

2017 Tax Management Consulting Conference

Tax governance and operating models

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Pressures on the tax function

Pressures on the tax function

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

Pressures on the tax function

Tax operating model response



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| Layers | Components | Area |
|-----------------------------------|---|-------------------|
| Scope and design | <ul style="list-style-type: none"> Global/local Standardised/bespoke | Processes |
| Delivery model | <ul style="list-style-type: none"> Centralised/de-centralised Single/integrated | |
| In-house teams | <ul style="list-style-type: none"> Tax/Finance On-shore/near-shore/off-shore Permanent/temporary | Resourcing |
| Service providers | <ul style="list-style-type: none"> Insource/outsource Multiple/single | |
| Systems | <ul style="list-style-type: none"> Off the shelf/bespoke Automated/manual | Technology |
| Central records/ local records | <ul style="list-style-type: none"> Information and data Multi-source/central source | |
| Organisation and operations | <ul style="list-style-type: none"> Stakeholders/delivery obligations Strategic/operational | Governance |
| Roles and responsibilities | <ul style="list-style-type: none"> Informal/formal Framework/ad-hoc | |
| Risk management | <ul style="list-style-type: none"> Transparency/no visibility Tax/Business | |

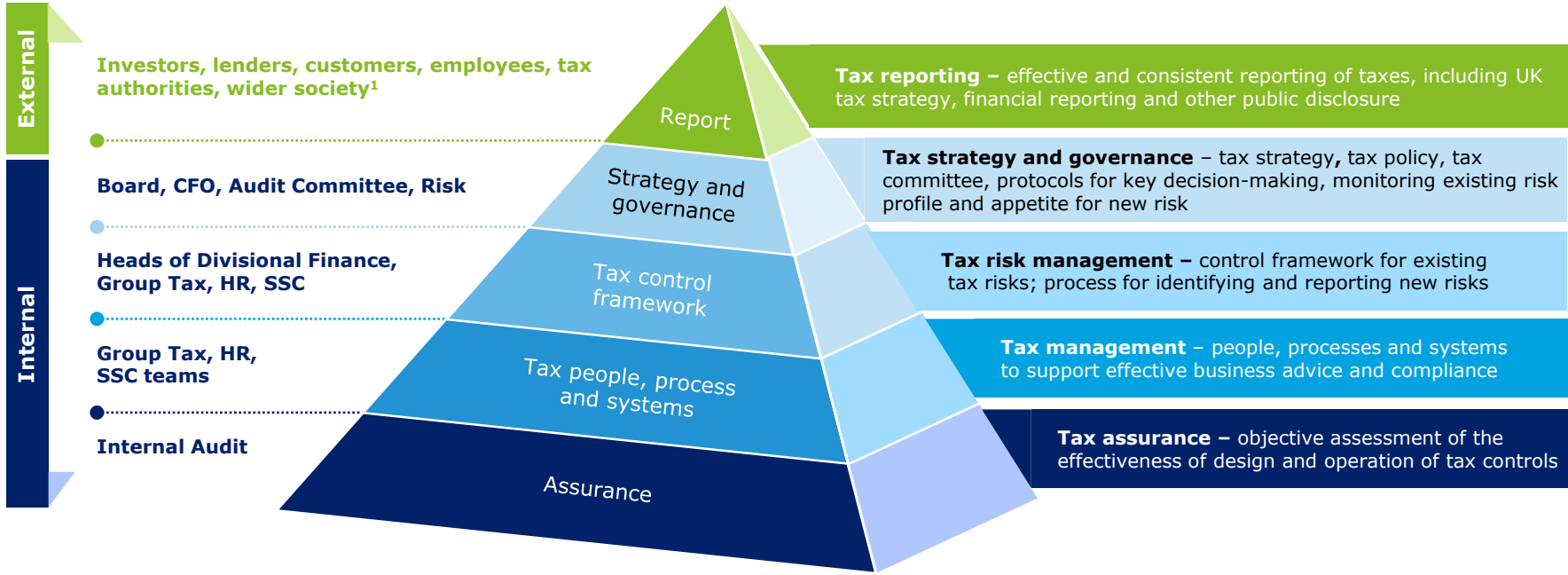
What is a tax control framework and how can it help

