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Tax Controversy Preparedness

Achieving ambition. Managing Risk.
Leaving a rich legacy.

Addressing challenge in the new world order



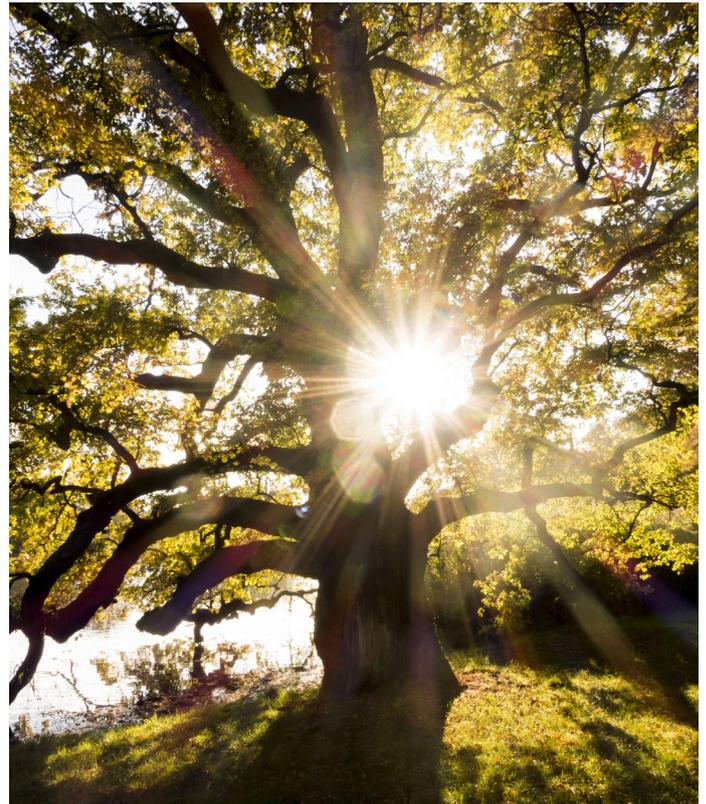
Wealthy families face significant media and public interest in their tax affairs, with reputation management and perception increasingly important in this area. Responding to reputational risk around tax is a key responsibility for the family office.

New global tax transparency initiatives and ever-closer scrutiny mean that what worked yesterday, may no longer be appropriate or workable today. In the current economic cycle there is also heightened interest in the tax affairs of wealthy families, leading to increased levels of tax audits. If a tax authority were to launch a tax audit, the family office will be key in addressing any questions raised by the tax authority.

In the new world of automatic information sharing, transparency, increased penalties and 'naming-and-shaming' of perceived transgressors, the consequences of failing to demonstrate compliance appropriately and swiftly can be far-reaching.

How should family offices respond in this changed environment? What and where are the risks?

An action within the family office's control is a proactive and strategic review to identify how the family's tax affairs are likely to be perceived during a tax audit. This enables the family office to then create a clear decision tree for how best to resolve tax controversy.





A tax revolution

Your family office could be responsible for protecting and maintaining an asset base as large as that of a FTSE company. In the corporate field, multi-national entities have responded to increased compliance and governance pressures by developing clear tax strategies, decision trees for responding to tax compliance audits and appointing Heads of Controversy to manage tax audits across multiple jurisdictions.

Large corporates are also aware of the heightened media scrutiny around tax rates and of the reputational damage that can flow from poor perceptions in this area.

The same compliance and reputational pressures exist for family offices. In addition the global tax landscape has experienced a profound transformation as information exchange mechanisms such as the Common Reporting Standard, FATCA and publically-available beneficial ownership registers subject international families' wealth and assets to greater transparency than ever before.

In certain jurisdictions, there is an increased interest from tax authorities about the role of the family office in the **decision making** process around tax and tax filings. Deloitte's tax controversy preparedness workshop offers family offices an opportunity to respond strategically to these challenges.

The workshop provides a bespoke structured assessment of the current depth of data retention and documentation around tax decisions, the sophistication of the decision tree on handling tax audits, the family office's state of readiness for revenue authority questions and a roadmap for the future. The aim is to help the family office gain clarity, and if necessary adjust your existing policies and practices, before it becomes a matter of crisis management. The workshop can be either a standalone piece of work, or can be incorporated alongside a wider audit and assurance, cyber risk or reputational management project.

The UK has introduced 'naming-and-shaming' initiatives for tax errors involving £25,000 or more of underreported revenue. However, the potential implications of any reputational damage associated with action by tax authorities (even if this is as a result of a misunderstanding) run far beyond bad publicity. For example, having a judgement against you, even an erroneous one, is likely to make any prospective co-investors think twice.

As a result of these developments, there is now a much greater requirement and urgency for robust and clear tax governance within your family office, both to avoid misunderstandings with tax authorities and to respond swiftly and effectively if a tax audit is opened.

WEAK STATE OF PREPAREDNESS



- Issue-by-issue or letter-by-letter responses to tax audits
- Tax and financial decisions are tested against contemporary, drivers rather than overarching principles,
- Disparate information storage and tax reporting mechanisms,
- Potential misunderstandings with revenue authorities,
- Reputational damage and financial penalties at the conclusion of a tax audit.

