BEST PRACTICES FOR GOOD TAX GOVERNANCE

CONTENTS

FOREWORD

This paper is the result of discussions over the last few years among tax directors who are members of three organisations: the Tax Executives Council of the Conference Board, The B Team, and the European Business Tax Forum. The views expressed are not necessarily shared by any or all of the members of these organisations. Five companies have supplied case studies of their own experience of tax governance and control frameworks that help illustrate some of the issues discussed in this paper. We are grateful to those companies for their assistance and support. The suggested best practices in this paper have been discussed with multiple stakeholders, including the interested organisations that have provided statements, to take into account their particular views and perspectives.

The discussions were inspired by public debate about 'aggressive tax planning', fair taxation and the need for international tax reform, which appeared to show a lack of trust and understanding as to how multinational enterprises (MNEs) approach taxes and their associated risks. It was also realised that while individual MNEs had developed processes to improve tax risk management and controls, there was no common standard or established best practice.

Those concerns led over time to the drafting of this paper, spurred on by the increasing importance of stakeholder capitalism,[1] and associated use of Environmental, Social and Governance (ESG) metrics - including in the area of taxation - and raised expectations on transparency and disclosure of tax risk. At the same time, MNEs have experienced radical changes in international taxation and significant developments in the focus, skills and tools used by tax administrations. There is now wide recognition that a range of internal and external stakeholders expect to be provided with better information on how MNEs manage risks, including taxation.

Taxes, whether direct or indirect, borne or collected by MNEs, are a potential source of uncertainty and risk, on which many stakeholders need information, explanation, and assurance. This paper is intended as an evolving source of possible best practices that contributors have developed and implemented to assist in meeting their stakeholders' needs. The related processes, reporting and controls can be characterised as 'tax governance', closely linked with the critically important tax control framework.

A robust tax governance process has multiple benefits. It can be a significant contributor to risk identification and management within an MNE, providing assurance to the Chief Financial Officer (CFO), board members, as well as shareholders and other stakeholders that all taxes are managed in line with corporate (ethical) guidelines and that potential fiscal or reputational risks are managed and minimised. The tax governance measures discussed in this paper are not intended to replace other internal or external, control or reporting processes, but could provide useful support and information for them.

Those who have contributed to the development of the paper recognise that all MNEs are different, and that there is no single practice or standard that would apply to all. Instead, the paper shares a range of ideas that could be used in particular circumstances, within a central framework of controls appropriate to that organisation.

The publication of the paper marks the next stage in its evolution. Its value and usefulness will increase if readers are willing to share their comments, suggestions, and constructive criticism. We thank you in advance for your valuable insights.

THE CONFERENCE BOARD

Tax Executives Council
Conference Board

THE B TEAM

The B Team

EBTF European Business Tax Forum

European Business Tax Forum

1 'Stakeholder capitalism' refers to business practices that aim to achieve more than profits and a high share price.

STATEMENTS FROM INTERESTED ORGANISATIONS

An earlier draft of the paper was shared and discussed with several interested organisations, some of which have provided statements of their views, which are reproduced here.

Her Majesty's Revenue and Customs

Jo Wakeman, Director Large Business
December 2021

The ambition of Her Majesty's Revenue and Customs (HMRC) is to develop and maintain a healthy tax administration system. Trust and transparency are integral to this – taxpayers rightly want to know that authorities are operating in a fair and even-handed way.

Most individuals and businesses in the United Kingdom (UK) pay the tax that is due - the UK tax gap for large businesses is among the lowest in the world, with the latest figures showing this customer segment paying over 97.5% of theoretical liabilities. However, public confidence in the tax system can be hindered by its complexity; it can be difficult for taxpayers and for commentators to ascertain whether our work and results truly meet their expectations.

HMRC is looking at various ways to be more transparent about our compliance activities, and we're evolving our strategic approach to manage the tax affairs of the largest and most complex businesses.

We have, for instance, introduced several measures to encourage greater transparency and corporate responsibility, such as the requirement to publish a tax strategy, the Code of Practice on the Taxation of Banks and the Senior Accounting Officer legislation, as well as being transparent about how we resolve tax disputes and the associated governance. Ultimately, we want to promote responsible tax behaviour from the outset, through influencing robust, compliant business processes and risk-averse attitudes when considering and planning tax.

Increased publication of tax data is a positive step, but non-technical audiences may need additional information and support to be able to interpret that data and to judge whether the tax that businesses pay is right. We therefore welcome input from stakeholders, including the business community, to foster greater understanding of what good tax governance looks like and why it is important. We hope that this work contributes to that developing, wider discussion.

PwC

Francisco González Fernández-Mellado, Partner PwC Spain
February 2022

The ESG landscape resulting from the COVID-19 crisis presents a number of complex challenges for our generation that requires new perspectives.

From a corporate view, the paradigm shift from shareholder capitalism to the new stakeholder capitalism is the catalyst to provide answers to the new challenges.

In the field of corporate taxation, the establishment of tax governance models appears as the best response to embed the new stakeholder capitalism in the strategic management of tax affairs within organisations.

Tax governance requires establishing risk control and management frameworks that can mitigate or prevent tax compliance, legislative and reputational risks.

A robust tax governance system in MNEs indicates that the tax strategy is correctly integrated within the organisation and that the decision-making process is underpinned by diligent and transparent compliance with tax legislation. Additionally, it is a highly useful tool for stakeholders, such as institutional investors, who integrate tax factors in their decision-making process for investments.

A recent academic study[5] has found that credit analysts will consider that a higher degree of international tax planning (understood as a lower effective rate compared with the nominal rate) increases the borrower's credit risk and will in turn be associated with less favourable credit ratings.

Additionally, the adverse effect increases when the following circumstances occur:

- Increased need to repatriate earnings obtained outside the headquarters.
- Poor quality of the company's reporting system.
- Weak corporate governance.

It may therefore be asserted that the tax strategy has a direct impact on the company's financial sustainability and that, furthermore, establishing robust tax governance systems as well as appropriate tax reporting mechanisms would reinforce long-term financial sustainability.

Such tax governance systems should be subject (i) to a proper degree of transparency, and (ii) to recurrent third-party verification. Only in this way can tax governance frameworks fully respond to stakeholder needs and so lead to more favourable corporate credit ratings and strengthened financial sustainability.

Finally, given the central role it plays in modern tax systems, corporate taxation can significantly influence social cohesion in developed societies. As such, tax should be integrated as a pillar of MNEs' ESG strategies. A robust tax governance framework may therefore not only positively impact long-term financial sustainability for the benefit of shareholders, but also other stakeholders such as employees, customers, suppliers, tax authorities and society in general.

1 Zhiming Ma, Derrald Stice, Danye Wang (2020), Credit Ratings and International Tax Planning, Tax Notes, 24 November 2020.

Oxfam

Christian B. Hallum, Senior Tax & Extractives Specialist
March 2022

The Organisation for Economic Co-operation and Development (OECD) estimates that between 4-10 percent of the world's corporate tax income is lost to aggressive tax planning each year. Other estimates put the loss to developing countries at $100 billion a year alone. In a world facing several interrelated crises – on climate, inequality, eroding democratic values, the pandemic, rising poverty and more – the public's patience with such aggressive tax planning practices is rightfully at a minimum.

At Oxfam we join in the demands for MNEs to pay their fair share of tax. Concurrently with our work to influence policies and global tax rules we encourage MNEs to take meaningful steps towards more responsible corporate tax behaviour, and we therefore welcome this white paper.

Like any other corporate responsibility issue, responsible tax risks being consigned to glossy corporate social responsibility reports and not the day-to-day operations if it is not embedded in the internal governance of MNEs. That is why the recommendations identified in this paper are essential, as following them can help turn responsible tax principles into practice. MNEs with activities in developing countries should take extra care to follow the principles in these countries. They should also ensure that they take extra steps to ensure responsible tax conduct in these countries, for example by having a written policy that limits and gives transparency around the use of tax incentives and exemptions.

Important as improving internal tax governance may be, Oxfam continues to stress that it needs to go hand in hand with meaningful and ambitious transparency around corporate tax. Without transparency there can be no meaningful accountability towards stakeholders. Comprehensive public country-by-country reporting covering activities in all jurisdictions remains a prerequisite for multinational corporations that wish to demonstrate responsible tax behaviour. That is why we recommend that MNEs combine the principles identified in this paper with the principles developed in the Global Reporting Initiative (GRI) tax standard.

