

GLOBAL TAX ASSURANCE AND RISK MANAGEMENT

DEVELOPING A VISION FOR TAX *ARTICULATING TAX STRATEGY AND GOVERNANCE*

PROVIDING A VISION FOR YOUR TAX FUNCTION BY DEFINING
TAX GOVERNANCE, THE MANAGEMENT OF TAX RISK AND
TAX OPERATIONS ACROSS YOUR BUSINESS

IDEAS | PEOPLE | TRUST

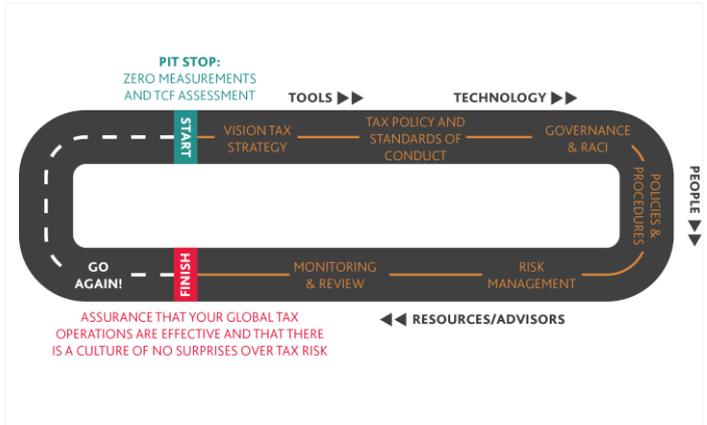
BDO

A VISION FOR YOUR TAX OPERATIONS

Tax is increasing on Boards’ agendas and all organisations need to take steps to demonstrate a clear vision for their tax operations as well as ensure a culture of ‘no surprises’ when it comes to tax risk.

Our approach is centred on developing a Board approved **Tax Strategy** that provides the ‘vision’ for your current and future operations, and something you may wish to publish internally or externally.

This in turn is supported by a **Tax Policy** that sets out expected standards of conduct in how tax is carried out in your business. The Tax Policy should underpin the principles in your Tax Strategy and include all elements of your **Tax Control Framework** (below).



We believe that the Tax Control Framework (‘TCF’) and its roadmap - see above - provides the framework for the effective management of tax within an organisation. It is a path that we help our clients follow.

The secret to the success of the TCF is to ensure that the processes and controls underpinning each of the elements above are successfully communicated and adopted across the business. Essentially, this means strong tax governance; clearly defining what is understood as tax risk in the business, setting up tax escalation mechanisms and defining tax accountabilities and responsibilities. This is what our clients seek to articulate in their Tax Strategy and Tax Policy.

DEVELOPING YOUR TAX STRATEGY AND TAX POLICY

We have developed an established approach that will first enable you to clearly articulate your vision for tax within a Tax Strategy and then set out the policies and processes that underpin this Tax Strategy. This will be articulated within your Tax Policy.

- 1. Development of a Tax Strategy**
We define a Tax Strategy as providing the vision for your current and future operations, and something you may wish to publish externally (eg as required under the UK’s Finance Act 2016 or to align to your CSR agenda.)
- 2. Development of a Tax Policy document**
A Tax Policy sets out expected standards of conduct in how tax is carried out in your business - this underpins the principles in your Tax Strategy and typically includes most elements of the Tax Control Framework
- 3. Determining your underlying Tax Control Framework**
Once you have articulated your Tax Policy, there may be elements that are aspirational from updating tax compliance processes to formalising effective tax risk escalation mechanisms. Much of this may be already in place within your business and we would determine this as part of Phases 1 and 2 above.

PHASE 1

REVISIT TAX STRATEGY

SET OF TAX PRINCIPLES
THE ‘VISION’ FOR TAX

This is your set of tax principles that define the vision and mandate of your tax operations.

SUPPORTED BY...

PHASE 2

ARTICULATE TAX POLICY

INTERNAL TAX POLICY/
TAX GOVERNANCE DOC

A Tax Policy document setting out how tax operations are carried out in the business, e.g., clarifying accountabilities and responsibilities over all taxes including Employment Taxes, VAT, Customs etc.

SUPPORTED BY...

PHASE 3

TAX CONTROL FRAMEWORK

TAX POLICIES, CONTROLS
AND RISK MANAGEMENT

Group risk policies and tax risk registers to support tax operations. Central to this is a disciplined approach to tax risk and compliance, to create an environment of ‘no surprises’ in relation to how tax risk and how compliance is managed across the business.

