KPMG

Taking care of Governance

Scrutiny over tax affairs is higher and the cost of getting tax wrong just got larger

60% of SEs questioned in 2021/22 did not have adequate tax governance, resulting in being placed on IR's "watchlist"

Risks of not having well documented and tested tax governance arrangements include:

- Increased Inland Revenue scrutiny
- Higher risk of penalties for lack of reasonable care
- Incorrect/ inefficient tax processes
- Missed tax obligations
- Uncertainty over roles/ responsibilities and key person risk
- Errors accumulating over time
- Lack of Board awareness of key tax risks creating governance risk
- Negative public and investor perceptions

Make sure you get tax right from the start

Inland Revenue considers that good tax governance (involving "fit for purpose" policies, procedures, and controls) to be fundamental to tax compliance.

Questionnaire campaigns in 2021 and 2022 assessed the maturity of tax governance arrangements for a number of significant enterprises ("SEs") – groups with annual turnover greater than NZ$30m. Most SEs were found to have work-ons.

In 2023, Inland Revenue's expectations are that all SEs should review their tax governance frameworks and test whether they have adequate policies, procedures, and controls in place as well as up-to-date documentation.

From 2024, Inland Revenues intends to examine tax strategies and tax control frameworks in risk reviews and audits, with the adequacy of tax governance a potential factor in penalties being applied if errors are found.

Inland Revenue's tax governance focus is also consistent with increasing scrutiny by Boards, shareholders/investors, and the wider public.
The risks of getting it wrong are not just tax penalties, but reputational and brand damage.

The Governance Journey

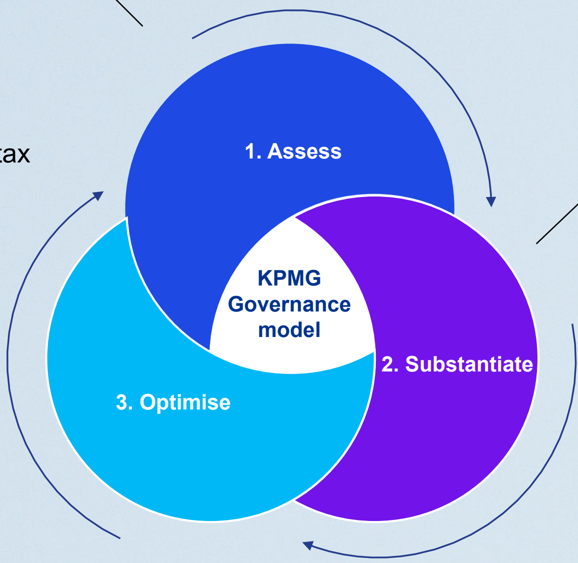
To meet Inland Revenue's expectations KPMG uses their governance journey model: Assess, Substantiate, and Optimise.

There is no "one size fits all" approach

Effective tax governance requires continuous assessment (and-re-assessment) of your practices, ensuring they are substantiated by documentation and being optimised for best use. It is a journey.

Documentation and processes should be tailored to individual businesses' circumstances and customisation for the New Zealand environment is critical. In navigating your tax governance journey, taxpayers should consider the following…

1. Assess
- Key tax strategy settings, such as tax risk appetite
- Availability of tax policies and procedures
- Roles and responsibilities for tax



2 .Substantiate
- The overarching tax strategy and control framework
- Tax risk management processes (incl. risk identification)
- The operation of tax roles

3. Optimise
- The tax governance framework
- Test processes and procedures
- Control measurement

How KPMG can help

Our team can help through the tax governance journey, no matter where you are at. We have specialist teams that have helped many clients through improving their tax governance, tailoring our approach to your business reality.

Examples where we have helped include:

Assess

- Workshop a “fit for purpose” tax strategy
- Gap analyses between current practices and tax governance “best practice”
- Interview key tax personnel to map relevant roles and responsibilities and related processes.

Substantiate

- Tax strategy and tax control framework drafting
- Establish clear processes for those involved in the tax function to minimise risk
- Creating policies for Board and wider stakeholder tax reporting.

Optimise

- Review of tax governance documentation
- Review of tax controls, through tax health checks for:
  - Income tax
  - GST
  - Withholding tax
  - FBT and payroll-related tax
  - Global tax compliance.

Should you wish to discuss this further, please reach out to your KPMG contact or one of our tax governance specialists:

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