At Oxfam we encourage more MNEs to join the growing number of corporations that move towards more responsible corporate taxation, and we hope that they will look to this paper for inspiration.

Australian Taxation Office

Rebecca Saint, Deputy Commissioner Public Groups
April 2022

The role large businesses play in our tax systems, and their social obligation to contribute to it, remains a source of hot debate in communities everywhere. Globally there continue to be calls for businesses to be transparent about their operations and tax contribution and to demonstrate that they are part of the system, not gaming it.

The focus of tax contribution as part of the broader social licence to operate, means the community, boards, shareholders and regulators are more interested than ever in the tax profile and contribution of large organisations in particular. This is reflected in tax now being an important feature of an organisation's ESG credentials.

Good governance starts with the tax settings at board level. Having well designed and effective tax governance that is lived in practice, provides a strong foundation for boards to obtain confidence about their organisation's tax risk profile and whether they are meeting their tax obligations.

Tax governance forms a key pillar of compliance programs for many tax regulators globally, including Australia. Through our Justified Trust program the Australian Taxation Office (ATO) assesses the effectiveness of an organisation's tax governance framework to obtain confidence that the organisation pays the right amount of tax and has the tax risk management infrastructure in place to ensure that it will continue do so into the future. Organisations that achieve high assurance ratings are able to achieve reduced compliance costs and are less likely to have intensive tax disputes.

Our experience in Australia is that most large businesses want to do the right thing. However, it can often be difficult for boards to assess the effectiveness of their systems and processes. Best practice principles provide a mechanism for organisations to test and assess their own settings. Objective principles also serve to enhance the community's understanding and their ability to differentiate good corporate tax citizens from others.

The ATO views the publication of the best practices for good tax governance as a positive step that can assist both businesses and the community. We look forward to seeing the further development of this paper.

EXECUTIVE SUMMARY

MNEs are increasingly recognising that they are accountable to a range of stakeholders, not limited to their shareholders. That means delivering sustained and sustainable value to all stakeholders and maintaining an active engagement with them all. The recognition of these obligations to stakeholders has raised the significance of corporate accountability and the importance of ESG principles, leading to some behavioural change in MNEs with respect to governance and transparency.

Stakeholders also have increasingly high expectations about how MNEs deal with their taxes. In particular, they expect those taxes to not only comply with all relevant laws but also to be sustainable and – in their view - appropriate. Responding to these expectations may require changes to how MNE's manage their taxes and tax risks and how they share this information with their stakeholders. As part of their engagement with stakeholders, MNEs will need to develop an understanding of stakeholders' specific aims and concerns so that these can be directly responded to where possible. MNEs should also be clear to which stakeholders communications and disclosures are addressed.

While there have been calls for increased disclosures of tax payments, as well as the publication of Country-by-Country Reporting (CbCR) data, genuine and effective engagement with stakeholders in relation to tax requires more than providing them with a snapshot of historical data without explanation or context. Stakeholders need a clear picture of an MNE's tax strategy and how it manages its taxes and any associated risks. Without that information, stakeholders cannot make informed judgement about the appropriateness or sustainability of an MNEs taxes nor about the existence and management of risks in relation to those taxes.

Because of differences in operations, territories and business organisations, there is no single standard of tax governance that applies to all MNEs in all circumstances. However, MNEs can seek to address stakeholder concerns by demonstrating that their tax strategy and its execution meet some widely accepted best practice criteria, and that as a result their taxes are not only in compliance with all relevant laws but are also sustainable and appropriate. That means not just adopting a set of principles, but also ensuring that those principles are embedded within governance and monitoring processes, so they are actually applied in practice at all levels and locations within the organisation.

This paper brings together some best practices that have been developed and implemented in some or all of the MNEs that have contributed to its drafting.

Best practices identified include:

- The critical importance of clearly documented group tax strategy, policies or practices. Group strategy must come from the highest level in the organisation and have strong sponsorship and ownership at that level.
- While stakeholders may rely on board level engagement to judge tax policy and strategy, the effectiveness of the strategy relies on strong and consistent support and commitment to the group tax strategy, policies and practices at all levels of accountability within the organisation.
- Business engagement with the tax function and the execution of a group tax strategy requires the establishment of a process of tax review of material business decisions.
- There should be a top-down commitment to compliance with local and international laws and regulations in all areas, and tax should be specifically included.
- Transparency with respect to data and, equally importantly, to control processes is critical.
- Commitment to the arm's length principle (ALP) is essential.
- In common with other business governance and controls, delivery of an effective tax strategy and governance process requires a good and effective tax control framework, linked to the operation of other control frameworks in the organisation. This gives the board and senior leaders within the MNE confidence that the tax function operates within clearly defined constraints and does not implement or allow the implementation of tax structures or other arrangements that are not in line with the organisation's guidance or relevant tax laws.
- Tax risks should be identified, communicated and managed consistently with other business risks.

This paper is intended to address the principles that an MNE should consider in defining and implementing an effective and appropriate tax governance process and includes selected case studies of effective implementation of particular control frameworks and other tax governance processes. It is not intended to be detailed guidance, a template, or checklist on how such measures should be implemented or managed. Standardised 'boilerplate' processes and controls are unlikely to be of great use to stakeholders and can become routine box-checking exercises which fail to engage the organisation in the real transparency and behavioural changes at all levels needed to achieve effective good tax governance.

As all MNEs are unique, with their own histories, business activities, geographical spread, stakeholders, and corporate ethics, each should develop its own measures that reflect good governance principles, based on best practices.

It is important that the tax governance process should be closely linked with other corporate governance and controls and be integrated with the corporate approach to risk, disclosure, and stakeholder expectations, including but not limited to ESG and sustainability disclosures.

Understanding of best practices for tax governance should be beneficial for boards and tax functions seeking to address stakeholder concerns and governance gaps. They should also assist stakeholders in assessing and evaluating an MNE's values and effectiveness in meeting stakeholder concerns in relation to tax planning, risk culture and operational controls over the taxation of global operations.

PART A: INTRODUCTION

1. Changed recognition of corporate accountability

MNEs are increasingly recognising that they are accountable not just to their shareholders, but to a wide range of stakeholders. For example, in August 2019 the US Business Roundtable released a new Statement on the Purpose of a Corporation, signed by 181 Chief Executive Officers (CEOs) of the largest US companies, in which it replaced its previous principle of shareholder primacy (i.e., that the corporation exists to serve its shareholders) with a recognition that

"[e]ach of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country."

This was followed in December 2019 by the World Economic Forum releasing its updated Davos Manifesto 2020 "The Universal Purpose of a Company in the Fourth Industrial Revolution", which stated that:

"The purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities, and society at large. The best way to understand and harmonize the divergent interests of all stakeholders is through a shared commitment to policies and decisions that strengthen the long-term prosperity of a company."

With a wider responsibility to stakeholders and changes in investor priorities and concerns, there is increasing recognition of ESG factors as important metrics. Investors are increasingly applying these non-financial factors as part of their analysis to identify material risks and growth opportunities. ESG metrics are not commonly part of mandatory financial reporting and companies are increasingly making ESG disclosures in their annual report or in a standalone sustainability report. This has been picked up by institutions such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board, and the Task Force on Climate-related Financial Disclosures that are developing standardised frameworks to better incorporate these factors into the investment process.

The rising importance of ESG also has implications for MNEs' tax policies where transparency and accountability are now seen as drivers of understanding and trust. MNEs have recognised public concern about the perception that MNEs exploit tax planning opportunities and loopholes to unfairly reduce their taxes or pay only a legal minimum amount of tax. Some have responded to this concern by voluntarily reporting how they manage tax planning and tax risks in their own context, including explaining their risk appetite, governance principles and reporting their taxes in more detail. These reports typically quantify not just the MNE's corporate income taxes but also its global tax footprint.

A related development was the GRI's 2019 standard for tax transparency. This builds on other sustainability reporting standards that have been developed by the organisation since 1997.

"The GRI Tax Standard is the first global standard for comprehensive tax disclosure at the country-by-country level. It supports public reporting of a company's business activities and payments within tax jurisdictions, as well as their approach to tax strategy and governance.

Global investors, civil society groups, labour organizations and other stakeholders have all signalled their backing for the Tax Standard, as it will help address their growing demands for tax transparency."