PHASES 1 AND 2

Developing your Tax Strategy and Tax Policy

PHASE 1: TAX STRATEGY

The Tax Strategy provides a vision for how you want your tax operations to be managed within your business. We undertake this for you as part of a first workshop to better understand your business.

Typically this would be 2-3 pages setting out important tax principles, including your tax risk appetite, tax governance, approach to tax planning, relationships with tax authorities etc. It would ideally be aligned to existing CSR principles.

PHASE 2: TAX POLICY DEVELOPMENT

Having a standalone Tax Strategy is not enough. You need to demonstrate that the strategy is integral to the way your business operates and embedded in your daily operations.

This is done by developing an internal Tax Policy, and we define this as a board approved document that sets out 'expected standards of conduct in relation to how tax activities are carried out in the business'.

The development of a Tax Policy provides those with tax responsibilities with the mandate to clearly define and/or make changes in how tax is managed.

The content of the Tax Policy is often 'forward-looking' in the sense that once approved, the tax and finance function has the remit to make changes in the way that tax operates in the business.

EXAMPLE CONTENTS FOR TAX POLICY

INTRODUCTION

- ▶ Objective of tax policy document
- ▶ Scope, ownership, approval, revision.

TAX STRATEGY

- ▶ Our published tax principles and what they mean for us.

GOVERNANCE

- ▶ Tax leadership and tone at the top
- ▶ Tax accountabilities and responsibilities
- ▶ Delegations of authority.

TAX RISK MANAGEMENT

- ▶ Defining tax risk
- ▶ Mechanisms for tax risk identification, management and escalation
- ▶ Tax risk criteria for tax planning decisions.

MANAGING RELATIONSHIPS

- ▶ ...with Tax Authorities
- ▶ ...with advisors
- ▶ ...with the rest of the business.

PEOPLE AND ORGANISATION

- ▶ Tax organisation
- ▶ Measuring tax performance
- ▶ Career development and training.

PROCESSES AND CONTROLS

- ▶ Compliance and reporting obligations
- ▶ Data management and document retention
- ▶ Use of technology.

TYPICAL APPROACH

PHASE	TYPICAL OBJECTIVES	EXAMPLE TOOLS AND OUTPUTS
Phase 0: Impact and implementation plan workshop	<ul style="list-style-type: none"> ▶ Confirm scope and timetable ▶ Share examples of Tax Strategy and Tax Policy documents ▶ Determine stakeholders and shared objectives. 	<ul style="list-style-type: none"> ▶ Implementation plan ▶ Draft Tax Strategy ▶ Skeleton plan of what your Tax Policy could look like ▶ Proposed contents for Tax Policy
Phase 1: Revisit your Tax Strategy and determining tax mandate	<ul style="list-style-type: none"> ▶ Determine the mandate of your tax function ▶ Complete Tax Policy Workbook to determine current and desired tax control framework for inclusion in your Tax Policy. 	<ul style="list-style-type: none"> ▶ Completed Tax Policy Workbook ▶ Desk top review of existing documentation to determine support for Tax Policy
Phase 2: Developing Tax Policy and comms plan	<ul style="list-style-type: none"> ▶ Develop and finalise content and narrative within Tax Policy ▶ Delivery of your Tax Policy document to board and wider as appropriate. 	<ul style="list-style-type: none"> ▶ Tax Policy for approval ▶ Board paper on Tax Policy ▶ Comms to wider teams ▶ Implementation plan
Phase 3 (optional): Determining your Tax Control Framework and tax risk framework	<ul style="list-style-type: none"> ▶ Benchmarking to aspirational Tax Policy ▶ Recommendations for improvements to existing tax control and risk framework ▶ Development of Tax Risk mechanisms ▶ Other regulatory support, eg SAO and CCO in the UK 	<ul style="list-style-type: none"> ▶ Tax Risk and Control Zero Measurement Tool ▶ Tax Risk and Opportunity questionnaire ▶ Review of existing tax processes and controls + recommendations ▶ Support in enhancing existing controls

PHASE 3 (OPTIONAL AND AGREED AFTER PHASES 1 AND 2)

