Company Tax Policies

Setting a strong foundation for global tax governance

Tax Management Consulting
Deloitte Tohmatsu Tax Co.
Why consider tax now?

The last decade brought major change to the global tax environment. Much of this is attributable to the 2008 financial crisis. Governments globally were left with severe tax revenue deficits and focused attention on international taxation and in turn a number of multinational companies were thrown into the spotlight as a result of their approach to managing taxes.

These events collectively became the catalyst for the OECD BEPS project through which tax governance and transparency has become high on the agenda of boards, corporate social responsibility (CSR) teams, governments and investors. A responsible approach is necessary to address the internal and external stakeholders and safeguard the reputation of the company.

The importance for Japanese companies

In recent years Japan has introduced corporate governance reforms in order to increase competitiveness globally. Changes are becoming evident in how taxes are governed.

Although Japanese companies tend to take a risk averse approach to tax and avoid aggressive tax planning strategies, the economic situation onshore has driven companies to look for growth overseas and resulted in significant merger and acquisition activity and expansion into emerging economies.

For many, such growth has created large complex organizational structures with multiple legacy financial systems (e.g. ERP systems), disconnected tax and finance teams, duplicated processes and new compliance obligations. These complexities collectively create tax risks.

As tax governance has traditionally been an area of limited focus for Japanese multinationals, it is an area they now lag far behind their foreign counterparts. With momentum expected to continue around the tax governance and transparency agenda, now is the time for Japanese companies to act.

The 2017 Deloitte Global Tax Management Survey highlighted that very few Japan headquartered companies have a tax policy and even fewer have a formal process for managing tax risk.

[Graph showing companies with tax policy and risk management]

Best practice

Tax risk management should be at the core of good corporate governance. Risks can be reduced by creating certainty around how taxes are managed – by ensuring that consistent standards are applied across the business both domestically and overseas. Best practice is to document these standards and ensure they are communicated and followed by the business. This is referred to as a company tax policy (or tax strategy).

Contents of a tax policy

Tax policies set out the parameters for action within which those responsible for tax should operate. Typically they would cover the areas noted below, including expectations around how and when there should be reporting back to central management:

- Policy purpose and owner/approver
- Scope of policy e.g. Taxes, countries, businesses
- Delegation of authority and accountability
- Approach to tax planning
- Approach to tax compliance
- Approach to risk management
- Use of advisors
- People roles and responsibilities
- IT systems

Tax policies vary in terms of detail, scope and length depending on the business, industry sector and the level of consistency global tax teams are expected to follow. Tax policies should be fully aligned with other company policies such as codes of conduct and transfer pricing documentation. Tax policies should be communicated to and universally understood by affected staff. They may be updated periodically to reflect the changing nature of the economic environment and business direction.

In order to promote their responsible approach to tax, an increasing number of Japanese companies have made voluntary public disclosures around their global approach to tax – essentially a summary of their company tax policy.

Transparency and governance developments around the world

Certain governments have been making concerted efforts to promote better tax governance and increased levels of transparency around taxes.

<table>
<thead>
<tr>
<th>Country</th>
<th>Activity</th>
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<tbody>
<tr>
<td>Australia</td>
<td>In 2015 the Australian Tax Office modified its legislation to allow for publication of certain tax return data disclosed by the largest corporate taxpayers. Approximately 2,000 records, including those of Japanese businesses have been published.</td>
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<tr>
<td>Denmark</td>
<td>In 2012 SKAT, the Danish Customs and Tax Administration, amended its tax laws to allow for publication of tax information for companies taxable in Denmark. Data for a number of Japanese companies is available through their website.</td>
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<td>Japan</td>
<td>The Japan National Tax Agency is promoting voluntary efforts for large multinational companies to enhance tax governance.</td>
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<td>New Zealand</td>
<td>The New Zealand Inland Revenue considers processes around tax governance, among other things, to determine risk ratings for large enterprises.</td>
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<td>UK</td>
<td>In 2016 HMRC, the UK tax authority, introduced legislation requiring that large businesses publish a copy of their tax strategy. The requirement also applies to foreign companies with operations in the UK that are required to submit country-by-country reports.</td>
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How Deloitte can help

An increasing number of Japanese companies are taking steps to enhance their global tax governance, such as the development of a tax policy. Deloitte Japan can support clients in the following ways:

- Drafting/reviewing an internal tax policy framework
- Understanding the rules and requirements for the UK external tax strategy publication
- Drafting/reviewing external tax policy disclosures, including for UK publication purposes
- Ensuring an internal tax policy is appropriately implemented within the organization
- Performing a tax process review with the objective of identifying operational efficiencies and automation opportunities

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