But more data transparency on things like revenue and employee numbers is not enough. Due to the complexity of global business organisations and operations, it will in most cases be practically impossible from an outside perspective to adequately judge what an appropriate amount of tax is, either globally or in individual jurisdictions. An effective and ethical tax governance model is key to assuring stakeholders that appropriate amounts of tax are being borne and collected. The tax governance model should be closely linked with other corporate governance and controls and reflect the corporate approach to risk, disclosure, and compliance.

But it's a bit more complicated than it may sound. A wider range of stakeholders inevitably means a wider range of views about what constitutes good tax governance. In particular, stakeholders will have different expectations on what measures should be in place within an MNE to ensure that taxes are managed ethically, and that unacceptably 'aggressive' or 'unethical' tax planning is not pursued at any level within the organisation. Those views will include opinions on transparency and reporting. In the course of discussions with different stakeholders it has also become obvious that within the umbrella of transparency, different stakeholders need different kinds of data and information in relation to their own agendas and goals. With such a range of views and expectations, it's no surprise that consensus on what constitutes good tax governance is difficult to reach.

2. How transparency can help

Making transparency legally compulsory, particularly in the form of public CbCR (PCbCR), has been widely suggested as the solution to public concerns about 'aggressive' tax planning and companies not paying their fair share of tax. The argument partly depends on the principle that "sunlight is the best disinfectant" and assumes that companies would be less likely to pursue 'inappropriate' tax behaviour if this would otherwise be disclosed through having to report taxes paid and their business activity (or lack of it) in particular jurisdictions.

However, transparency that is limited to publishing aggregated data, bundling all business transactions into combined tax consequences, is not necessarily the most effective illustration of whether an MNE is paying the right amount of tax globally or in a particular jurisdiction, nor of the MNE's approach to tax generally. PCbCR is a snapshot of particular metrics, presented potentially without explanation and is at best a picture of past outcomes: it is not by itself a methodology to implement best practice in tax management. Data alone, without explanation and context can lead to inappropriate and/or incomplete conclusions being drawn about the behaviour and ethics of the MNE. So if an MNE only increases the amount of information provided to stakeholders, by publishing its mandatory CbCR reports, for example, it is unlikely to satisfy all, or even any of its stakeholders that taxes paid are the result of application of best practices for governance and management.

As well as additional context and explanation of the data, stakeholders will also need evidence of how the MNE takes taxes into account when making decisions as part of normal operations and how it controls decision-making at all levels that may affect taxes borne and collected. Fair understanding of an MNE's tax policy needs to start from understanding its approach to tax governance backed up by examples, case studies or more detailed data.

In short, through greater public transparency to its stakeholders an MNE can explain its approach to tax and demonstrate good governance.

Providing useful and credible information for stakeholders will require additional effort by MNE tax and accounting departments, and investor relations and communication specialists, as well as authoritative independent verification. It is equally important to express clearly to which stakeholders a given communication is addressed.

3. Meeting stakeholder expectations

More openness and the adoption of best practices for taxation management and planning is not of itself enough. Stakeholders will expect evidence that best practices have been embedded in the organisation. In particular, MNEs will need to demonstrate to their stakeholders that their processes, governance, and metrics meet stakeholder expectations and have been implemented throughout the organisation.

Although there is no single standard that applies to all MNEs in all circumstances, MNEs can seek to address stakeholder concerns by demonstrating that their tax strategy and its execution meet some widely accepted best practice criteria and that as a result their taxes are not only in compliance with all relevant laws but are also sustainable and appropriate. That means not just adopting a set of principles, but also embedding those principles within governance and monitoring processes to ensure they are applied in practice at all levels and locations within the organisation. Stakeholders will want to have evidence that such controls have been implemented and that they are effective in ensuring appropriate standards of behaviour throughout the organisation. Such best practices should help stakeholders assess whether the total taxes borne and collected by the MNE are appropriate as well as being used as a benchmark for internal and external audit functions to assess performance. That said, the final assessment by a given stakeholder will be based on their particular priorities and perspectives. Even with additional narratives of tax positions, explanation, disclosure and controls it is unlikely that there will be a full consensus on what the right level of taxation is in every context.

Such best practices include but are not necessarily limited to the following:

- Board oversight and control.
- Clear tax strategy fully implemented and applied globally.
- Effective controls and review of tax strategy implementation and local management behaviours.
- Internal and external independent review of controls and outcomes.
- Clear and implemented policies on relationships and disclosures with tax administrations.
- Clear and consistent policies that incentivise appropriate behaviours with regard to taxation by all internal actors, principally but not limited to the tax function.
- Commitment to transparency: sharing appropriate information with stakeholders to demonstrate the effectiveness of controls and the effect of tax strategy implementation on operational activity and articulate why a chosen approach is appropriate.

PART B: BEST PRACTICES FOR GOOD TAX GOVERNANCE

Managing taxes has become a serious issue for MNEs in today's business and social environment. In particular, MNEs need to demonstrate to stakeholders that they take a responsible and principled approach to tax risk management, intending to pay an appropriate and justifiable amount of tax in each jurisdiction in which they operate.

Stakeholders can best evaluate an MNE's published strategy or policies on responsible and principled tax management by benchmarking these against some commonly used best practices for tax governance. In this way stakeholders can determine whether appropriate controls and processes are in place at all levels, in all jurisdictions and across all operations to ensure that such strategies and policies are complied with. MNEs can also use those best practices as a basis for engaging with stakeholders generally with regard to their tax policies.

Some suggested key elements of best practices for good tax governance are set out and explained in the following sections. These have all been put in place by some MNEs, but it is not suggested that they should or even could all be put in place by every MNE as their suitability and appropriateness depends on the activities, locations, governance processes and corporate culture of each organisation.

Best practices for good tax governance include

- Documented group tax strategy, policies and/or practices.
- Oversight of the above, including tax review of material business decisions, from the highest level in the organisation.
- Compliance with local and international laws and regulations.
- A tax control framework (see Part C below).

1. Documented group tax strategy, policies and practices

A. The importance of clear communication

Being able to demonstrate a responsible and principled approach to an MNE's tax obligations and how it manages the associated risks is fundamental to stakeholders' expectations of good tax governance. This requires clear public communication of how the MNE group establishes and cascades that approach through the organisation. This is sometimes referred to as the 'group tax strategy'. Group tax strategies may be published voluntarily, by way of best practice, or required by law, as in the UK, where there is a legal requirement for companies above certain size thresholds to publish an annual tax strategy.

However, there is no common understanding of what a 'strategy' is, or should be, and different groups have varying policies and processes with different terminologies, leading to potential confusion over the status and role of a strategy document. It is therefore important to ensure that tax strategy documentation provides adequate explanations and does not rely on undefined terms or expressions.

Case study 1 – BBVA: Tax strategy

B. Accountability frameworks

An MNE should have an accountability framework in place that addresses taxation. Such frameworks should be clear, documented and subject to appropriate governance. An example of a model with different levels of accountability, management and control within an MNE is included in the Appendix of this paper. This model of accountability may not apply to all MNEs, and it may need adapting to reflect differences of size, internal governance and control processes, or other characteristics.

C. Legal entity structure alignment

Most MNEs organise their operational management through business lines, segments, or regions. It is unlikely that there will be a close match between the legal entity structure and the operational reporting lines. Financial, commercial, operational, and other reporting, monitoring and controls will need to follow the operational structure, and a separate, but linked system of reporting and controls is therefore required for local and consolidated legal entity reporting and governance purposes. There will need to be a clear understanding of the reconciliation between operational and legal controls, results and reporting through all levels of the organisation.

