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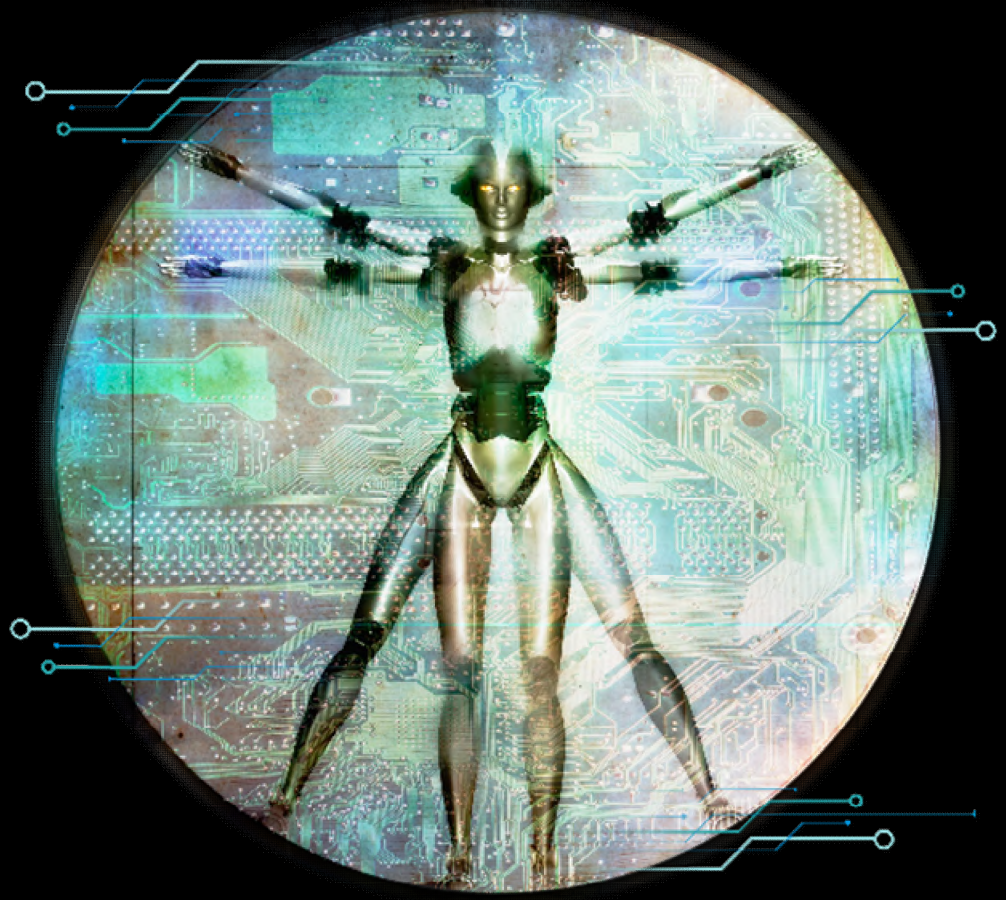

Managing tax

Balancing current challenge with future promise

The EYE, Amsterdam, 30 November - 1 December 2016

Deloitte.

