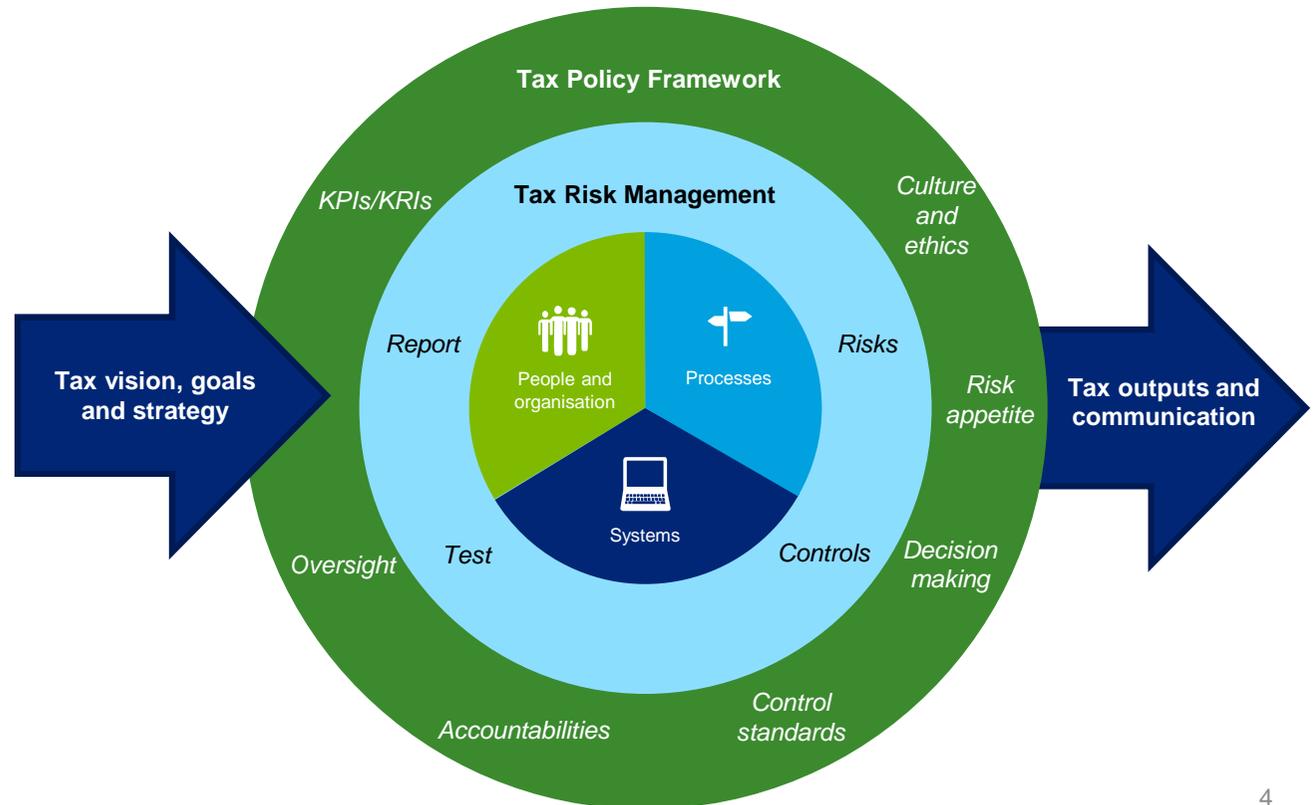
Financial Reporting Council (FRC) UK Corporate Governance Code: “*The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver long-term success of the company*”



Tax component often looks like:

- *Compliance*
- *Sustainable minimisation of tax*
- *Manage reputation*
- *Efficient tax operating model*

Effective tax governance should facilitate these goals



KPI – Key performance indicator
KRI – Key risk indicator

The components of effective tax governance

FRC UK Corp
to facilitate ef
long-term suc

This breakout session will focus on challenges and real-life examples of:

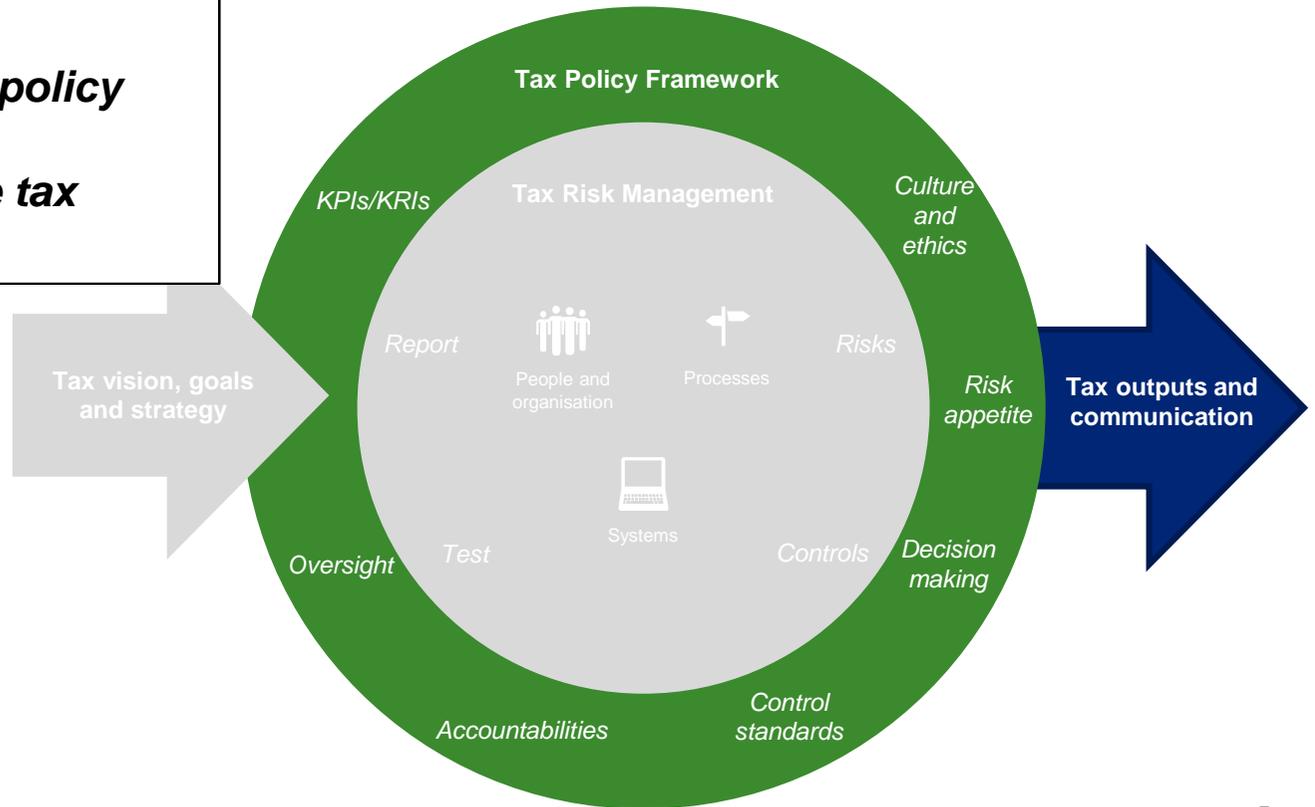
- **Setting tax policy**
- **Embedding the tax policy framework**
- **Communicating the tax policy/position**

use of corporate governance is
management that can deliver

Tax compon

- *Compliance*
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The components of effective tax governance

FRC UK Corporate Governance Code (2018) states that the primary objective of corporate governance is to facilitate effective management that can deliver long-term success

