Tax Risk Management and Governance

INLAND REVENUE FOCUS

In New Zealand, the IR endorses a top down approach to tax governance, with corporate boards playing an essential role in setting the 'tone' for the approach to tax risk and the TCF in place to manage this. The following have been identified by IR as key questions that should be routinely raised by the board of New Zealand organisations:

- Is there a documented tax strategy and has it been kept up-to-date?
- Have effective systems, procedures and resources been put in place to manage tax risks and, if so, is a clear statement made in the annual report to that effect?
- Is annual reporting sufficiently transparent such that all stakeholders have the capacity to analyse and effectively interpret the information provided on taxes paid?

In August 2021 and October 2022, IR launched two separate campaigns with a focus on understanding how tax governance is applied in practice by New Zealand taxpayers. Across both campaign, a tax governance questionnaire was sent to more than 300 taxpayers and included 10 "yes" or "no" questions requiring a sign off by the CFO. These questions are attached in **Appendix A**. Following these campaigns, IR has communicated that:

- Overall the results fell short of IR expectations on tax governance (with greater attention needed to ensure a tax strategy/TCF is documented and tax controls are independently tested).
- Taxpayers are expected to be operating (at a minimum) at an "established" level of tax maturity i.e. with robust processes that are institutionalised throughout the business and conducted with a high degree of capability. Refer to **Appendix B** for more details on IR's tax maturity framework.
- Corporate boards should be proactively involved in tax risk management and establishing internal tax control systems so that actions of management are consistent with the organisation's tax risk appetite.
- Context is important - tax strategies and controls need to be tailored to the particular business model and circumstances of the organisation.
- IR has invested heavily in digital transformation, and is expecting to leverage this new data analytical capability to identify exceptions and target taxpayers. Following a recent amendment, IR can now also request and compel taxpayers to provide transactional level data.

WHY THIS IS IMPORTANT NOW

IR has recently released formal guidance on its expectations around Tax Governance reiterating its view that tax governance is a major focus area when conducting investigations of taxpayers. IR views effective tax risk management as an integral part of good corporate governance. As a large, high profile organisation, it is critical that your organisation has a strong TCF underpinning its day to day approach to managing tax to ensure that it:

- Has confidence that the right amount of tax is being paid.
- Is operating within its tax risk appetite and the wider risk appetite of the organisation.
- Has assurance that tax advice is being applied correctly by the business.
- Has robust data and processes which are producing the expected results for tax.
- Is delivering tax in an efficient and effective manner, using tax advisors effectively and deploying technology where it makes sense to do so.

Client Name
PwC

March 2025

1

IR tax maturity framework

Following Inland Revenue's 'Tax Governance in Practice' campaign, Inland Revenue developed a four-stage tax governance maturity model as an evolutionary pathway to process improvement. As a result, Inland Revenue now expects all clients to reach an "Established" level of maturity.

Applying this framework, Inland Revenue identified a majority of respondents to be operating at a 'progressing level' and communicated the expectation for a majority of the population to shift to an 'established' level over time.

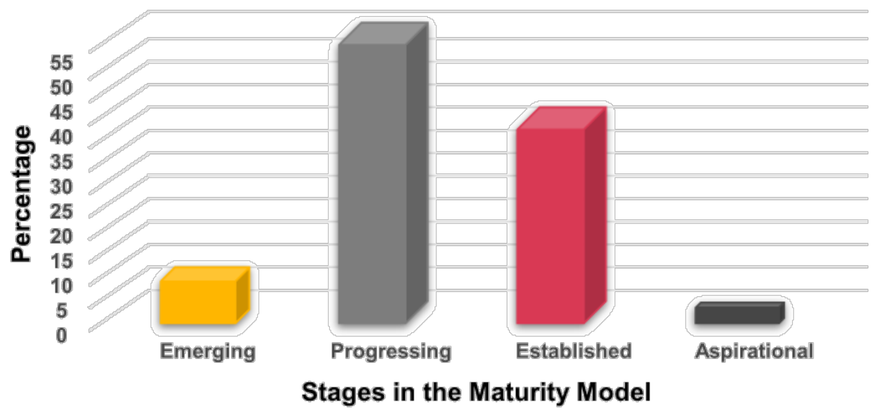
Source: Tax Governance Questionnaire Update International Revenue Strategy, February 2022

Emerging
Certain processes have been used to develop some capabilities, but they continue to be ad hoc and hence need further significant improvements

Progressing
Certain process improvements have been initiated but these are not yet systematically implemented and institutionalised

Established
Robust processes have been put in place, resulting in a high degree of capability and they are institutionalised - on average, we expect SEs to cluster around this level

Aspirational
Processes have been optimised resulting in a paradigm shift, with use of new/innovative tools/technology and transparent reporting



PwC

July 2023
2