Tax risk control frameworks - Managing tax risk with clarity and confidence

Marvin de Ridder, Deloitte Netherlands
Emmet Bulman, Deloitte UK

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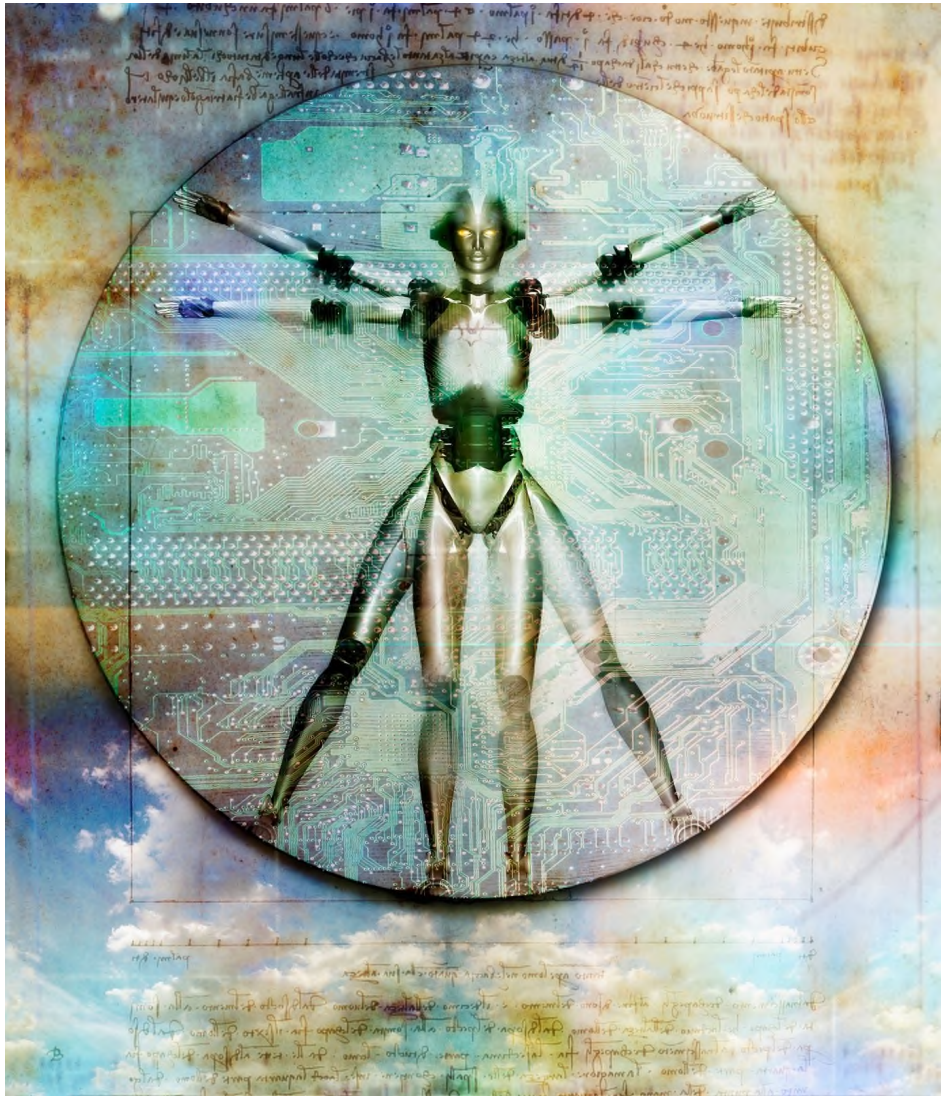


Pressures on tax governance – coming together

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.

Regulators are more demanding

- Transparency and reporting requirements.
- Expectation of Board engagement, oversight.
- Focus on controls and systems.