What is a tax control framework and how can it help

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

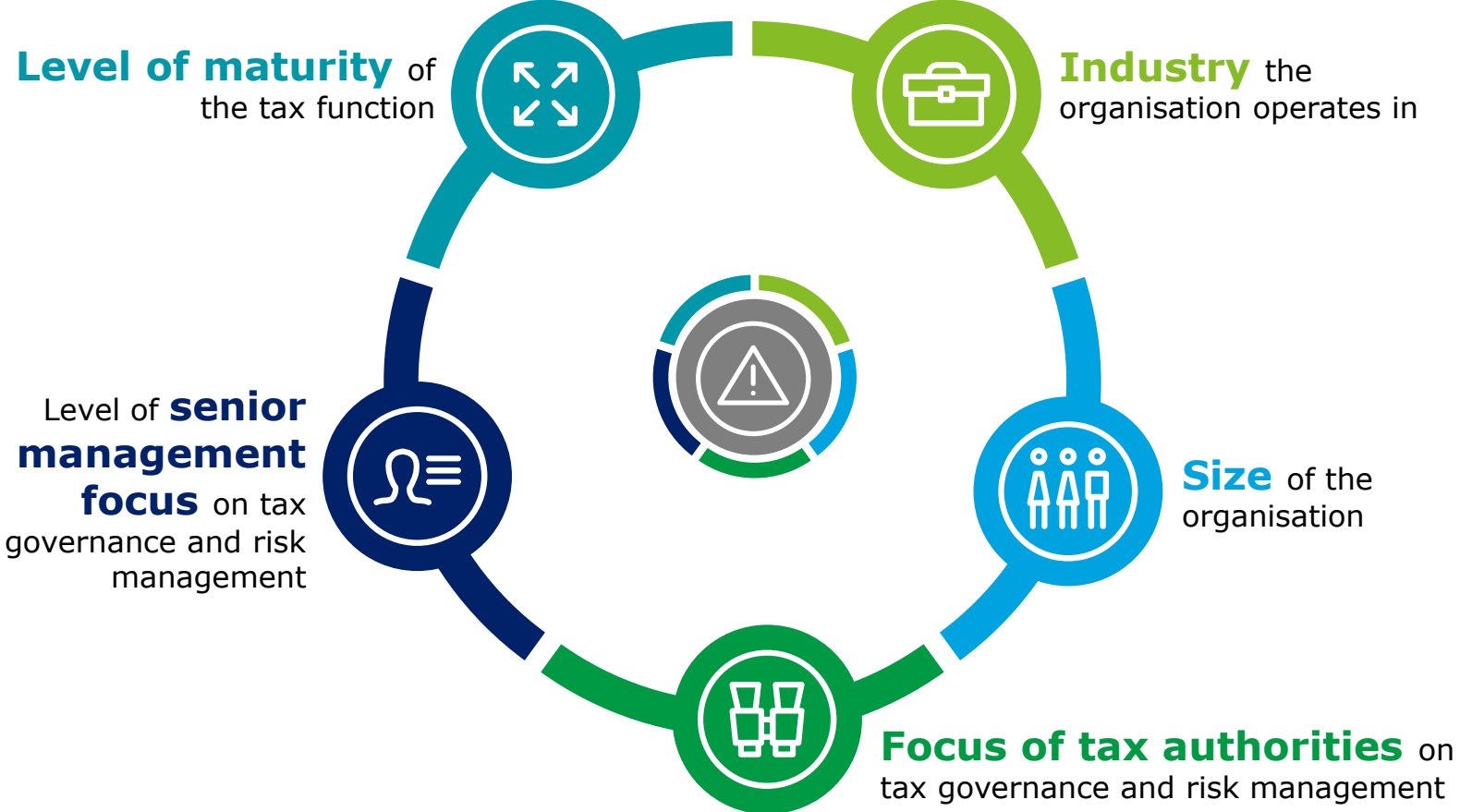


The tax control framework sets out the activities tools, techniques and organisation arrangements to ensure all tax risks are identified, assessed, understood and that appropriate responses are in place to mitigate the impact of all risks.