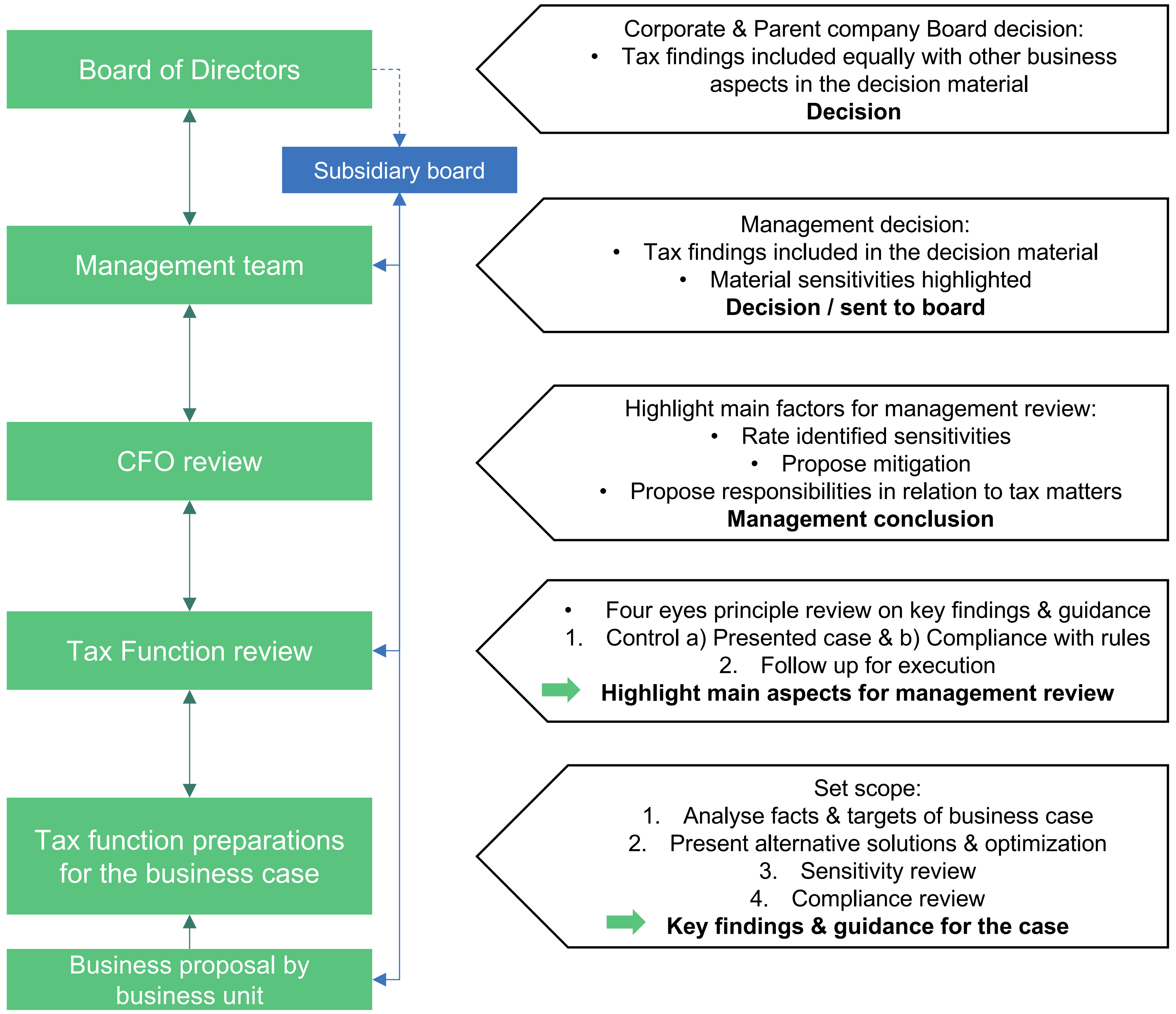
D. Make it dynamic

It is essential that, once documented, the group tax strategy, policies and practices are regularly reviewed and updated. They should form the basis of robust internal, and potentially external control processes. The documents must not be prepared and then just left as a static record of good intentions.

2. Tax review of material business decisions

MNEs should have appropriate processes in place for tax review of material business decisions. This best practice should be incorporated into the tax control framework (see details in part C below). The materiality level would be dependent on the circumstances of the group. Such reviews would require the tax function to be made aware of business decisions or proposals above the materiality thresholds and be required to respond with relevant information or recommendations. Tax will then be directly considered as part of the decision-making or approval processes at higher levels, along with other commercial, legal and operational considerations. Tax will rarely, if ever, be the only determinant over any business decision and tax advice may be ignored in the final commercial decision, unless this would conflict with existing legislation.

Case study 2 – Fortum: Tax review of material business decisions



Fortum Governance and Tax Governance

Fortum's governance model defines thresholds for operative management mandates; governance defines what kind of business activities are material and subject for operative mandates followed by legal level decisions. Operative approval represents a mandate for subsidiaries to make decisions and finally conclude legally binding commitments within their mandate.

Our tax governance describes duties for different tax functions and business within normal ongoing business as well as for material business transactions. Our tax governance is synchronized with corporate governance in relation to material transactions. That's how tax governance creates a framework for tax work to define the key issues to be specifically analysed for each material business activity proposal. It also defines level of needed reviews, what topics and how compliance need to be ensured with tax authorities or external advisers.

Our governance creates clear control points. For example controls for arm's length pricing, compliance with Fortum Tax Principles and agreed accountabilities to mention few built-in ones. Systematic approach ensures awareness and attention for different items.
As tax governance is synchronized with operative and legal governance, top- management awareness of tax related topics benefits from systematic approach, in other words it improves. Our management team and the board of directors can make decision taking actively into account tax issues; they are systematically part of the process and material. Management is aware of who, how and when taxes are discussed more in detail in decision process.

In our view the tax governance creates clarity for our business, tax function and management in relation to managing taxes as it puts tax topics on the tables where business decisions are made. Tax governance is crucial part of responsible tax management.

3. Legal and regulatory compliance

A. Transparency

Tax governance frameworks should require compliance with national and international tax laws and regulations, including those relating to transparency. As part of those frameworks, an MNE should clearly state its transparency obligations and policies, allowing all stakeholders to conclude on its approach to transparency and fairness.

For large MNEs headquartered in major economies, transparency obligations will include disclosure of CbCR data to the relevant tax administration that will then be shared with other jurisdictions within which the MNE is active.

Where laws or regulations include publication of CbCR data, (e.g., as is currently required under European Union (EU) law for extractive industries, and the financial sector and will in future be required generally within EU) those requirements should be fully complied with. Where local laws require other tax disclosures beyond what local published accounts should include, those requirements should also be fully complied with (e.g., the UK requirement for certain groups to publish a UK tax strategy or group tax strategy).

An MNE may decide to disclose more information to its stakeholders, for example following the “Total Tax Contribution” model or the GRI Standard for public tax disclosure. This is typically a matter for those at Level 1 or 2 in the organisation to consider, taking into consideration the characteristics of its stakeholders, its policy or practice in relation to transparency in other areas, as well as its public profile.

B. Tax compliance

Tax governance frameworks should clearly state an MNE’s commitment to complying with all local tax reporting and payment obligations and should have processes in place at all levels to ensure that timely filing and payment takes place. Control processes should also be in place to identify and correct any errors or omissions and should be regularly tested and reviewed.

Disputes with tax administrations will inevitably happen. Processes should be in place to ensure the tax function is fully aware of disputes, audits and similar interactions with the tax administration. These processes should be documented, periodically reviewed and tested. Interaction with the tax administration should proceed on the basis of full disclosure and in a professional manner.

C. The arm’s length principle

Almost all countries have incorporated the Arm’s Length Principle ALP into their domestic law or practice, and it is also a feature of tax treaties that follow the OECD or the United Nations Model Conventions. Tax governance frameworks should therefore include a specific commitment or understanding as to the consistent use of the ALP in setting intra-group pricing for transactions within the group. There should also be a process for periodic review of prices and financial results to confirm appropriate prices are in place or amended where necessary. Such reviews may be retrospective as well as prospective. Such reviews are particularly important for complex MNEs with a range of business and territorial operations where day-to-day management is delegated to Level 3 or 4 (see Appendix), and where there is a corresponding risk that transactions and pricing decisions will be made without consultation with the tax function and on terms that are not consistent with the ALP. Such reviews should be reported internally to the next level of accountability.

PART C: TAX CONTROL FRAMEWORKS

1. Balancing local autonomy with central control

Because of their size and complexity, in terms of geographical location, business activities and organisational structure, MNEs are rarely able to exercise direct control over all operations. As a result, MNEs typically include devolved decision-making arrangements as part of their corporate governance frameworks. This gives a degree of autonomy to local managers that encourages entrepreneurial behaviour while promoting flexibility and responsiveness to business change. Overall, this results in more effective operational management and commercial success.

However, while an MNE may wish to encourage a degree of decentralised autonomy, as outlined in Part B above, management at all levels also needs assurance that group ethical, commercial, and operational policies are complied with, and that relevant national and local laws and regulations are respected. Management also has obligations to stakeholders, regulators, and national and regional governments to comply with their standards and expectations.