Determining your Tax Control Framework

JOURNEY TO LEADING PRACTICE

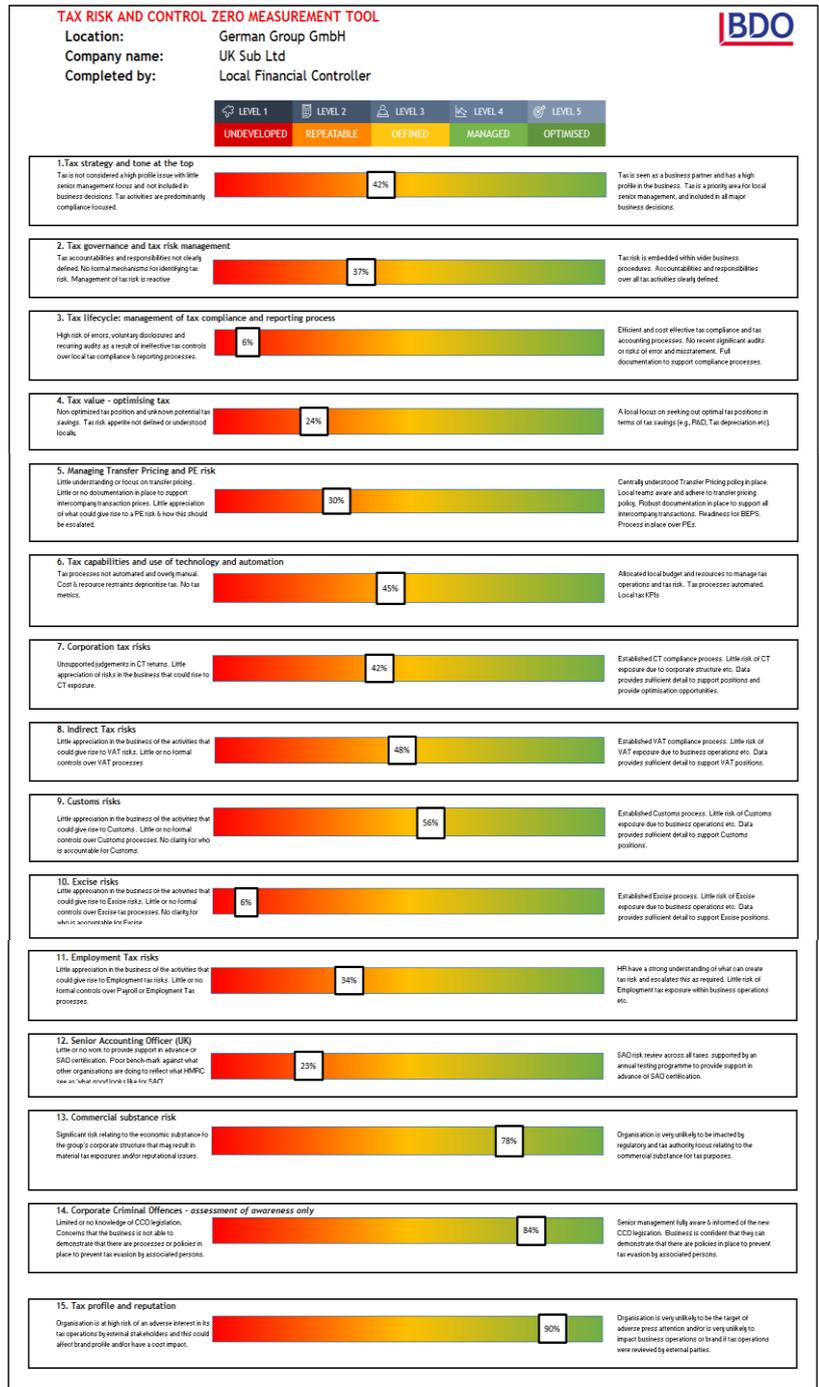
Depending on the aspirational nature of your Tax Policy document, you may find value in implementing some ‘quick wins’ and tax process enhancements to meet updated tax objectives.

Central to this is often the development of an effective tax risk management framework across the business. We believe a straightforward approach to enhancing tax risk governance will demonstrably improve the identification, assessment and management of tax risk across the business, ensuring an environment of ‘no surprises’.

TAX RISK MANAGEMENT

A typical approach for enhanced tax risk management:

1. Carry out a holistic tax risk review to identify any immediate risk areas. This can include the use of tax risk questionnaires and ‘traffic light’ outputs (as on right). The results of this review frame how you prioritise and respond to high risk areas and develop the building blocks to strengthen your tax risk and control framework
2. Identification of opportunities and recommendations. This includes quick wins in terms of enhancing your tax compliance, finding opportunities to take advantage of tax incentives and exemptions as well as managing common risk areas from MTD to contractor status issues
3. Building blocks: Depending on the results of the above, implement tools processes and technologies to improve your tax risk and control framework across the business.



BDO TOOLS AND OUTPUTS

EXAMPLE TOOLS

BDO have established tools and methodologies to assist in the development of your tax policy and tax strategy.

