

Justified Trust and Tax Governance

Forget about Consumer Trust, can you 'Justify Trust' in your Tax Governance?

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Consumer trust in the health and pharmaceutical sector remains low relative to other industries globally. Consumers are concerned about highly priced prescription drugs, perceived unethical marketing practices and maintenance of data confidentiality. And it's not just consumer trust that an organisation needs to be concerned about. Globally, the tax landscape continues to rapidly evolve as the public and tax authorities increasingly scrutinise the amount of tax paid by multinationals, particularly pharmaceutical companies. The demands of regulators are intensifying with an increased focus on taxpayer governance, tax data quality and integrity. There are increased expectations from stakeholders for organisations to demonstrate that their tax policies and conduct aligns with the spirit and intent of the law, and meets the expectations of the public.

In Australia, the Australian Tax Office (ATO) is focused on board accountability for Tax and ensuring organisations can sufficiently evidence compliance with their tax obligations and are paying the right amount of tax on economic activities within Australia. By 2020, the ATO will have undertaken Justified Trust or Streamlined Assurance Reviews across the top 1,100 organisations examining their tax governance and risk. The program will impact more than two hundred pharmaceutical and medical devices companies operating in Australia.

These Justified Trust Reviews will impact the organisation's risk ratings and ATO audit activity, not to mention the impact on reputation and increased penalties for non-compliance. With this in mind, it is interesting to note that:

- Less than 50 per cent of organisations have a documented tax policy;
- 90 per cent are not confident in their tax controls; and
- Only 30 per cent have documented tax controls, of these only 26 per cent undertake controls testing.

So the good news is, if you are not yet meeting the ATO's standard of 'Justified Trust', you are not alone.

The bad news is, if you are a large organisation, it's a matter of when, not if, the ATO asks you to establish 'Justified Trust'.

Questions to consider

- Are you ready to respond to the ATO's Justified Trust Review?
- Do you have a tax risk governance and management framework in place? Is it endorsed by your Board in Australia?
- Have you conducted a gap analysis to identify differences between what you are doing and what the ATO expects from you?
- Have you developed an action plan and identified compensating controls?
- Have you undertaken a self-assessment test to obtain evidence of controls operating effectively?
- To what extent are you comfortable you will be able to respond adequately to the ATO, and are you prepared to issue and discuss the ATO's findings to your Board?

How KPMG can help

Automated performance gap analysis

- KPMG has developed Tax Control Room, a market leading cloud-based solution providing a consistent and systematic framework enabling organisations to assess their entire tax operating model across seven key performance drivers.
- Tax Control Room deploys an online rapid self-assessment questionnaire for executives to understand current practices for Tax performance and governance maturity.

Tailored governance action plans

- Utilising the outputs of the questionnaire, Tax Control Room automatically produces current state maturity matrix scores across the four board and nine management controls.
- An automated gap analysis is generated, along with a comprehensive list of compensating controls and recommended action plans for each control enabling you to instantly understand performance and gaps against best practices, including benchmarking against more than one hundred peers, as well as the ATO Justified Trust and OECD standards.

Driving value through tax

- KPMG will work with you to prepare and facilitate a multi-functional workshop bringing expertise from across our Tax Transformation and Advisory teams. The team will work with key stakeholders to examine, validate and analyse the results and gaps to best practice and ATO's suggested better practices.
- The workshop takes a Lean Six Sigma approach utilising the interactive visualisations within Tax Control Room to prioritise actions and recommend implementation plans to better meet the needs of the ATO and drive improved performance of your tax function.
- This is an iterative process. You can access Tax Control Room on an ongoing basis to complete the self-assessment questionnaire once improved controls across board and management teams have been implemented. This allows you to re-evaluate in readiness for an ATO review and to continually measure tax performance against your strategic goals.

Flexibility with no surprises

- Tax Control Room is an annual fee subscription based solution, plus a fixed fee for the tailored workshop. The combined package provides you with a management endorsed gap analysis and action plan to achieve alignment to the ATO standards and a validated assessment of compensating controls, ready for the ATO's information requests as part of Justified Trust Assurance Review.

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