Managing tax
Balancing current challenge with future promise
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Tax risk control frameworks - Managing tax risk with clarity and confidence

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Contents

Pressures on tax governance coming together 5
What is a Tax Risk Control Framework and how can it help 7
Components of a Tax Risk Control Framework: 10
  Tax Risk Control Framework - Process
  Tax Risk Control Framework - People
  Tax Risk Control Framework - Systems
  Characteristics of a sound Tax Risk Control Framework
Where the value is created 21

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Pressures on tax governance – coming together

1. **Tax is now a strategic concern**
   - Unilateral and multi-lateral legislative change – BEPS/Global Tax Reset.
   - ETR and cash tax impact uncertain.
   - Broader stakeholder focus.

2. **Regulators are more demanding**
   - Transparency and reporting requirements.
   - Expectation of Board engagement, oversight.
   - Focus on controls and systems.

3. **Organisations are transforming**
   - Revisiting commercial strategies.
   - Transformation of finance and broader supporting functions.
   - Changes in underlying financial and other systems and application of new technologies.

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Pressures on tax risk management
Managing tax risk with clarity and confidence
Managing tax risk with clarity and confidence
Effective governance and risk management delivered via a robust tax risk control framework

Tax risk control framework sets out the activities tools, techniques and organisation arrangements to ensure all tax risks are identified, assessed, understood and that appropriate responses are in place to mitigate the impact of all risks.

*Separate conference session will be focused on external reporting aspect of the pyramid and how it links to strategy and governance

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Managing tax risk with clarity and confidence
Circumstances will determine form of tax risk control framework

- Level of maturity of the tax function
- Industry the organisation operates in
- Level of senior management focus on tax governance and risk management
- Size of the organisation
- Focus of tax authorities on tax governance and risk management

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Enhancing tax risk management and governance
Coordinated rather than piecemeal approach is required

Objective
1. Collect, assess and address once
2. Central strategic oversight and review
3. Maximise automation – minimise disruption
4. Use and deploy often

Coordinated governance and risk management
maximising automation

- **Tax reporting** – effective and consistent reporting of taxes, including UK tax strategy, financial reporting and other public disclosure
- **Tax policy and governance** – tax policy, tax committee, protocols for key decision-making, monitoring existing risk profile and appetite for new risk
- **Tax risk management** – control framework for existing tax risks; process for identifying and reporting new risks
- **Tax management** – people, processes and systems to support effective business advice and compliance
- **Tax assurance** – objective assessment of the effectiveness of design and operation of tax controls

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Managing tax risk

Tax control framework: process, people and systems
Managing tax risk with clarity and confidence
Tax risk control framework – process

- Tax risk governance – how do we oversee tax risk?
- Defining tax risk – what are we trying to manage?
- Tax risk appetite – what risks are we willing to take?
- Tax risk management segregation of duties – who is responsible for what?
- Tax risk management processes – how do we go about managing risk?
Tax risk governance – how do we oversee tax risk?
Board oversight with management execution

- Embeds risk culture and awareness
- Defines tax strategy and policy
- Sets on monitors tax risk appetite
- Reviews areas of significant uncertainty and judgement

- Defines roles and responsibilities for management of tax risk
- Defines common risk framework (policies, standards, controls)
- Monitors tax risk profile, risk appetite and control environment
- Ensures objective assurance, monitoring and reporting on tax risk
- Review material or strategically significant matters escalating to board as necessary

- Review of tax risk profile (inc risks and provisions)
- Review of tax control issues – internal audits, risk events, change
- Assess emerging risk and control issues
- Review new, or material changes to, tax policies and standards
- Review materials submitted to Group Tax Risk Committee and Board

- Tax risk identification and assessment
- Tax risk control activities
- Tax risk monitoring and reporting
- Documentation of end-to-end processes
- Objective assurance and testing

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Defining tax risk – what are we trying to manage?
What is tax risk and the key drivers?

**Tax risk** is the risk of:
- **Financial loss** in the form of increased tax costs, interest and penalties;
- **Suboptimal commercial outcomes** due to missed opportunities to structure arrangements in an efficient manner; and
- **Restricted ability to achieve goals** due to damaged reputation and relationships with stakeholders (e.g., tax authorities).

There are **two key drivers** of tax risk:
1. **Judgemental** – relates to understanding and interpretation of tax law and manifests itself as **tax planning and advisory risk**; and
2. **Operational** – relates to the processes, people and systems in place to manage tax risk and manifests itself as **tax compliance risk**.