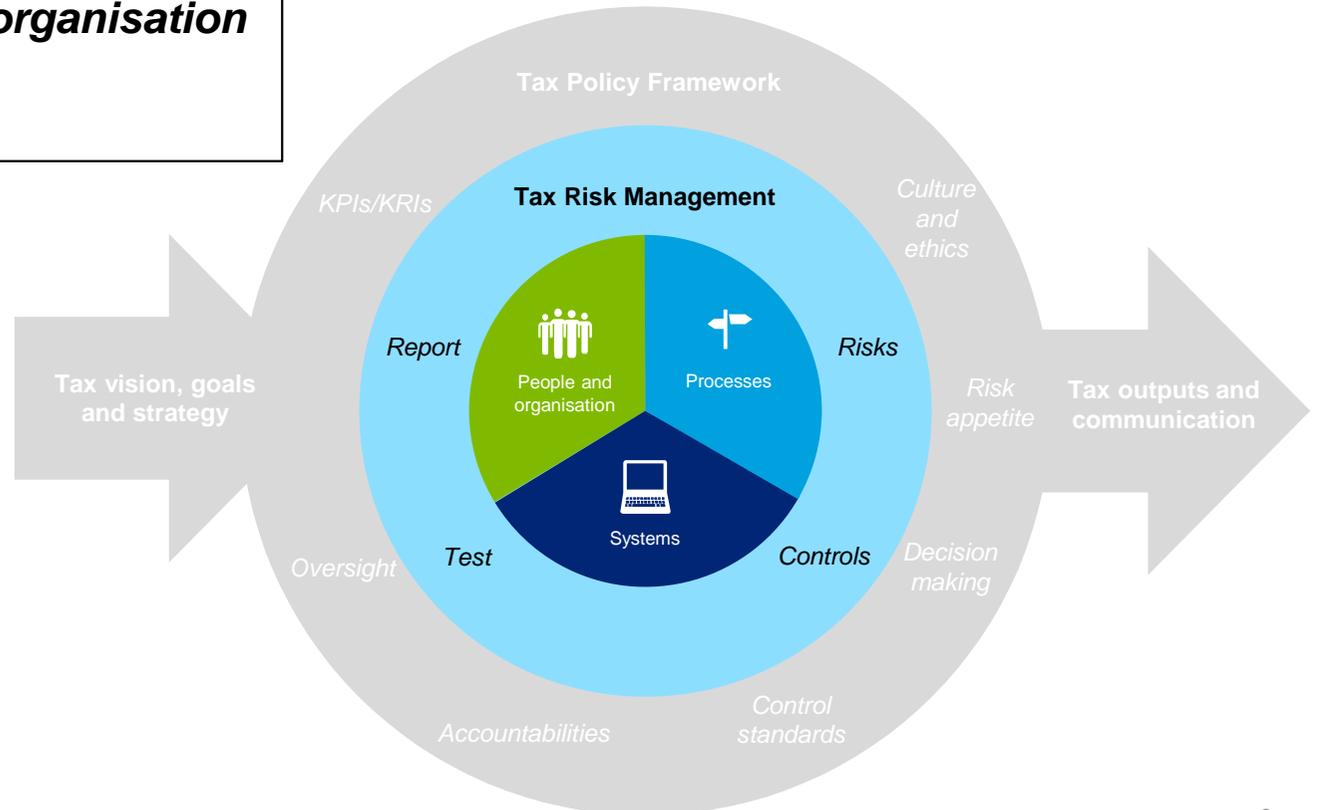
Other sessions will focus on:

- **Tax risk management**
- **Tax people and organisation**
- **Tax processes**
- **Tax systems**

Tax component often looks like:

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Effective tax governance should facilitate these goals



Case studies - part 1

Setting the tax policy

Planning

- Define aims and examples of issues to fix
- Understand existing framework and policies
- Understand external requirements
- Establish structure for policy documentation

Example Contents:

1. Scope
2. Objectives
3. Delegation of accountability and escalation
4. Key tax principles
5. Tax compliance and reporting
6. Tax advisory and reporting
7. Tax audits and enquiries
8. Tax lobbying
9. Use of advisors
10. Tax systems

Draft key principles and accountabilities

- Agree principles within tax leadership team
- Understand peer group and best practice examples
- Identify areas requiring specific review/approval
- Document initial split of roles and understand definitions

Group Tax accountable for:

- Corporate Tax – Europe
- VAT – UK
- Managing tax authorities

Group Tax responsible for:

- Tax reporting
- Tax advice to the business

Group Tax supports:

- Employment taxes
- Operational taxes

Test with stakeholders

- Identify key stakeholders (e.g. Finance, Legal, Investor Relations)
- Share draft policy and define agenda
- Agree principles and accountabilities through real-life scenarios

Scenario

- Tax is made aware of a development opportunity and a number of options are available which have differing affects on the available tax reliefs and deductions.