What is a tax control framework and how can it help

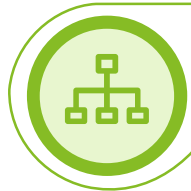
Circumstances will determine form of tax risk control framework



Components of a tax control framework

Components of a tax control framework

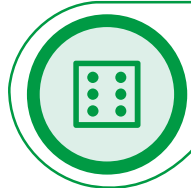
Process



Defining tax risk – what are we trying to manage?



Tax risk management processes – how do we go about managing risk?



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



Tax risk management segregation of duties – who is responsible for what?



Tax risk governance – how do we oversee tax risk management?

Components of a tax control framework

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:

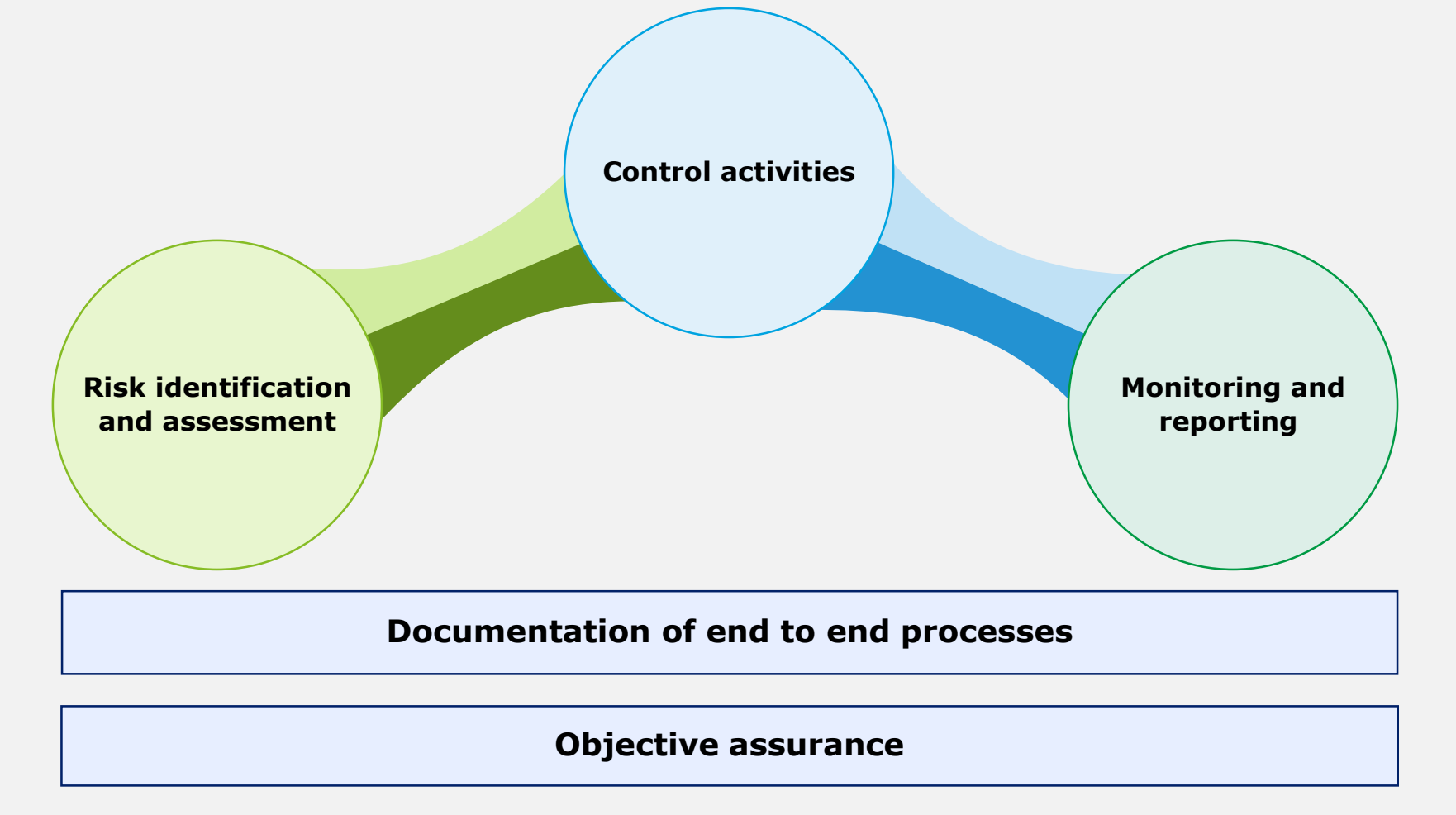
- 1. Judgemental** – relates to understanding and interpretation of tax law and manifests itself as **tax planning and advisory risk**; and
- 2. Operational** – relates to the processes, people and systems in place to manage tax risk and manifests itself as **tax compliance risk**.

