Tax in the Boardroom

Effective governance

KPMG Tax Barometer

2022

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A NEW TAX ENVIRONMENT TO NAVIGATE

There is no doubt that finance executives and Boards around the world are feeling the heat emanating from fundamental changes in attitudes and approaches to tax. The days are gone when tax was solely an expense to be managed. 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 perceived "fair share" of tax, these issues have become the subject of increased public scrutiny. Inland Revenue has signalled its interest in tax governance arrangements, with a targeted campaign (you can read more about Inland Revenue's expectations and tax governance questionnaire **here**).

Social and environmental responsibility have traditionally been the areas into which large companies have invested significant resource, ensuring their public image is beyond reproach. Until recently these were also the issues that received most attention from the media and other interested stakeholders. However, now taxation, and in particular how much tax large companies pay, has become the hot topic. Governments and the media have become truly aligned in their desire to hold large businesses operating in their country accountable for paying the right amount of tax and contributing to much needed infrastructure and other social expenditure demands. [But what is the right amount of tax?].

Getting it wrong and being on the wrong side of public debate will impact your company's brand, the reputation of your Board, and ultimately your ability to profitably do business in communities, countries and the global market place. Boards must show leadership in this area and ensure management appreciates and understands what is expected of it.

Inland Revenue does not expect company directors to be tax experts, but it does expect Boards to have ultimate responsibility for ensuring their organisations' affairs are in order. As a result, it is understandable that many Boards are now taking significantly greater interest in their company's taxation affairs than ever before.

Demonstrating good governance

The KPMG Tax Barometer has been specifically developed to enable your Board and management to contemporaneously establish, validate and document exactly how tax should be managed.

A non-intrusive tool, the Barometer facilitates constructive engagement between Board and management regarding your overall tax strategy. This includes identifying the appropriate level of tax risk to assume, the approach to engaging with tax authorities, and how tax compliance and tax risk should be managed.

By identifying the relevant perspectives within your organisation, with particular emphasis on your Board's expectations, we will facilitate the closing of any gaps in understanding between Board and management and ensure future tax surprises are highly unlikely. Ultimately, this will result in a Tax Control Framework* that satisfies all stakeholders.

Who should use our Tax Barometer

The Tax Barometer should be of interest to organisations that:

- Need to satisfy Inland Revenue that they have a Tax Control Framework.
- Want to maintain a good corporate reputation and a strong brand.
- Have undergone change, i.e. acquisitions, new ownership structures, or entry to 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).
- Have not previously undertaken a tax governance review.

The process

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

A series of focused, highly-targeted questions will enable us to establish and document the desired tax profile of the organisation as expressed by your Board. By analysing and comparing management's responses to these same questions, we can identify any gaps that exist that need closing, and make recommendations that should ensure greater alignment of views in the future.