Organisations are transforming

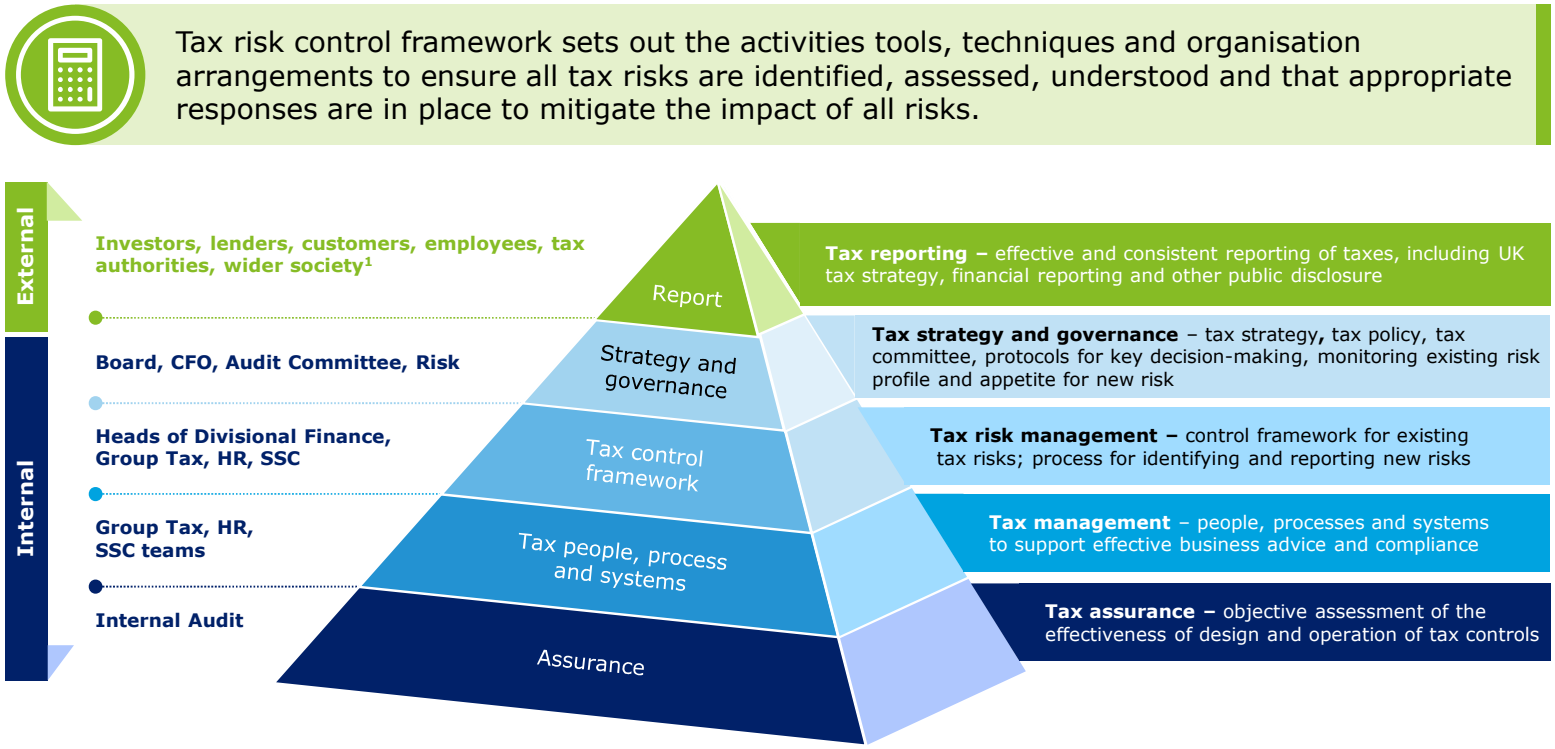
- Revisiting commercial strategies.
- Transformation of finance and broader supporting functions.
- Changes in underlying financial and other systems and application of new technologies

