

# Boardroom Questions

## Tax transparency and governance

### Debate drivers

- Globalization of business
- Responsible tax debate
- Tax governance programs
- Increased media and NGO focus
- Perceived misalignment of business models and tax rules

These factors are behind the ongoing focus on tax transparency and the increased spotlight on new ways to tax businesses. The debate centers on how and where to tax companies, the level of transparency needed and which tools should be used by authorities.

### The broader impacts for:



#### Businesses

Increased reputational risk, lack of clarity and more uncertainty as well as higher tax costs arising from both increased compliance requirements and double taxation



#### Governments

Balancing need for more tax revenue, competitiveness in a global economy and fairness when it comes to taxation



#### Individuals

Increased activism and attention combined with sharing a higher burden of tax

#### Why it is a board issue

- **Brand** and potential **reputational damage**, if tax affairs are perceived as irresponsible or aggressive
- Potential impact on **profitability** and **share price**
- Insufficient **line of sight** and unclear **accountability** potentially exposes the board to **surprises in relation to tax matters**
- A **governance, risk and compliance (GRC) agenda** without tax is potentially inadequate and relevant **tax compliance KPIs** must be included in the **board's governance framework**

#### Boardroom questions

- Is your **board's GRC framework** adapted to the responsible tax era?
- Is the GRC framework aligned with the company's **tax policy**?
- Do you have **uncertain tax positions**? Are you prepared to have them **scrutinized by the tax authorities** and other stakeholders, including the media?
- Have you considered the **reputational implications** of your company being perceived as not paying its "fair share"?
- Is there the appropriate **transparency** at the board level, when it comes to **tax positions** and the company's **risk appetite** in relation to tax?
- What is your **tax control framework** and does it address both **legality and legitimacy issues** of the company's tax positions?

## Example of a board's tax governance framework

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| <b>Tax control framework</b> <ul style="list-style-type: none"><li>– Tax strategy and policy (public and/or internal)</li><li>– Tax risk appetite</li><li>– Tax risk register</li><li>– Principles for tax risk assessment, valuation and reporting</li></ul>  | <b>Roles and responsibilities</b> <ul style="list-style-type: none"><li>– Interaction between the board and relevant sub-committees (e.g. audit committee)</li><li>– Communication protocols for management's reporting around tax issues</li><li>– Roles of individual directors in the area of tax governance</li></ul>        |
| <b>Transparency and information protocols</b> <ul style="list-style-type: none"><li>– Board (or committee) endorsement for positions that fall outside risk parameters per company tax risk appetite</li><li>– Regular progress updates by management to board (or committee) on tax risk issues</li><li>– Tax risk register and procedures for escalation</li></ul> | <b>Periodic testing and Review</b> <ul style="list-style-type: none"><li>– Reports from independent assurance providers (internal or external) presenting findings and recommendations</li><li>– Testing plan prepared by management</li><li>– Documented board (or committee) review of tax control framework testing</li></ul> |

## What can your board do?

- Ensure that you are kept **appropriately informed** both **locally** and **internationally**
- Ensure regular updates with respect to the tax landscape, including developments in regulatory positions, tax governance and stakeholder views on **tax positions** and **planning**
- **Organize for good tax governance, including clear roles and responsibilities for directors, audit committee members, tax board representatives and other relevant governance institutions**
- Ensure that the board's tax governance includes a robust tax control framework which addresses both legal and **reputational risk** and which is aligned with the company's risk appetite
- Regularly assess the robustness and reliability of the company's **tax governance framework**

Calls for (even) greater tax transparency are set to continue. Businesses will need to ensure they can fully explain and justify their tax figures. Simply complying with the law in various jurisdictions, without due regard for potential

reputational risks, is no longer enough for a majority of companies. Above all, businesses have a responsibility to play an active and constructive part in the debate about future tax policies.

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