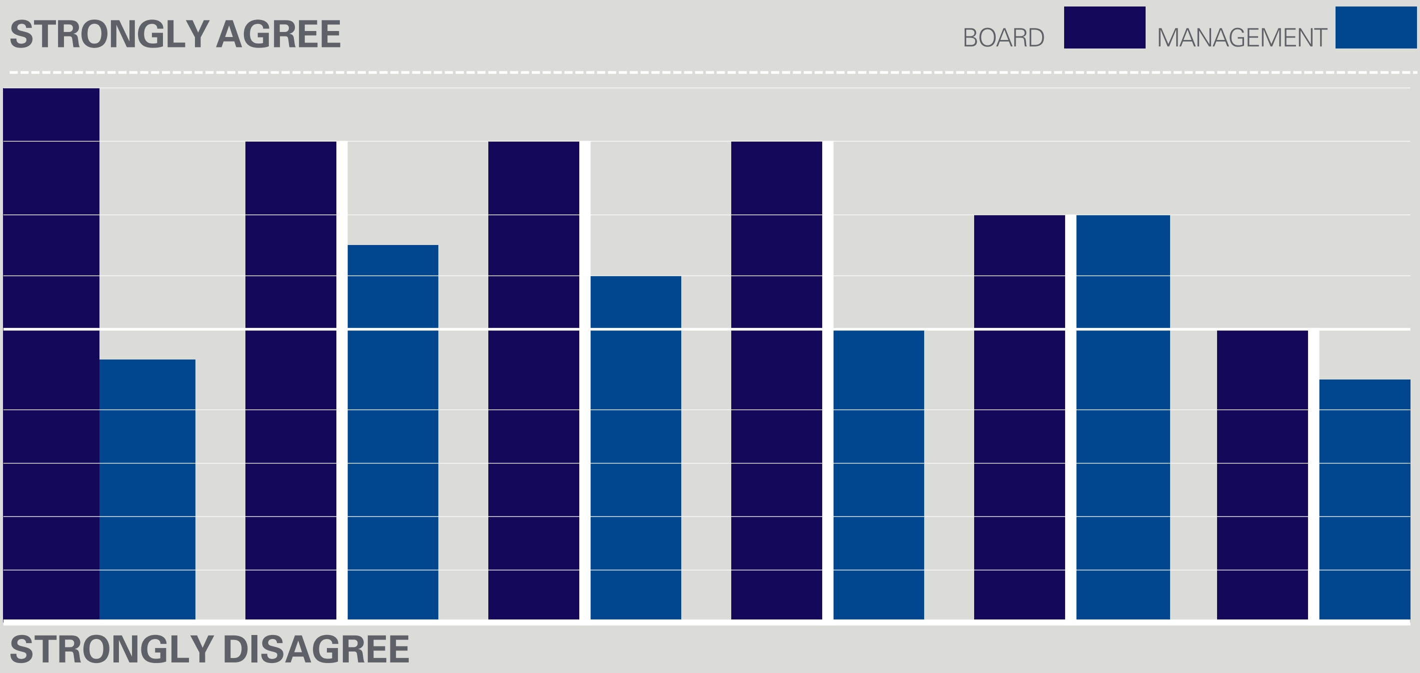
The graph opposite is a sample output of our analysis on Revenue Authority relationships. It provides both a visual and descriptive summary of the Board and Management's positions on a number of key Revenue Authority subject matters.

** Tax Control Framework is a set of processes and internal procedures that ensure a company's tax risks are known and controlled.*

SAMPLEOUTPUT

BOARD AND MANAGEMENT

INTERACTION WITH INLANDREVENUE



01
I expect Inland Revenue would consider our organisation to be a very good corporate citizen and 'low' risk in its taxpayer risk evaluation framework.

02
Compared withfive years ago, Inland Revenue officials are more helpful and reasonable in fixing errors we identify.

03
Our organisation has an excellent professional relationship with Inland Revenue.

04
Our organisation has a policy of frequently discussinguncertain tax positions with Inland Revenue in an open and transparent way as the issue arises.

05
Compared with five years ago, Inland Revenue officials are more commercial and reasonable when reviewing transactions we enter.

06
Compared with five years ago, Inland Revenue officials are less aggressive in pursuing adjustments in our organisation.

The benefits

Valuable insights on your current tax profile

Upon completion of the survey, you will receive an independent and objective report, prepared by KPMG, summarising your organisation 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, on which current tax positions are based.

A strategy to align expectations

Undertaking a Tax Barometer review will provide your Board with the assurance that its expectations around 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 these. The ultimate outcome should be a documented (or updated) Tax Control Framework.

This will help ensure no unexpected tax surprises are reported in the future, which could cause embarrassment to shareholders and Board members, and negatively impact your brand.

The opportunity to benchmark against other New Zealand companies

As we continue to provide the KPMG Tax Barometer review to the wider business community, we will develop a cleansed 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. Statistics will be available on matters such as: in house tax resourcing, Board reporting policies, tax risk appetite thresholds, 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.

Contact us

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