Robust controls and reporting arrangements are therefore needed to confirm that obligations are met. These should include processes to ensure timely correction of errors and other deficiencies. Most MNEs have established coordinated structures of reporting requirements, periodic reviews and internal and external auditing and examination. These structures may have different names, but all can be characterised as control frameworks.

As a result, while local operational managers may have a degree of autonomy in taking business decisions, they cannot act entirely independently and must comply with reporting obligations, carry out reviews which are subject to internal and or external examination, and cooperate fully with both internal and external experts.

Case study 3 – Anglo American: Tax control framework

Tax governance and risk management – 2021 developments

Over the last 24 months, we have designed, implemented and operationalised an enhanced Tax Governance and Risk Management framework which supports the achievement of the principles outlined in our Tax Strategy. In 2021 we have made further progress as set out below.

Our Board sets our Tax Strategy and is ultimately accountable for overseeing the Group's compliance with it. Operational accountability for ensuring compliance with the Tax Strategy is delegated to the Group Head of Tax who, supported by a global team of experienced tax practitioners, is responsible for managing the tax affairs of the Anglo American Group, and ensuring that our tax policies (which govern the way tax is managed across the Group) fully embed our Tax Strategy throughout the business.

The Tax Strategy defines our approach to tax through three key pillars being: responsibility, compliance, and transparency. Tax governance and the management of tax risk are core to the responsibility pillar of our approach to tax.

Our Tax Risk Management Policy (TRMP) establishes a consistent and comprehensively applied methodology for the identification, assessment, management, escalation and reporting of tax risks.

The TRMP applies to taxes across all jurisdictions, and addresses:

- Specific/judgment-based risks – providing clear management pathways and decision criteria for dealing with areas of genuine uncertainty in the tax law
- Operational/process risks – establishing clear principles for analysing, evaluating and treating (with mitigating controls) tax risks which are in inherent in our business activities.

All Group Tax team members attend compulsory tax risk management training, covering the core requirements of the TRMP.

Operational and process tax risks, inherent in our business activities, are managed through our tax control framework (TCF). Having a robust TCF is an integral component of our Tax Governance and Risk Management Framework.

The TCF is a global framework which sets clear accountabilities and responsibilities for tax risk management and assurance through a three lines of defence model:

- The first line: our team of tax professionals and broader business stakeholders, responsible for delivering on the Tax Strategy in the context of the broader business objectives. The first line owns and manages risks and controls in accordance with the Tax Risk Management Framework
- The second line: our dedicated Tax Governance, Risk and Compliance (GRC) team, responsible for developing and maintaining the Tax Risk Management Framework within which the first line operates. The second line provide oversight, support, monitoring (through control review and testing) and ultimately a level of assurance over the effectiveness of the Tax Risk Management Framework
- The third line: the internal or external independent assurance provided to management and the Audit Committee on the adequacy and effectiveness of the Tax Risk Management Framework.

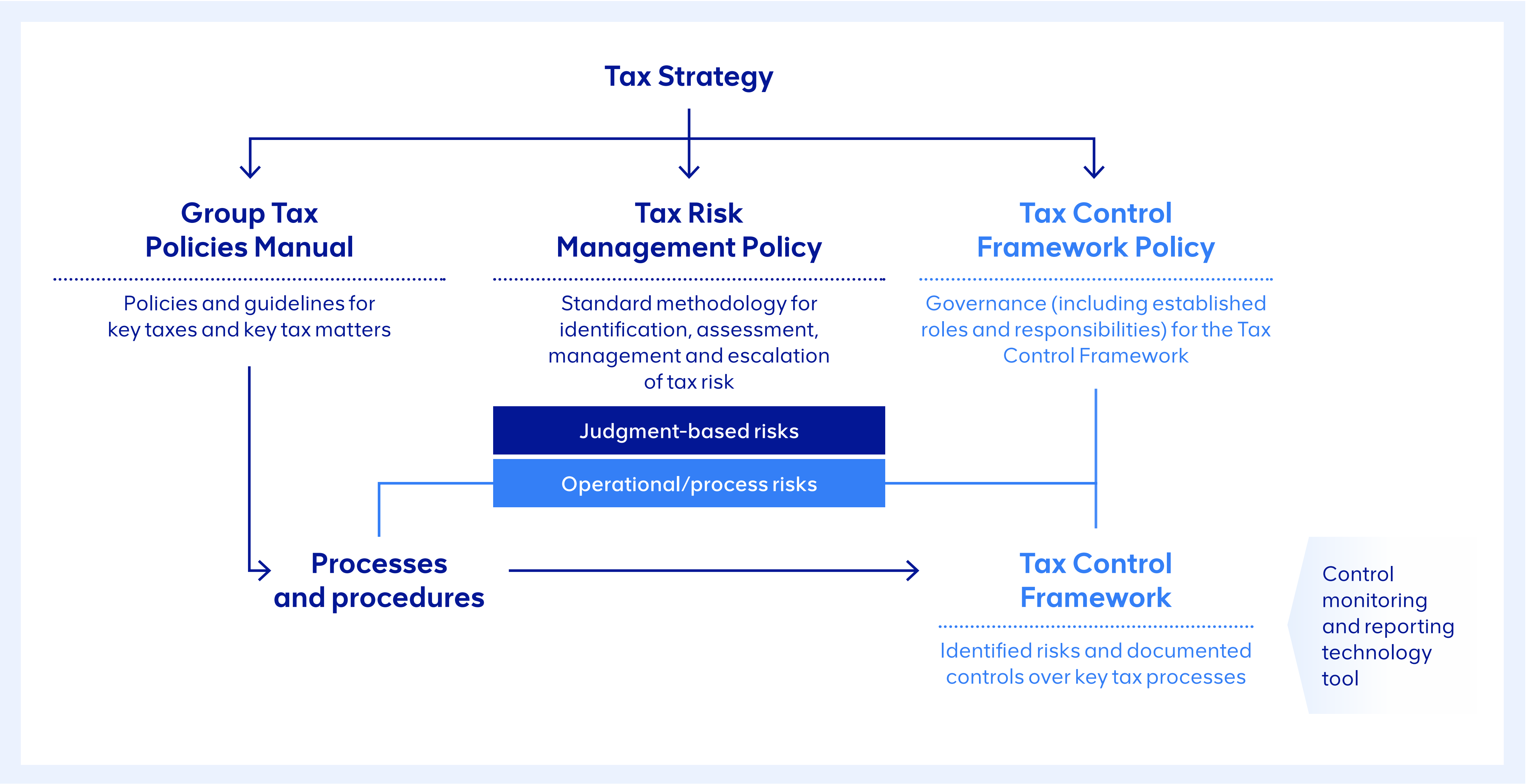
The TCF sets a global minimum standard of control across the Group and provides the framework within which we dynamically respond to new and changing tax risks across the Group. We believe the TCF will help facilitate transparent and co-operative relations with the tax authorities.