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).

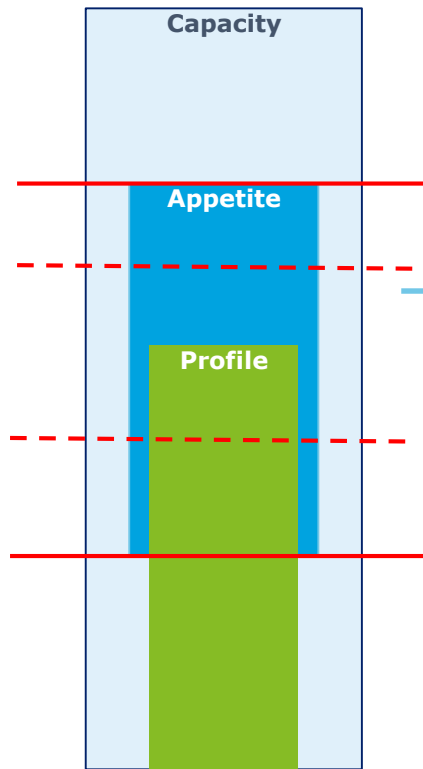
Components of a tax control framework

Tax risk management process



Components of a tax control framework

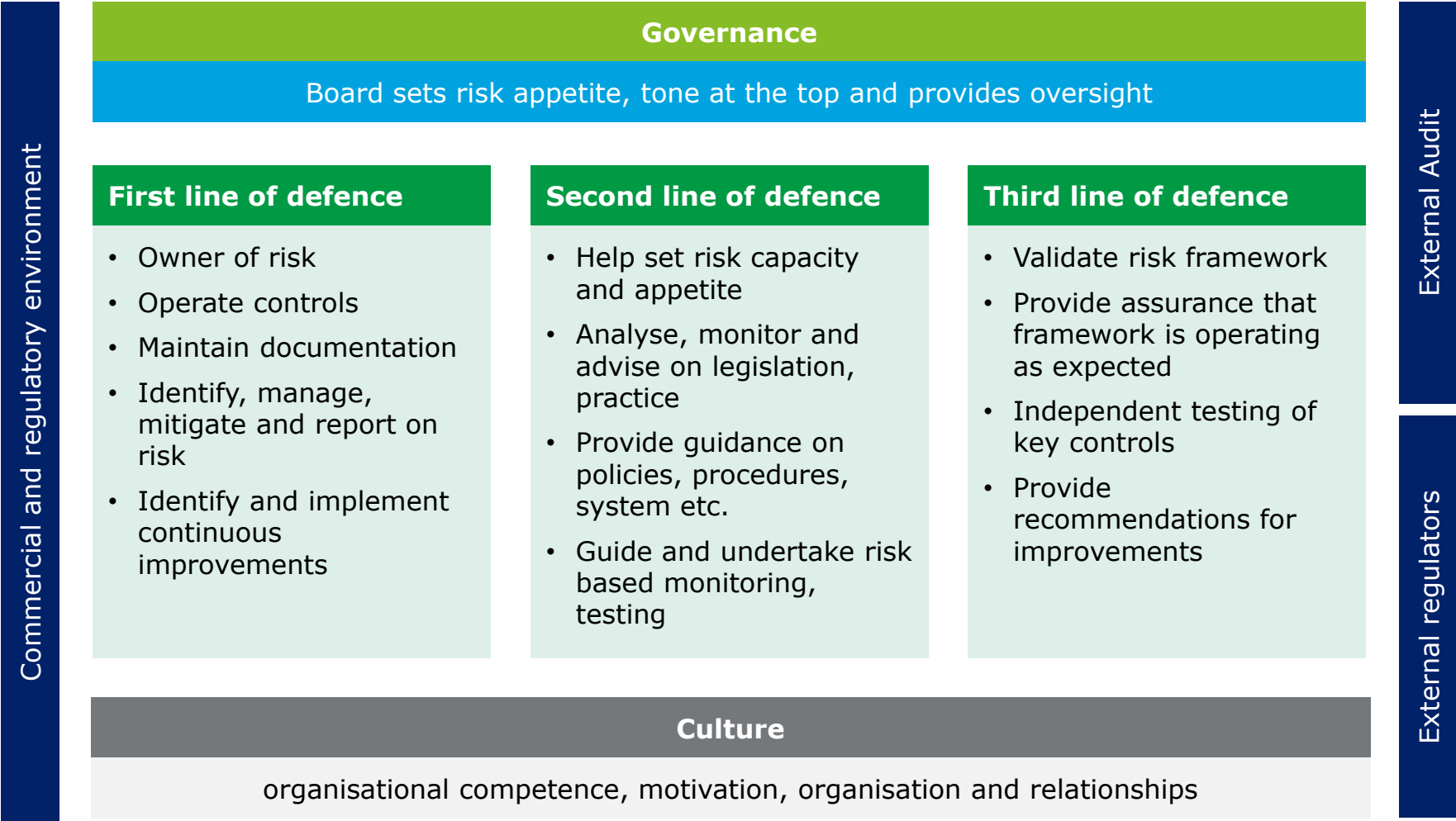
Applying risk appetite



- 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

Components of a tax control framework

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

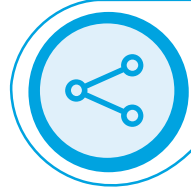


Components of a tax control framework

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

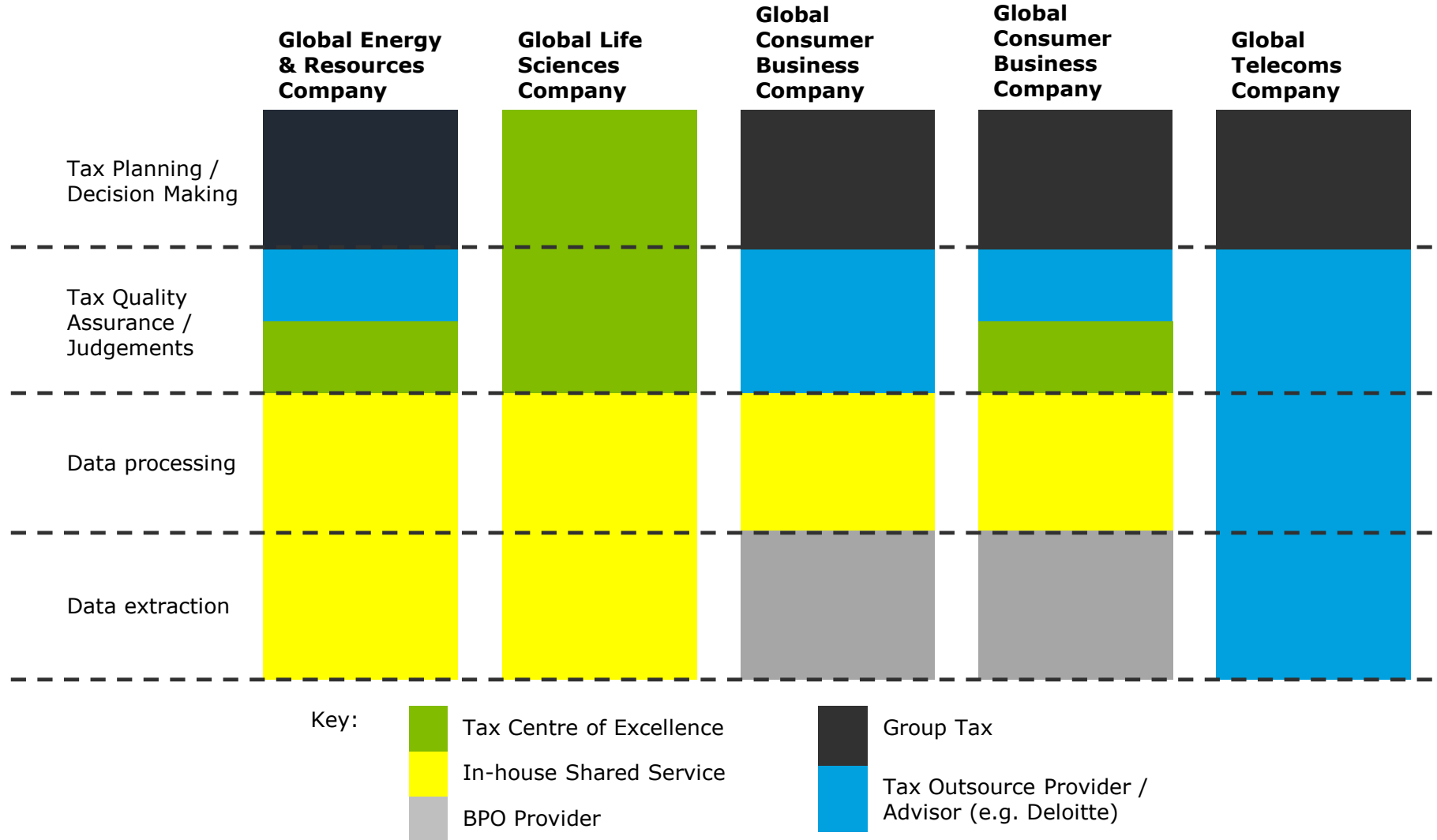
Focus on people and organisation

Indicative considerations

| Activity | Considerations |
|--------------------------|---|
| Compliance and reporting | <ul style="list-style-type: none"> • Generally lower value work that should be characterised by efficient processes and use of technology in low cost environments • Peers are looking to centralise