The **role of the tax function** is to:
- Help senior management to **understand and set its tax risk appetite**, taking into account both the judgemental and operational aspects of tax risk; and
- **Managing the tax risk profile to remain within this appetite** either directly in relation to tax activities that the tax department is responsible for or indirectly through working with others (e.g., outsource providers, the business, other group functions).
Applying risk appetite

Tax risk appetite – what risks are we willing to take?

Applying risk appetite

• Part of broader organisation-wide capacity and appetite for risk (e.g. capital requirements)

• Tax specific requirements increasing e.g. avoidance legislation, codes of practice and conduct etc

• Need to reflect balancing of competing pressures: value, compliance, reputation

• Key considerations:
  – Goes beyond corporate tax e.g. application to VAT and operational taxes
  – Cover own positions, those with counterparties and those with employees
  – May vary by business, region, country

• Need to understand limits and triggers for escalation in relation to new decisions

• Also need to monitor limits and triggers themselves

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Three line of defence applied to management of tax risk
Applying the three lines of defence model supports effective governance and risk management

<table>
<thead>
<tr>
<th>Governance</th>
<th>Board sets risk appetite, tone at the top and provides oversight</th>
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</thead>
<tbody>
<tr>
<td>First line of defence</td>
<td>Second line of defence</td>
</tr>
<tr>
<td>• Owner of risk</td>
<td>• Help set risk capacity and appetite</td>
</tr>
<tr>
<td>• Operate controls</td>
<td>• Analyse, monitor and advise on legislation, practice</td>
</tr>
<tr>
<td>• Maintain documentation</td>
<td>• Provide guidance on policies, procedures, system etc.</td>
</tr>
<tr>
<td>• Identify, manage, mitigate and report on risk</td>
<td>• Guide and undertake risk based monitoring, testing</td>
</tr>
<tr>
<td>• Identify and implement continuous improvements</td>
<td></td>
</tr>
</tbody>
</table>

Culture
organisational competence, motivation, organisation and relationships
Tax risk management process – how we manage tax risk

- Risk identification and assessment
- Control activities
- Monitoring and reporting

Documentation of end to end processes

Objective assurance
Managing tax risk with clarity and confidence
Tax risk control framework – people

Culture is the foundation for all components of the tax risk control framework and is the platform on which it is built.

The board and executive management should take the lead in establishing a strong risk management culture.

Appropriate levels of training and communication is required to ensure staff understand what is expected of them.

Staff need to be able to speak the control and risk management orientated language of regulators, tax authorities, internal and external auditors and risk professionals.

Oversight, accountability and performance appraisal should reinforce values and contribute to a strong tax risk culture.

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Managing tax risk with clarity and confidence
Tax risk control framework – systems

- Management need to periodically consider the suitability of the IT infrastructure and its configuration for tax
- Management need to assess the potential IT related risks to tax processes and determine the dependency between the use of technology in tax processes and technology generated controls
- Tax control activities need to be aligned with established entity level controls
- Management should be aware of tax specific software that can reduce risk and free up resource for other aspects of compliance
- Work flow and reported related systems can be used to automate and make more efficient tax risk management monitoring and reporting processes

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Managing tax risk

What does good look like and where value is created
Managing tax risk with clarity and confidence

Characteristics of a sound control environment – how do you rate?

1. Tone from the top and culture
2. Individual accountability
3. Key tax processes are clearly identified and understood
4. Material risks are identified and assessed
5. Risk appetite
6. Key controls are established and operated
7. Issues or events are identified and escalated
8. Remediaion programmes
9. Lessons learnt
10. Assurance

Best practice position
Current state assessment
Managing tax risk with clarity and confidence
Where the value created

Clear articulation of tax risk strategy across the organisation and translation of that strategy into daily activities ensuring opportunities leveraged as well as risks managed.

Efficient, practical tracking of individual and aggregated tax risk associated with business activities and tax decisions. Provides better understanding and more insight into tax options.

Identify gaps between the current state and desired state of processes for consolidating and communicating tax risks, and tracking, validating and improving tax management processes.

Provides a scalable, risk based framework to accelerate progress toward the long term vision of effective, sustainable management of tax operations.

Firmly positions the management of tax risk within the context of the wider organisations governance and risk management program.

Improved image, increased tax authority confidence, less enquires and audits, lower costs and resource requirements.
Managing tax risk with clarity and confidence

Next Steps

1. Define your framework
2. Ensure a coordinated rather than a piecemeal approach
3. Build the components of the framework
4. Ensure consistency with broader tax reporting/transparency requirements
5. Assess how you compare to sound risk management principles
6. Realise the value created
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