This includes:

- ▶ Tax Policy Workbook
- ▶ RACI matrix (right)
- ▶ Tax Risk questionnaires
- ▶ Tax Risk Registers, including the Tax Risk Assurance Matrix
- ▶ Summary tax risk assessment schedule (below)
- ▶ Database of internal and external tax policy documents
- ▶ Example board papers.

	Group (EMEA) Tax			Group (EMEA) Finance			Local country teams			Shared service centre			Non-tax groups (to specify)			External providers		
	R	A	C	R	A	C	R	A	C	R	A	C	R	A	C	R	A	C
- Tax Governance																		
Establish scope of tax operations for the group/sub-group																		
Establish tax principles and expected standards of conduct																		
Develop 'day-to-day' tax policies and procedures for business																		
Monitor tax legislation and policy																		
- Tax Administration																		
Establish tax authority relationship																		
Establish tax advisor relationships																		
Maintain documentation retention																		
Maintain tax master data																		
- Managing Tax Risk																		
Develop tax risk strategy and risk compliance framework																		
Establish tax risk appetite for the group																		
Identification of tax risk across the business																		
Monitor, prioritise and report tax risk																		
Develop response to tax risk																		
Develop internal controls for tax																		
Monitor tax risk mitigation																		
+ Tax Planning and Transaction Support																		
+ Manage Corporate Income Tax Accounting and Reporting																		
+ Manage Corporate Income Tax Compliance																		
+ Manage Indirect Tax Compliance																		

	ENTITY 1	ENTITY 2	ENTITY 3	ENTITY 4	ENTITY 5	ENTITY 6	Average
Tax Strategy and Tone at the Top	39%	66%	43%	75%	89%	39%	59%
Tax Risk Management and Governance	74%	68%	69%	67%	87%	71%	73%
Tax Lifecycle: tax compliance	94%	58%	86%	80%	96%	58%	79%
Tax planning: optimising tax	86%	83%	-	60%	75%	47%	70%
Transfer Pricing	100%	60%	88%	60%	45%	55%	68%
Tax Resources: capabilities and tech	67%	40%	78%	40%	74%	49%	58%
Corporation Tax risks	100%	85%	88%	77%	88%	88%	88%
Indirect Taxes risks	92%	76%	86%	79%	84%	72%	82%
Employment Taxes risks	88%	93%	93%	80%	70%	80%	84%
Commercial Substance	39%	100%	87%	42%	17%	78%	61%
Tax Profile	79%	71%	86%	66%	42%	63%	68%
Overall score	78%	73%	80%	66%	70%	64%	72%

ASSURANCE OVER COMPLIANCE

One of the tools we use is the Tax Risk Assurance Matrix (TRAM) - below - that has been designed to capture and assess the current state of assurance for the main processes within the relevant taxes.

In developing or enhancing your underlying processes and controls to support the work you are doing on the Tax Policy, we would recommend this approach to benchmark your existing tax compliance risk and control environment.

PAYE TRAM	Risk Rating	Regular Assurance										Assurance Score	Benchmark	
		Key Process	H/M/L	Internal Assurance				External Assurance						
				Resource/ Experience / Training	Internal Process Controls	Written Policy/ Processes	Initial Review	Second Review	HMRC	External Audit	External Advice/ Software			Internal Audit
1. Payroll	H	4	5	4	4	3	3	1	5	1	3	33	30	
2. Terminations	M	4	3	2	3	0	0	2	5	0	1	20	20	
3. Expenses	M	3	4	4	5	3	0	0	0	5	3	27	20	
4. PSA	L	3	3	0	4	3	5	0	0	0	1	19	10	
5. Gross Paid Individuals	L	2	3	0	0	0	0	0	2	0	0	7	10	

CREDENTIALS

Client case study

THE ISSUE

The client was a decentralised group with significant operations. In response to the Finance Act 2016 legislation, our client wanted to use the development of the published Tax Strategy as a chance to redefine how tax operates in the business and to improve the profile of tax in the organisation. This was in response to an expanding business and due to changes in the tax team as well as a desire to review the mandate of tax and some frustrations at not getting tax included in business strategy decisions.

VALUE WE PROVIDED

We first developed a set of tax principles to be approved by the Board. This has now been published online. This was then supported by an internal Tax Policy document (also Board approved) which clarified expected standards of conduct over tax operations across the business.

The Board were very enthusiastic about this work, enabling the CFO to demonstrate she had strong control over tax activities and provided a business case for tax spend and a reallocation of tax responsibilities across the business.

OUTPUTS

- ▶ Published Tax Strategy ready for publication
- ▶ Board approved Tax Policy including clarity over accountabilities and responsibilities
- ▶ Board paper setting out need for tax input into strategic business decisions.



FOR MORE INFORMATION:

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