Pressures on tax risk management

Managing tax risk with clarity and confidence

Managing tax risk with clarity and confidence

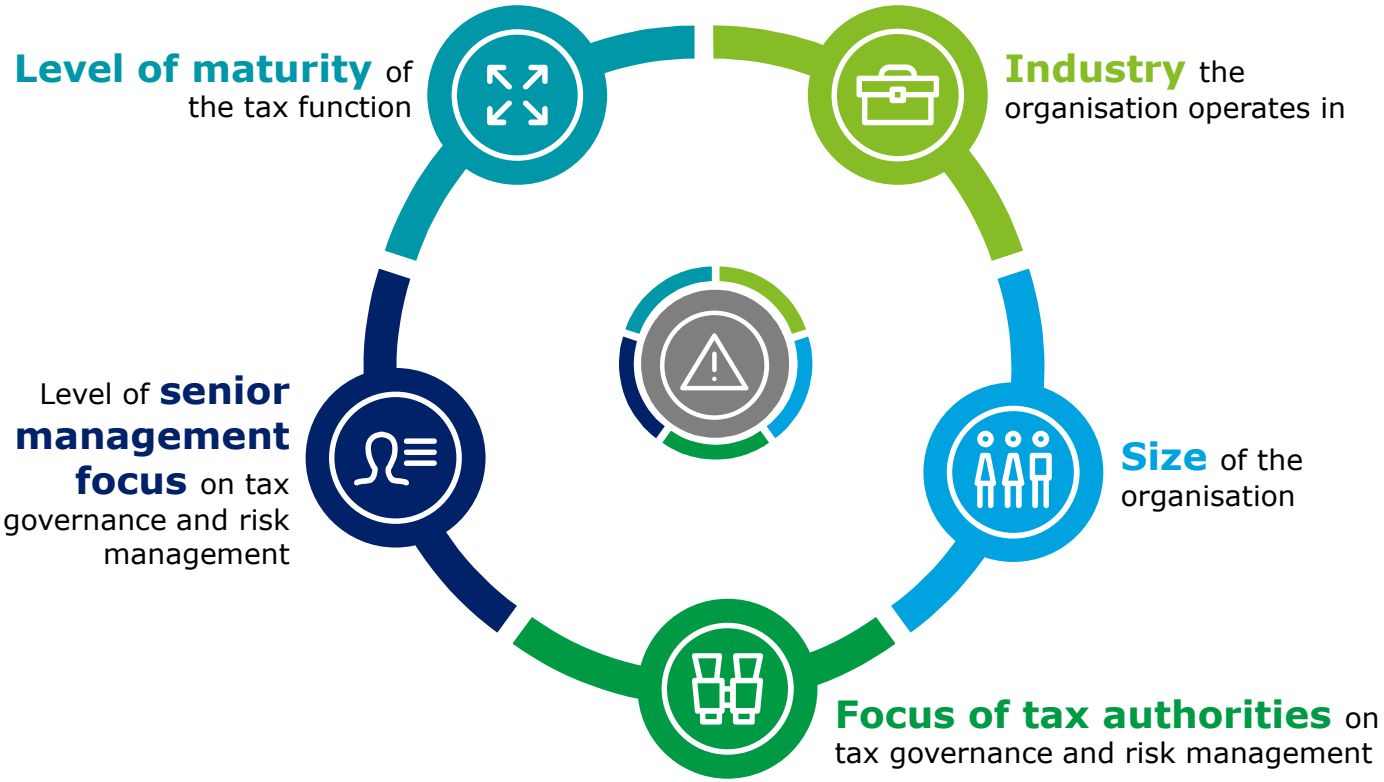
Effective governance and risk management delivered via a robust tax risk control framework



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

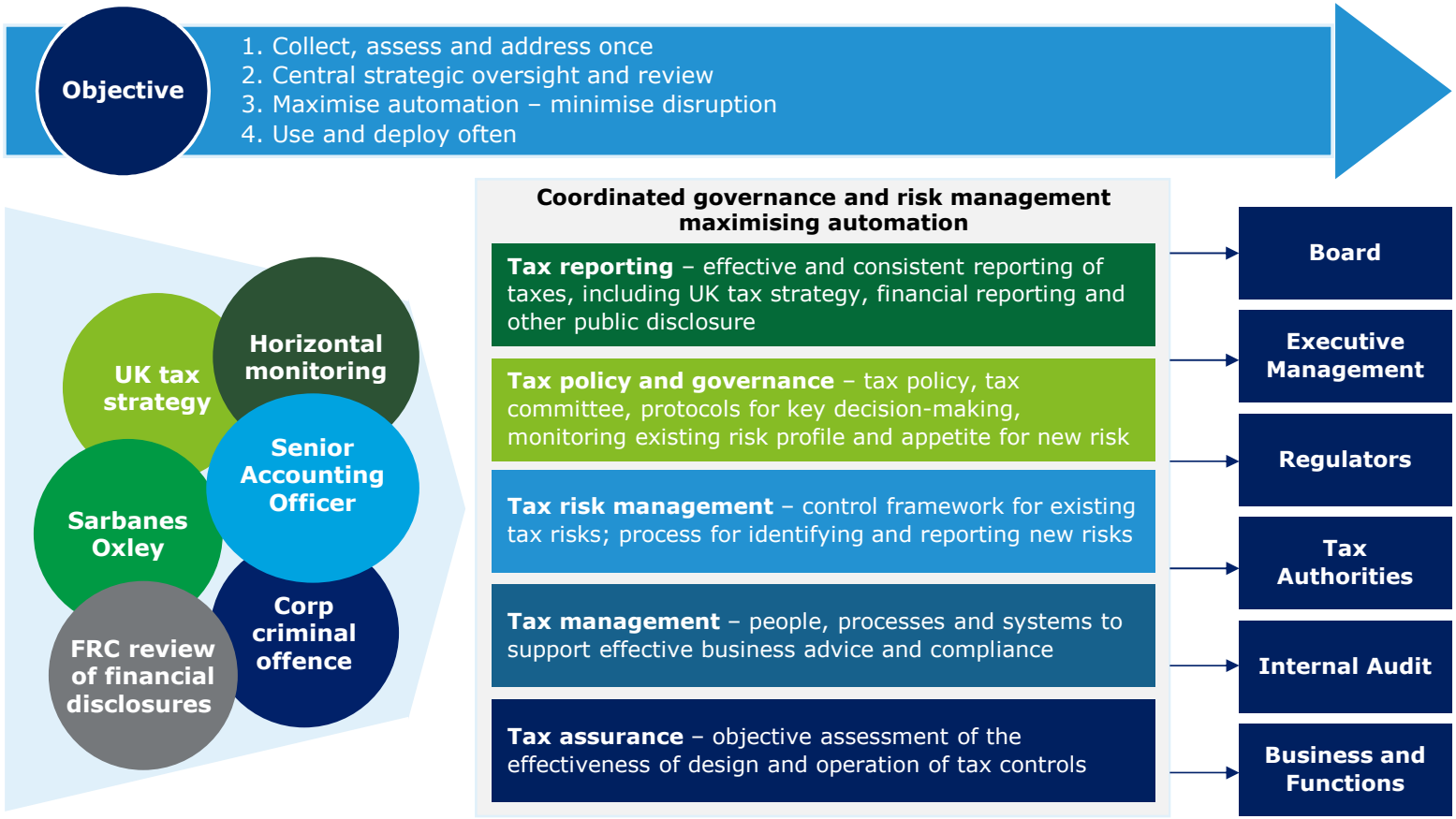
Managing tax risk with clarity and confidence