Key principles

- Precedence is given to business strategy over tax strategy
- In making tax planning decisions, we apply the principles set out in Tax Risk Guidance

Accountabilities

- Tax accountable for providing tax planning strategies
- Business Areas accountable for implementation

Finalise and seek endorsement

- Refine policy based on stakeholder discussions
- Identify appropriate body to approve – in this case framework suggested Executive Management Committee
- Present policy and seek endorsement

Outcomes

The outcome of this process should be a policy that:

- ✓ Is aligned with organisation's broader goals and standards
- ✓ Meets the requirements of regulators
- ✓ Facilitates embedding policy within the organisation, not just group tax but also wider finance and other functions
- ✓ Supports provision of external assurance where appropriate

Case studies - part 2

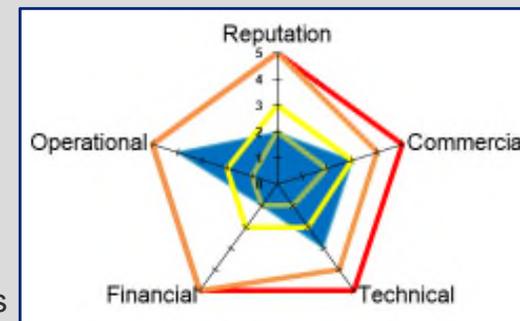
Embedding tax policy framework

Oversight

- Global bank had informal tax committee but limited mandate to enforce decisions as not considered full committee of the bank
- At same time as refreshing tax policies, committee brought in non-tax members, established programme of external input and is now a formal part of governance framework
- Currently agreeing accountability for VAT and operational taxes through committee activity

Decision making

- Oil and gas major uses the “decision web” to formalise strategic tax decision making
- Projects are mapped against policy and approved/escalated/declined based on scores



Attestations

- Multinational engineering business uses an annual questionnaire to seek sign-off re. compliance with policy standards
- Looking to implement rolling internal audit process

Annual declaration:

I have reviewed compliance with tax policy standards for [X] and confirm:

- Controls operated effectively
- Material exceptions reported
- Resources appropriate

Key performance indicators

- Global commodities trader performed exercise to set KPIs for tax team as a whole and for individuals
- Used tax vision and policy as basis, referencing Deloitte’s Four Faces of the Tax Function as a benchmark

Example KPIs:

- Returns filed on time
- Audit resolution
- ETR target
- Feedback from business

Case studies - part 3

Communicating the tax policy/ position

Issue:

Investor relations team keen to publish tax governance arrangements and regional tax payment information to meet Dow Jones Sustainability Index criteria. Tax and CFO hesitant as limited impact assessment had been performed.

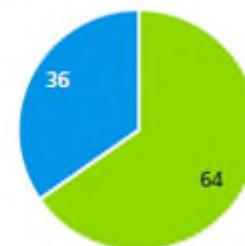
Activity performed:

1. Workshop hosted by Tax but involving Finance and Investor Relations. Agenda:
 - Understand objectives for further tax transparency as well as future obligations (e.g. country-by-country reporting)
 - Review peer group practice and potential options for nature and method of disclosure
 - Perform initial benchmarking of tax payment information
 - Establish plan for further assessment and initial decision re. disclosure
2. Dry run of data collection and disclosure
3. Detailed analysis of data and disclosure
4. Presentation to senior leadership with recommendations
5. Decision re. publication and implementation

FTSE 100 benchmarks



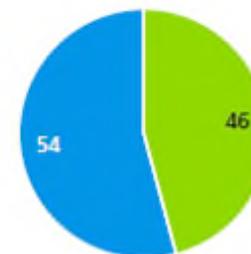
Governance



- 64 (2013: 60) groups made some disclosure of tax-related governance. Of these:
- 7 (2013: 8) made partial reference (e.g. mentioning that the Audit Committee had reviewed tax accounting judgment areas).
- 57 (2013: 52) provided fuller details, setting out processes for setting and monitoring adherence to tax policies and strategies.



Taxes paid/contribution



- 46 (2013: 32) groups disclosed total taxes paid/tax 'contribution'. Of these:
- 6 (2013: 12) made partial disclosure, setting out total taxes paid with no further analysis.
- 40 (2013: 20) disclosed the split between various categories of tax.

Conclusions

1

Refresh tax policy

- Formalise tax standards and accountabilities
 - Engage with stakeholders
 - Seek endorsement and mandate for implementation
-

2

Implement tax policy

- Ensure an appropriate infrastructure for tax policy implementation
 - Create appropriate oversight, decision making protocols, attestations and KPIs
-

3

Communicate to provide confidence

- Understand objectives for greater tax transparency
- Assess options and benchmark
- Balance stakeholder needs



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