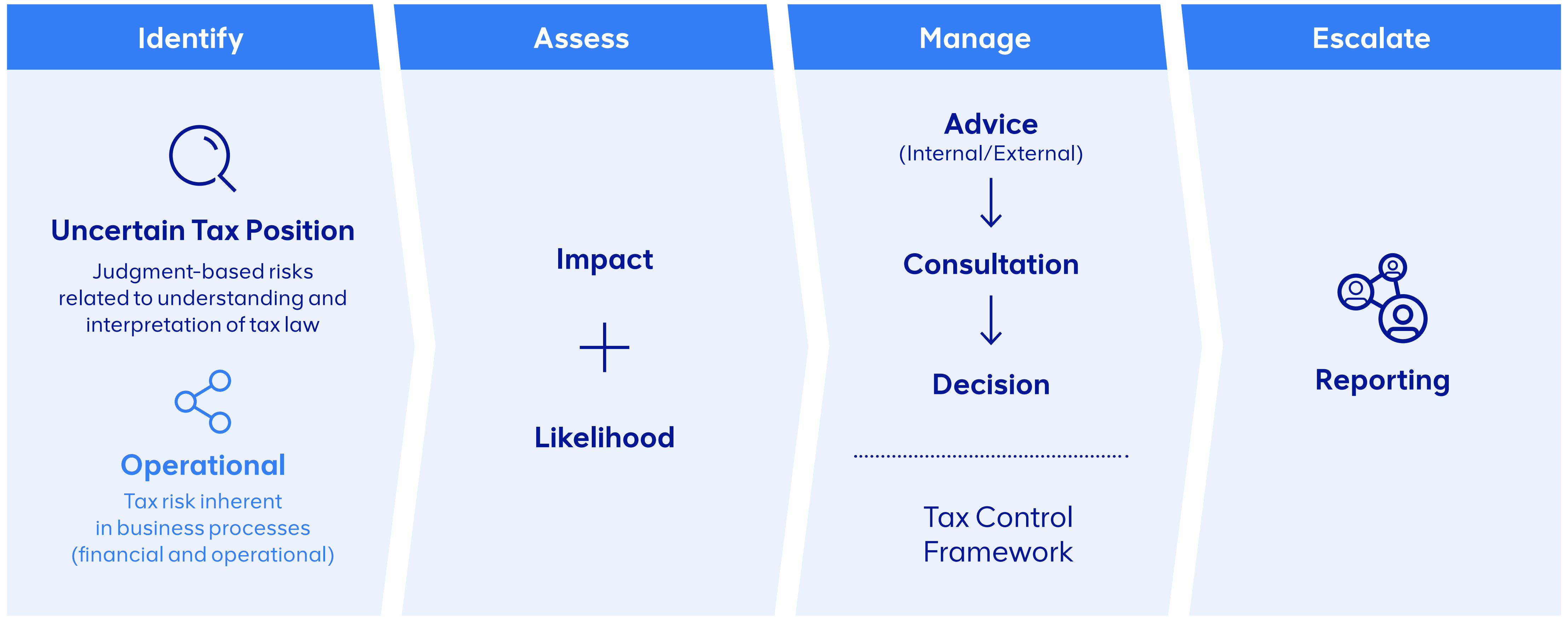
We periodically monitor and review tax risk and the effectiveness of controls within the TCF, which informs the reporting and assurance provided to the Group Audit Committee in respect of the management of taxes across the Group.

Our Tax GRC team also monitor compliance with the broader Tax Governance and Risk Management Framework (including the Tax Risk Management Policy).

Our governing policies are subject to periodic review to ensure they remain relevant, address the evolving tax landscape and are in line with best practice.

The Tax Governance and Risk Management Framework has been deployed across the Group and, as at 31 December 2021, the global minimum standard of control prescribed by the TCF is operational in almost all our major operating jurisdictions. Residual implementation work will be completed in early 2022.





2. Key elements of a good tax control framework

Just as there is no standardised tax strategy, there is no standardised tax control framework. Each MNE will need to develop this in line with other group control frameworks, the characteristics of the business operations, the level of central control over tax functions and the MNE's approach to risk.

Tax control frameworks should cover all types of taxes which are within the responsibility of the tax function including taxes borne and collected. Where this is not the case, other internal control frameworks would normally apply to these taxes.

A tax control framework may include, but may not be limited to:

- An ethical code of conduct or similar commitment to comply with all relevant laws and regulations and make full disclosure to national and local tax administrations. This may be linked with other ethical standards or codes of conduct within the organisation.
- Internal communication at all levels within the MNE of the tax strategy, policies, practices, or other guidance documents to ensure that all decision-makers and leaders within the organisation are aware of tax policies and behavioural expectations.
- Identification of the owners of key tax processes within each business, territory and location and clear and regular communication with those process owners to ensure that they are aware of the obligations of process ownership.
- Clear guidance for process owners, their managers and all individuals and teams performing operational and reporting tasks which have tax effects.
- Structured and continuing education for operational leaders, process owners and those responsible for performing tax tasks and reporting.
- A cascaded systematic review and reporting process requiring process owners to confirm relevant tasks have been completed correctly including checks on the accuracy of reporting and the underlying information.
- Guidance and mandatory procedures for tax function review of defined business decisions, transactions, and plans.
- Guidance and mandatory procedures for tax function review of business and financial results to confirm group guidance and policies have been complied with.
- Clear policies relating to interactions with national and local tax administrations, requiring notification or consultation with the tax function, particularly in relation to audit and other investigations.
- Clear procedures for dealing with circumstances where guidance has not been followed, results are not in line with expectations or other deficiencies are identified.
- Clear guidance to the internal or external team responsible for filing, and a clear policy on review of returns and sign-off by the tax function.
- Where the tax function is not responsible for the tax provision at local, regional or group level, clear policies on the role of the tax function in review and sign-off of internal and external reporting, and similar policies for reporting of uncertain tax positions where required by local or headquarters country accounting standards.
- Processes for regular reporting on compliance and filing statistics to ensure that the tax function and CFO are aware of late filings and other potential issues.

3. Benefits of a tax control framework

With an effective tax control framework, the group tax director, their manager and senior leaders within the MNE will have assurance that:

- The tax function operates within clearly defined constraints and does not implement or allow the implementation of tax structures or other arrangements that are not in line with group guidance or relevant tax laws.
- Operational managers throughout the MNE are not able to put in place transactions or other arrangements that create tax or tax-related reputational risk.
- Compliance processes are robust and timely, ensuring that tax returns are correct, filings are made on time and all interactions with tax administrations are subject to review and oversight.

PART D: RISKS, UNCERTAINTIES, AND ORGANISATIONAL PRACTICALITIES

1. Risk assessment and mitigation: review of the effectiveness of processes and controls

As with any group process, internal and external auditors should review controls and processes. This review will complement a range of processes that will be carried out by the tax, finance and other operational functions on a regular basis to confirm business activities operate effectively, issues or deficiencies are identified and addressed, and controls are suitably adapted when business changes. It should not be assumed that risk mitigation and review are exclusively the responsibility of internal or external auditors: successful control frameworks integrate reviews and assessments into routine management activities.

Case study 4 – RELX: Risk assessment and mitigation ▶

TAX **RISK MANAGEMENT**

Our businesses operate globally, and our profits are subject to taxation in many different jurisdictions and at different tax rates. As a result of various local and international initiatives, tax laws that currently apply to our businesses may be amended by the relevant authorities or interpreted differently by them and this creates added uncertainty.

The risks are managed through our Tax Risk Framework, which sets out the key tax risks and the mitigating actions that RELX takes to manage and monitor those risks. There are five key risk areas covered by the tax risk framework – policy & governance; organisation and resources; compliance and documentation; external tax reporting and communications; and change management. Examples of a risk and mitigating action for each of the five key risk areas are shown below:

TAX **RISK CONTROL FRAMEWORK**

Policy & governance	**Organisation & resources**	**Compliance & documentation**	**External tax reporting and communications**	**Change management**
Example of risk Transactions or behaviours are not in line with the tax strategy (which is incorporated within our Tax Principles).	*Example of risk* Not having the right organisational structure (people/process/systems) in place to implement and execute the tax strategy.	*Example of risk* Failure to comply with statutory tax obligations, such as tax-related compliance obligations under the relevant local tax laws.	*Example of risk* Tax positions not accurately reflected in reporting.	*Example of risk* Failure to adequately manage changes internally or externally, leading to financial losses or suboptimal commercial outcomes.
Example of mitigating action Training on Tax Principles has been rolled out for the businesses and divisional CFOs have disseminated key messages to their teams	*Example of mitigating action* Group Tax is structured by function as well by major geographical region with relevant in-depth tax expertise. Third party advisor sign off for complex/high value areas is sought where needed.	*Example of mitigating action* Global compliance is tracked using a tool which must be updated on a timely basis by local teams and third party tax compliance partners.	*Example of mitigating action* SOX sign off for global tax reporting completed annually and testing performed by internal and external auditors.	*Example of mitigating action* Members of Group Tax partner with managers across the businesses to ensure they are aware of changes and are given appropriate advice and support.

As part of the tax control framework, significant tax related risks from transactions or structures, and risks from uncertainty over tax laws, in particular their applicability to specific transactions and their interpretation by tax administrations will be assessed and reviewed by external auditors in accordance with relevant Generally Accepted Accounting Principles (GAAP) (International Financial Reporting Standards (IFRS)/US GAAP). This will be a part of the other managerial, transactional and reporting reviews that will be carried out by the auditors, and which are undertaken ultimately for the benefit of the MNE's shareholders and other stakeholders.