Circumstances will determine form of tax risk control framework



Enhancing tax risk management and governance

Coordinated rather than piecemeal approach is required



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

Board/ Audit Committee	• Embeds risk culture and awareness • Defines tax strategy and policy • Sets on monitors tax risk appetite • Reviews areas of significant uncertainty and judgement
Group Tax Risk Committee (Heads of Tax, Finance, Legal, HR, Risk and SSC)	• 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
Group Tax Risk Forum (Head of Tax, Regional and Functional Tax Heads)	• 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
Business and Function Governance and Control Committees	• Tax risk identification and assessment • Tax risk control activities • Tax risk monitoring and reporting • Documentation of end-to-end processes • Objective assurance and testing

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:

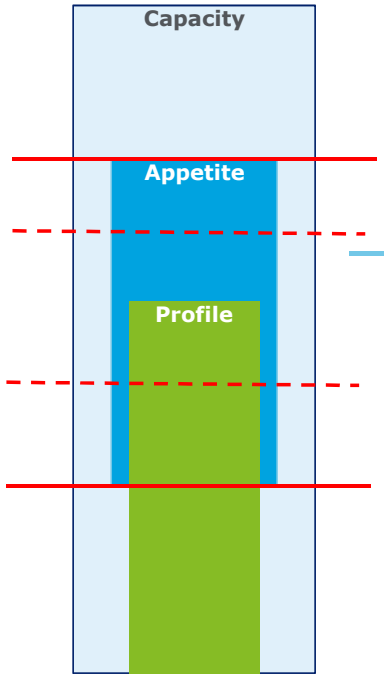
1. **Judgemental** – relates to understanding and interpretation of tax law and manifests itself as **tax planning and advisory risk**; and
2. **Operational** – relates to the processes, people and systems in place to manage tax risk and manifests itself as **tax compliance risk**.

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).

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

Three line of defence applied to management of tax risk

Applying the three lines of defence model supports effective governance and risk management

Commercial and regulatory environment

Governance

Board sets risk appetite, tone at the top and provides oversight

First line of defence

- Owner of risk
- Operate controls
- Maintain documentation
- Identify, manage, mitigate and report on risk
- Identify and implement continuous improvements

Second line of defence

- Help set risk capacity and appetite
- Analyse, monitor and advise on legislation, practice
- Provide guidance on policies, procedures, system etc.
- Guide and undertake risk based monitoring, testing

Third line of defence

- Validate risk framework
- Provide assurance that framework is operating as expected
- Independent testing of key controls
- Provide recommendations for improvements