STRONGER PREPAREDNESS

- Framework for coordinated and robust communication around tax positions,
- Decision tree pre-empts potential turning points during an audit and identifies appropriate response,
- Family and family office have clear data management, enabling swifter reporting to tax authorities,
- Family-wide tax strategy minimises inadvertent reputational damage,
- Clear tax policy underpins key tax and financial decisions pre and post audit.

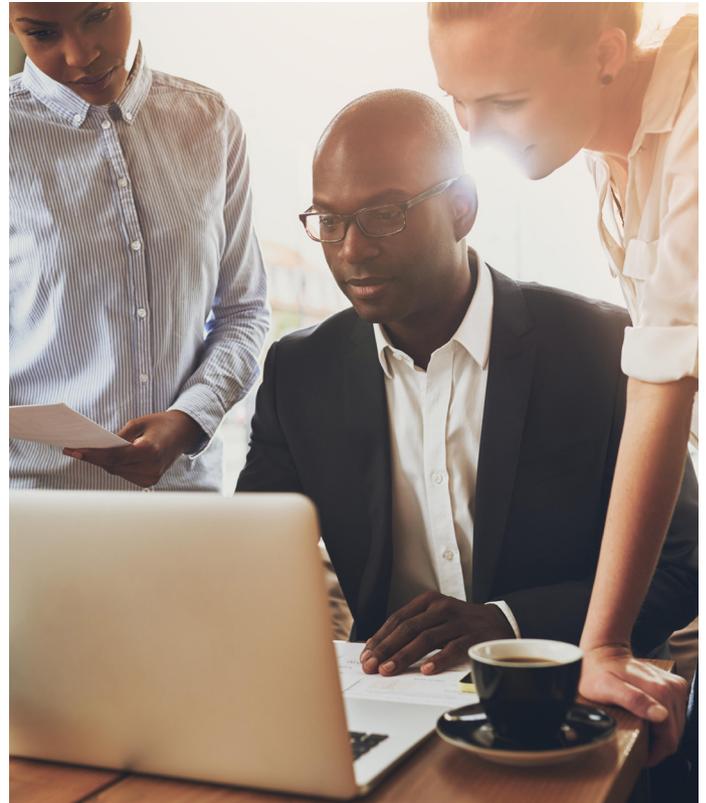
A proactive approach



Deloitte supports family offices in understanding the evolving tax landscape and reputational risk arising from challenges by tax authorities. The tax controversy preparedness workshop helps the family office see the bigger picture when responding to a tax audit, resulting in swift, comprehensive and more effective communication with tax authorities in order to better resolve misunderstandings.

Our experience has shown this proactive approach to be the most effective because it avoids engaging in reactive crisis management on a piecemeal basis with each new issue. Instead a family office can enter a discussion with tax authorities with clarity and confidence about what data is to hand to support positions taken, what the appropriate level of data to share is and the right way in which to address any misunderstandings. And, because we recognise that every family office has a unique set of circumstances, it enables us to develop a solution that is tailored to your needs.

Using a collaborative workshop approach, we will help you understand your family office's current status and identify appropriate and achievable steps to remain compliant and protect your family's reputation.





Tone from the top

- Discuss the factors that could feed into a tax controversy settlement and the read across to tax strategy and tax compliance decisions.
- Identify the family and family office's tax strategy and how tax decisions are made within your family and family office.
- Help clarifying and articulating your family's view on tax reputational risk and discuss the family office's role in developing and maintaining this 'tone from the top'.



Tax reputational risk

- Assess the tax reputation perception based on historic and current tax disputes and current tax strategy.



Tax audit readiness

- Assess the level of data retained to evidence tax decision-making.
- Review where tax data is stored and how quickly it can be accessed.
- Working through a series of role plays, we identify a clear decision-making process and how that links to the existing tax strategy.
- Clarify decision tree to identify and pre-empt potential turning points in a tax audit.



Roadmap

- Develop a roadmap for the future, highlighting key next steps and long-term goals for your family office. These may be actions you can undertake internally or that require additional or ongoing advisory support.
- Future support could include heightened governance and risk review processes, introducing further audit and assurance work, or outsourcing certain company secretarial and governance processes to retain compliance.

Benefits of the tax controversy preparedness workshop

- Pre-emptive risk management in a high risk reputational and financial area
- Clear, consistent and easily communicated approach to tax decision making
- Strong unified approach between risk governance, enduring tax strategy and crisis management during a tax audit
- Bespoke and personalised solution for your family office
- Knowledge and insight from experienced Deloitte staff who specialise in tax controversy resolution
- Standalone project or integrated into existing workstreams in your family office

Key contacts



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Jessica's team plays a fundamental role in assessing risk within family offices. They conduct non-statutory audits to provide an independent view on the management of the entity and its assets, as well as internal reviews to ensure controls and systems work efficiently and fulfil their intended purpose.



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Mark leads Deloitte's Family Office Services across the UK firm. Leveraging the Deloitte network of experts, he works with family offices to understand their overall objectives and helps them to develop long-term wealth preservation and succession strategies, whatever their priorities are.



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Claire is a lawyer with a specialism in corporate governance for privately-owned businesses and family offices.

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