this activity in Shared Service Centres where possible (i.e. GBS) • Standardising preparation processes within a common team should generate efficiencies • A single Head of Compliance and Accounting will enable that person to access synergies between the two • Outsourcing usually forms part of an effective compliance and reporting strategy |
| Planning and advisory | <ul style="list-style-type: none"> • Tax functions varyingly organise planning and advisory along business and/or geographical lines e.g. manufacturing/distribution functions, or regional geographies are headed up by different individuals report directly to the Head of Tax • A critical success factor for the planning and advisory team is close links to the business areas |
| Tax operations | <ul style="list-style-type: none"> • Best practice amongst industry peers suggests tax functions are beginning to create roles such as “Tax Risk Managers”, “Heads of Tax Operations”, “Heads of Tax Change” etc. given the increasing importance that the supporting infrastructure (i.e. people, processes and technology) has on the success of the tax function |

Focus on people and organisation

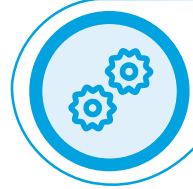
Operating model examples



Components of a tax 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

Where is the value created

Where is the value created



Clear articulation of tax risk strategy 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

Conclusions and next steps

Conclusions and next steps

-  Assess your current tax governance and transparency arrangements
-  Identify areas for improvement
-  Build the components of the framework
-  Ensure consistency with broader tax reporting/transparency requirements
-  Establish a plan for monitoring and responding to environmental/business changes
-  Realise the value created



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