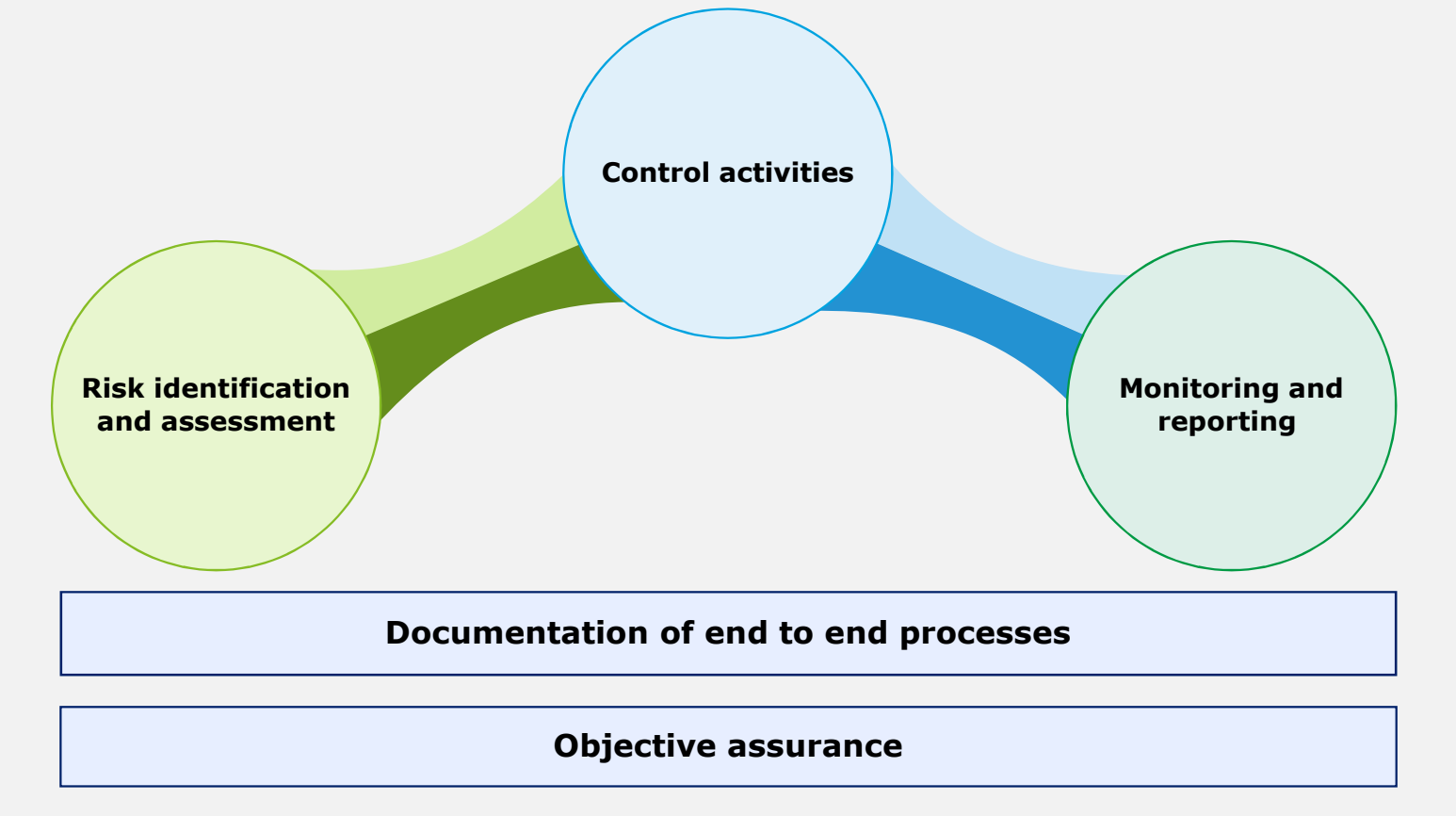
Culture

organisational competence, motivation, organisation and relationships

External Audit

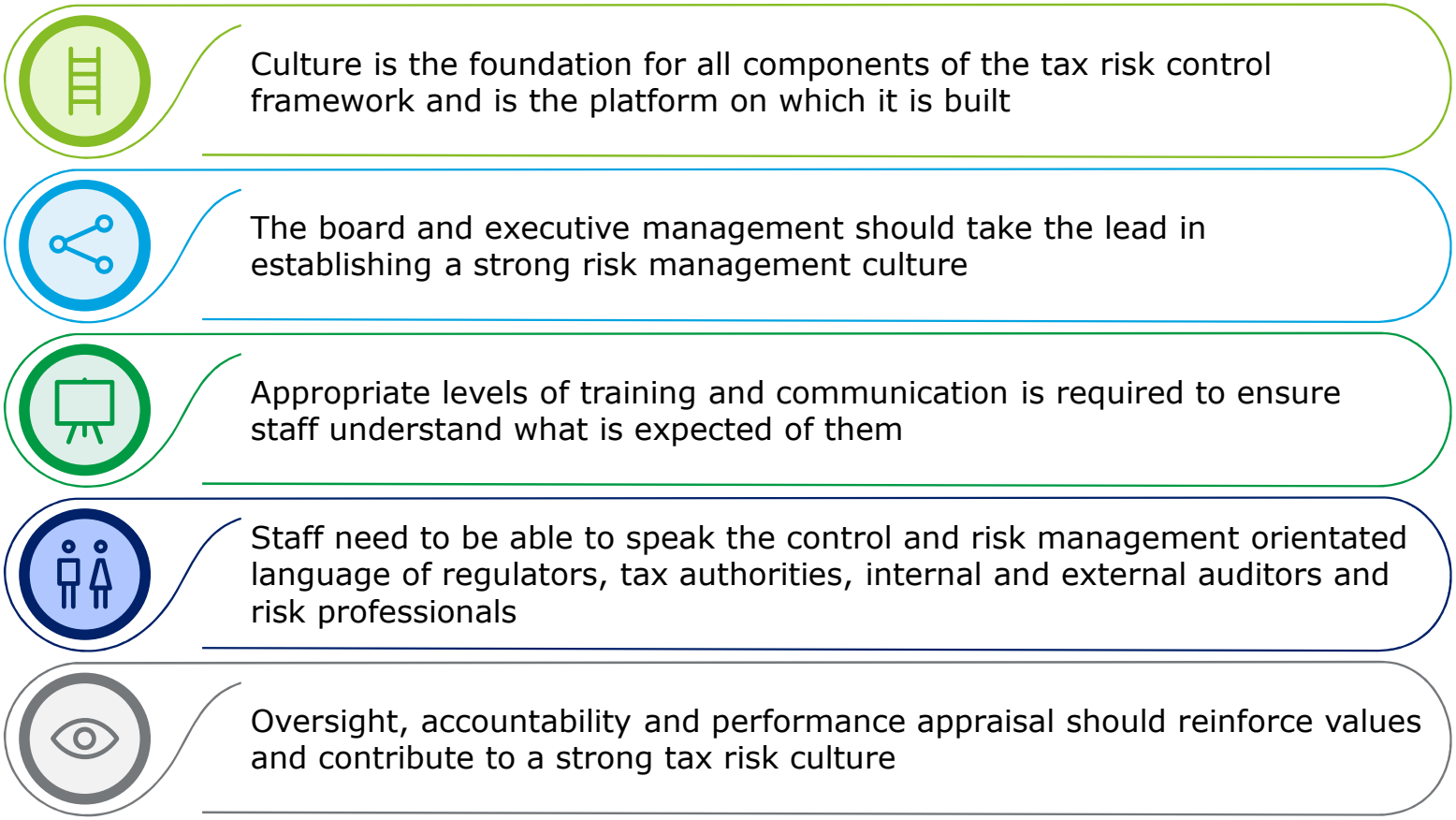
External regulators

Tax risk management process – how we manage tax risk



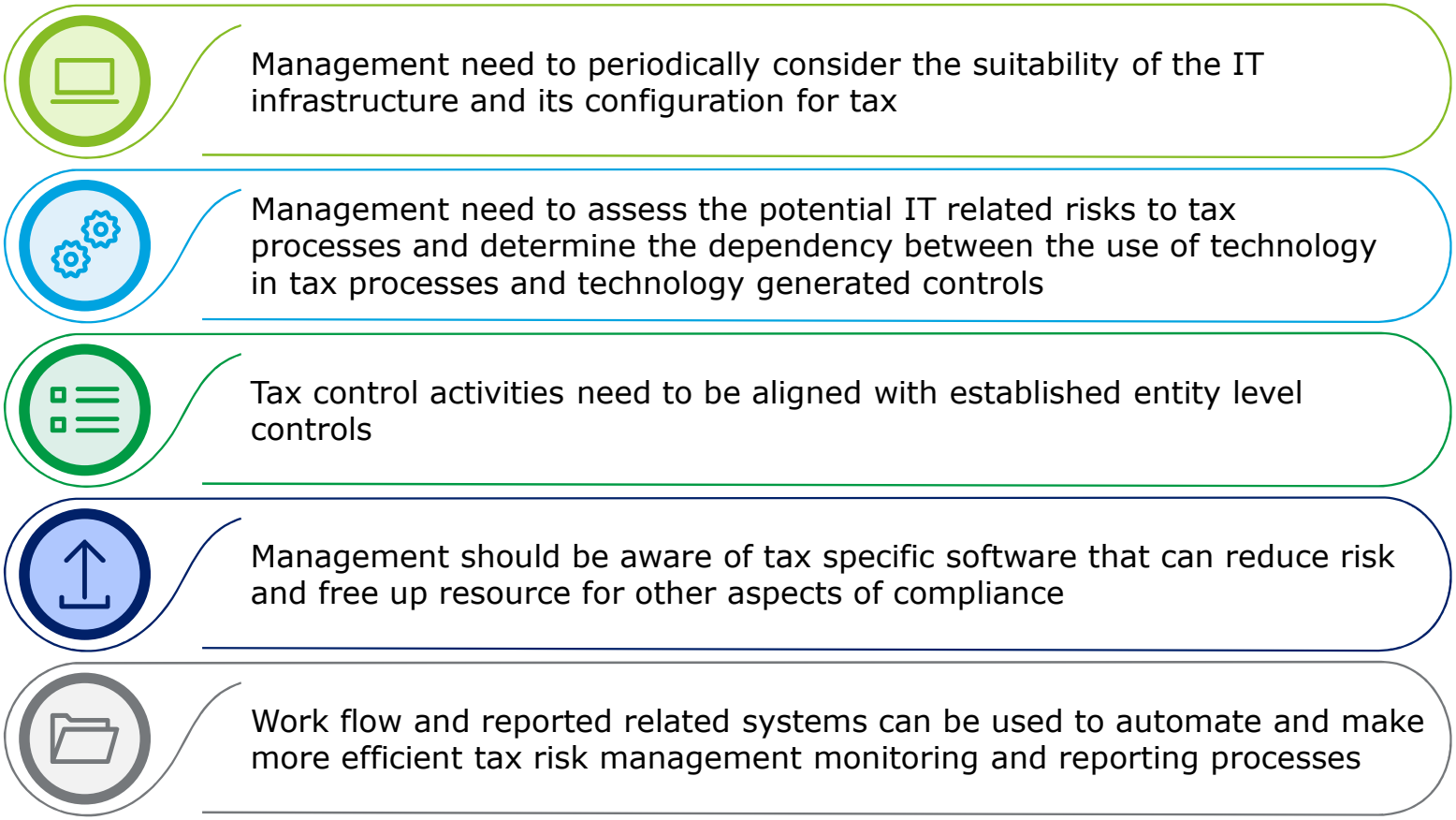
Managing tax risk with clarity and confidence

Tax risk control framework – people



Managing tax risk with clarity and confidence

Tax risk control framework – systems



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?

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

- Define your framework
- Ensure a coordinated rather than a piecemeal approach
- Build the components of the framework
- Ensure consistency with broader tax reporting /transparency requirments
- Assess how you compare to sound risk management principles
- Realise the value created

Faculty

Marvin de Ridder, Deloitte Netherlands
Director

mderidder@deloitte.nl

+31 (0) 882882101

Emmet Bulman, Deloitte UK
Senior Manager

ebulman@deloitte.co.uk

+44 20 7303 2322

Deloitte.