The extent of review by the auditors will depend on the absolute and relative size of the transaction or structure, its expected or potential consequences and degree of perceived risk. Internal and external reviews will typically include a defined materiality threshold, which will differ between levels of the organisation: a much smaller threshold will apply to a small subsidiary or location compared with the highest group level. The timing of reviews by external auditors, pre- or post-transaction, should be covered by clear guidelines which may also take into account materiality limits at group or local level.

Protocols should provide for mitigating actions to be taken where reviews indicate that an excessive level of risk has arisen or has been taken on.

2. Resolving uncertainty and managing relationships

A. Resolving legal uncertainty

An MNE tax strategy and tax governance framework should mandate and ensure that the group complies with all relevant local laws and regulations concerning taxes, where those laws and regulations are clear.

Where laws are not clear, an attempt should be made to identify and comply with the purpose of the law, in particular where this has been articulated by the legislator. There should be clear guidance on how the organisation will deal with areas of technical or practical uncertainty, for example, where rules are unclear, conflicting laws apply to the same transaction in different jurisdictions, or different transfer pricing interpretations result in economic double taxation. This guidance should include protocols for resolving uncertainty, followed by transparent reporting to relevant tax authorities. This might, for example, involve engagement with multiple tax administrations where cross-border conflicts arise, the initiation of formal procedures for resolving double taxation, or seeking local tax rulings or advice, based on full disclosure of the facts and circumstances.

Case study 5 – Prosus: Tax authority relationships ▼

B. Tax authority relationships

Tax governance guidance should mandate good and transparent relationships and cooperation with all government tax agencies and include an expectation that the latter adopt similar policies and practices.

The detailed guidance will depend on factors such as the MNE's business activities and the jurisdictions in which it operates. It could include, for example, specific support for cooperative compliance and similar programs.

C. Advisor relationships

Tax governance guidance should specifically address advisor and auditor relationships and disclosure of those relationships. Management and disclosure of non-audit activity carried out by the audit firm should follow legal and regulatory requirements in each jurisdiction.

At Level 1 in the MNE (see Appendix) there is likely to be a clear explanation of the policy on engaging the audit firm or firms for non-audit activity. The way in which the tax function complies with and enforces this policy should be documented.

Terms of engagement with advisors, whether from the audit firm or not, should be subject to documented protocols and should be regularly reviewed. It should be a clear expectation that advisors are provided with all relevant facts and circumstances, including the MNE's ethical expectations.

Trust and taxes – cooperative compliance in a harmonised international tax system

If taxpayers feel that the taxes they pay are fair and governments feel that the tax contributions they receive are fair, the system works. But what is fair is subjective and can be negatively impacted by parties with divergent agendas and objectives. A level playing field, transparency and trust are key tools to navigate the negative and disruptive factors and achieve the balance of fairness. If the rules are clear and consistent and apply equally to all businesses whether they are local, regional or global – the playing field is level. If there is trust between the taxpayer and the revenue authority, there can be confidence in the integrity of the tax contributions made and received.

How is this trust built?

Trust is built by ensuring that there is a harmonised international tax system, that there is a level playing field. This ensures that no matter where the business is located, whether it is global, regional or local, the rules are the same – the playing field is level.

Trust is built by ensuring that there is transparent and constructive engagement between the taxpayer and the tax authority, government and policymakers. Such engagement allows for the parties to understand each other. It ensures tax authorities have a better understanding of the taxpayer's business, operations and approach to taxes and what is required from the tax authorities to provide certainty. It enables the taxpayer to understand the challenges of the tax authority and accommodate these, where possible. This is the cooperative compliance model – where the taxpayer and the revenue authority engage regularly and proactively with one another, where relevant information is shared on an ongoing basis, where there is regular interaction aimed at ensuring that each party understands the other. This contributes to ensuring that there are no surprises to either party – that each party can trust the other to act in line with its stated approach and commitments which then results in certainty.

Constructive engagement or cooperative compliance does not mean that the parties will always agree. Challenging and disputing positions by either party remains part of the process. But if there is a relationship of trust, these challenges and disputes are understood by each party to come from a position of integrity. Each party respects the other's need to challenge or dispute an issue and appreciates the significance of the consequences and the need to obtain certainty or clarity. The outcome contributes to ensuring that the foundation for engagement remains firm and the playing field remains level.

Trust is built by the taxpayer demonstrating that it does not seek to avoid paying its fair share of taxes – it does not pursue the tax benefits of structuring through low or no tax jurisdictions, tax schemes or artificial arrangements but lets the tax consequences flow from the operations, the business: the taxes fall where the businesses are conducted, where the operations and consumers are located.

As a taxpayer our part of the deal is to comply with the tax legislation, be transparent, deal with integrity, manage the tax cost and "do the right thing". The tax authority's part of the deal is to apply the legislation correctly.

To this end we

- Engage with policymakers to provide input to ensure that tax legislation supports the drive for a harmonised international tax system – to create and maintain a level playing field
- Support the BEPS initiatives as we see these as a stepping stone to a harmonised international tax system
- Proactively and regularly share information with the tax authorities to enable them to better understand our business
- Ensure that tax authorities are advised in advance of significant transactions to be undertaken
- Manage taxes as a consequence of the business – tax follows the business – businesses and structures are not created to create tax advantages or benefits
- Ensure that operating locations are not selected for tax advantage – the business drivers, not the tax consequences, dictate where businesses operate
- Do not seek the benefits of no or low tax jurisdictions - corporate entities exist only where there is operational substance

We see tax as a consequence of doing business and an important means of contributing to the societies in which we operate. Where there is a level playing field and a harmonised international tax system, we see the taxes paid as a fair contribution to the societies where we do business. Tax is a logical cost of doing business in a country. To this end we are fully supportive of public disclosures of taxes paid. Such tax transparency demystifies taxes and ensures that tax is seen for what it is: a business cost that enables governments to provide services and support to the communities where our businesses operate. The more transparency and open communication there is between tax authorities and taxpayers, the more likely it is that trust is built between the parties. The foundations of trust and transparency eliminate the negativity (and time cost) of an adversarial relationship in the backward looking compliance and verification processes between taxpayer and tax authority and allows for certainty and a fair, smooth and efficient transition of funds from the business source to the fisc for application in the society where the business operates.

3. Organisational principles

Organisational principles include the following:
- Compensation of members of the tax function should not be linked directly to cash or book taxes.
- Key Performance Indicators (KPIs) and incentives should be in line with group human resources policies. KPIs that apply to the tax function should be consistent with KPIs for other departments within the group (e.g., finance, legal) and should be as far as possible based on SMART factors (i.e. Specific, Measurable, Achievable, Relevant and Timebound) that are within the control of the tax function and its members. In exceptional circumstances where there are links between a KPI and a financial incentive for tax function members based on cash/book taxes there should be clear and audited controls in place to avoid inappropriate risks and behaviours.
- Professional training: tax function staff should have completed appropriate professional training and be provided with continuing education to remain qualified for the tasks for which they are responsible.
- Whistleblower protection on tax matters should be in line with local legal and regulatory requirements in every location and should be consistent with the application of whistleblower protection that applies within the MNE. MNEs should have robust and effectively reviewed and controlled mechanisms for reporting about unethical or unlawful behaviour.

4. Joint ventures and supply chain partners

Groups may encourage the extension of best practices on tax governance to the full supply chain of suppliers and customers and to joint venture partners, but it is for those partners to develop and implement a strategy appropriate for their business and international activities.

The imposition of mandatory tax governance practices on supply chain partners has significant practical, legal, and commercial implications. The MNE can explain and encourage best practices that are consistent with its other supply chain expectations but may not be able to guarantee compliance with a non-statutory obligation without putting critical commercial relationships at risk.

In exceptional circumstances, where the tax function becomes aware that a supply chain partner appears to be knowingly violating local or international tax laws and regulations or deliberately misleading tax authorities, this should be brought to the attention of senior management. An informed executive decision can then be taken on whether the commercial relationship should be continued, and on what terms, considering the potential reputational risk of ongoing engagement.

