Navigating a new tax environment

Finance Executives and Boards around the world are feeling the heat from fundamental changes in attitudes and approaches to tax. The days are gone when tax was solely an expense to be managed and minimised. Whether it is the quality of tax governance a company exhibits, pressure to be more transparent with tax authorities and investors, or society holding businesses accountable for paying their “fair share” of tax, these issues have become the subject of increased scrutiny. Inland Revenue’s 2015/16 Multinational Enterprise Compliance Guide further reinforces the expectation of Boards to take greater ownership of, and ultimate responsibility for, a company’s tax position.

Governments, community groups and the media are increasingly aligned in their desire to hold businesses accountable for paying the right amount of tax. This is important in contributing to much needed infrastructure and social spending in countries, including ours. But what is the “right amount of tax” in the fair share debate?

Getting it wrong or being on the wrong side of public opinion will adversely impact your company’s brand, the reputation of your Board, and ultimately your “social licence to operate” (and operate profitably) in local communities and the global market place.

Boards must show leadership in this area and ensure Management appreciates and understands what is expected of them.

Inland Revenue does not expect company Directors to be tax experts. But it does expect Boards to have ultimate responsibility for ensuring their organisations’ tax affairs are in order and to set the appropriate tone from the top.

As a result, many Boards are now taking significantly greater interest in their companies’ taxation affairs than before.
Introducing our Tax Barometer

The KPMG Tax Barometer has been specifically developed to enable Boards and Management to agree how tax should be managed and ensure effective processes are in place to achieve this.

A non-intrusive tool, the Tax Barometer facilitates a constructive conversation between the Board and Management on overall tax strategy.

This includes identifying the appropriate level of tax risk, the approach to engaging with tax authorities, and how tax compliance and tax risk should be managed.

By identifying the various perspectives within your organisation, with a particular emphasis on Board expectations, we can help fill gaps in understanding between the Board and Management and ensure tax surprises are highly unlikely.

Who should use our Tax Barometer?

While relevant to all corporates, the Tax Barometer will be of particular interest to organisations that:

- Want to maintain a good corporate reputation and a strong brand (and avoid media interest in their tax position);
- Wish to be viewed by Inland Revenue as having sound tax governance;
- Have undergone change, i.e. acquisitions, new ownership structures, or entry into new markets;
- Have recently made changes to their Board composition or Management structure;
- Have a complex business structure;
- Have experienced unwanted surprises from previous tax audits (or wish to avoid them in the future); and
- Have not previously undertaken a tax governance review.

The process

An online questionnaire will be completed by key stakeholders within your organisation. These include the Chair of the Audit & Risk Committee (on behalf of the Board), the Chief Executive Officer, the Chief Financial Officer and Head of Tax (or equivalent in your organisation).

A series of focussed, highly targeted, questions will enable us to establish and document the desired tax profile as expressed by your Board.

By analysing and comparing Management’s responses to the same questions, we can identify any gaps which need closing and make recommendations to ensure greater alignment of views in the future.

The accompanying graph is a sample output of our analysis of responses on Revenue Authority relationships. It provides both a visual and descriptive summary of the Board and Management’s positions on a number of key issues.
Interaction with Inland Revenue

Board and management

**Strongly agree**

1. I expect Inland Revenue would consider our organisation to be a very good corporate citizen and "low risk" per its taxpayer risk evaluation framework.

2. Compared with five years ago, Inland Revenue officials are more helpful and reasonable in fixing errors we identify.

3. Our organisation has an excellent professional relationship with Inland Revenue officials.

4. Our organisation has a policy of frequently discussing uncertain tax positions with Inland Revenue in an open and transparent way, as issues arise.

5. Compared with five years ago, Inland Revenue officials are more commercial and reasonable when reviewing transactions we enter into.

6. Compared with five years ago, Inland Revenue officials are less aggressive in pursuing tax adjustments for our organisation.

**Strongly disagree**

1. Compared with five years ago, Inland Revenue officials are more helpful and reasonable in fixing errors we identify.

2. Our organisation has an excellent professional relationship with Inland Revenue officials.

3. Our organisation has a policy of frequently discussing uncertain tax positions with Inland Revenue in an open and transparent way, as issues arise.

4. Compared with five years ago, Inland Revenue officials are more commercial and reasonable when reviewing transactions we enter into.

5. Compared with five years ago, Inland Revenue officials are less aggressive in pursuing tax adjustments for our organisation.
The benefits

Valuable insights on your current tax profile

Upon completion of the online survey you will receive an independent and objective report, prepared by KPMG, summarising your organisation’s tax profile, as desired by your Board. The report will also compare this desired profile against what Management believes to be the appropriate level of risk for your organisation, and on which current tax positions are being based.

Being able to demonstrate sound tax governance should also improve your organisation’s risk rating in Inland Revenue’s eyes.

A strategy to align expectations

Undertaking a Tax Barometer review will provide your Board with the assurance that its expectations on tax governance are well understood and being followed by Management.

Any gaps identified will be highlighted and communicated to you, along with recommendations on how to resolve them.

This will help ensure no unexpected tax surprises are reported in the future. Such surprises could cause embarrassment for the Board and your shareholders, as well as negatively impacting on your brand.

The opportunity to benchmark against other New Zealand companies

As we continue to offer the Tax Barometer review to the wider business community, we will develop an anonymised and confidential database of New Zealand organisations’ tax profiles.

This will give participants access to annual benchmarking statistics on where they sit relative to other New Zealand companies. We anticipate statistics will be available on matters such as: in-house tax resourcing, Board reporting policies, tax risk appetite, binding ruling policies, use of external consultants, and an Inland Revenue relationship index.
“Tax is mired in complexity. It’s also a necessary good, a contribution to the quality of the society in which we live.”

**Ross McKinley**
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