APPENDIX:
A POSSIBLE MODEL OF ACCOUNTABILITY

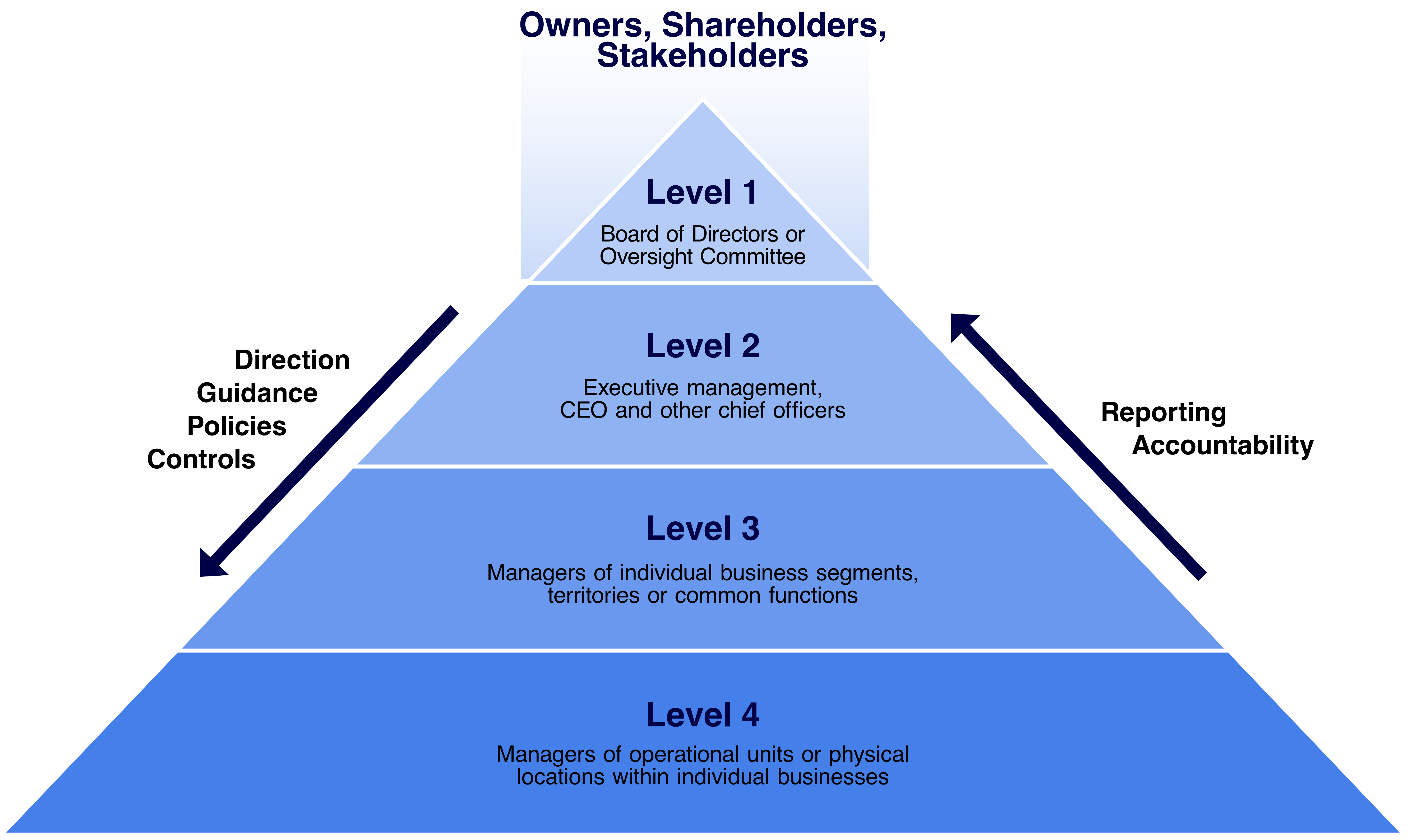
Within this model of accountability, stakeholder, management and supervisory expectations, goals, and guidance are cascaded from the highest management level down through the MNE. There should be a complementary cascade of tax principles, goals and guidance throughout the organisation, for all businesses, territories and locations. It is unlikely that there will be a single document or set of principles that applies at all levels, just as there may not be a single tax strategy. Rather, there will be a cascaded series of principles, goals and guidance intended to influence the behaviours of employees and operational activities, with appropriate intensities of reporting, review, and control at each level of the organisation.

Such cascaded series of principles, goals and guidance for the different levels could be structured as follows.

Level 1:

Often referred to as the Board of Directors or Oversight Committee, this is the highest level of management and oversight within the organisation, and is accountable to all stakeholders, including shareholders. Level 1 meets with shareholders and other stakeholders periodically. Typically, members are non-executive, who have roles within other organisations, but it may include some executive managers.

Level 1 is responsible for communication to shareholders and other stakeholders on significant financial, commercial, and ethical matters, typically through public documents including annual accounts and reports, and should also take responsibility for public disclosures concerning taxation.



Level 1 issues clear guidance to Level 2 on high level and longer-term goals for the organisation on commercial performance, corporate ethics and governance policies. It is responsible for control processes to hold Level 1 to account for progress towards goals, typically using external bodies such as auditors. The MNE's approach to risk, its documentation, reporting and control should either be set at this level, or the approach developed at Level 2 should be regularly reviewed and assessed before amendment or approval. Similarly, although tax may not be frequently discussed in detail at Level 1, the tax strategy, policies, and practices operated by the group should be reviewed and assessed before being amended or approved at this level. These should also, where appropriate, be taken into account, for example, when approving business proposals. These responsibilities may also be carried out by an accountable member of Level 2, who reports to Level 1 on the outcome. Tax strategy, policies and practices should be consistent and aligned with other group strategies, policies and practices set by Level 1 leaders.

Level 2:

This is the highest level of executive management within the organisation, typically including the CEO and other chief officers. Members are likely to be officers or directors of subsidiary companies, if not of the group holding company and will therefore have fiduciary and regulatory obligations.

Level 2 responsibility is generally divided into business segments, regions or functions, but an individual at Level 2 would be expected to be accountable for tax, typically, the CFO or General Counsel. May communicate with external stakeholders, but principal communication would be internal to the organisation.

Level 2 sets more detailed cascaded goals for the organisation on commercial performance, ethics, compliance and human resources, which will be based on, and influenced by the highest level goals for organisational performance, ethics and governance policies cascaded from Level 1. This may include the organisation's ethical code of conduct or similar mandated behavioural guidance, which would either explicitly or implicitly include tax. Policies regarding public disclosure of tax information will be either set at this level or operationalised where set at Level 1.

Level 2 actively participates in and utilizes Level 1 control processes, supported by external bodies and provides data to those bodies for Level 1 controls. Level 2 is also responsible for the organisation's internal control processes to ensure compliance with Level 1 and 2 goals, principles and policies.

Level 2 is accountable to Level 1 for performance against set goals, meeting with Level 1 regularly, but as a group more frequently. There should also be informed discussion of tax on a regular, but probably not frequent basis, which the group head of tax may attend in person. Implementation and compliance with tax strategy, policies, practices and their effectiveness would be reviewed regularly as part of this discussion. This would include commitments on compliance with local and international legal and regulatory requirements, the organisation's ethical code of conduct and similar obligations.

Level 3:

Level 3 consists of managers of individual business segments, territories or common functions. The latter may include the group head of tax, or, depending on factors such as the organisation's size and the importance given to tax, an individual to whom the group head of tax reports to. These individuals are accountable to a specific individual at Level 2 with whom they meet frequently. They may meet with Level 1 occasionally and with the whole Level 2 group periodically. Communication is almost exclusively internal.

Level 3 individuals are responsible for operationalising the cascaded goals set by Levels 1 and 2 and their performance is measured against objective criteria in support of those goals. Common service functions will operate within a matrix structure, supporting individual businesses with professional and specialist services helping to ensure common standards and compliance with organisational policies and procedures.

Level 3 sets detailed additional cascaded goals within the business operations and supports and participates in control processes to monitor compliance with Level 1, 2 and 3 goals. Implementation and compliance with tax strategy, policies and practices and their effectiveness would be reviewed regularly as part of Level 3 management meetings. Tax managers would have direct, but not necessarily frequent interaction with peer operational leaders at Level 3 concerning business decisions and local control frameworks.

Level 4:

Level 4 consists of managers of operational units or physical locations within individual businesses. If not at Level 3, the group head of tax would normally be at this level within an MNE. Level 4 members have daily interaction with Level 3 managers and periodic interaction with Level 2 executives. Communication is exclusively internal.

Level 4 is responsible for delivering cascaded goals set by Levels 1, 2 and 3. In this regard, implementation and compliance with tax strategy, policies and practices and their effectiveness may be reviewed as part of Level 4 management meetings with tax managers taking part, and is also subject to internal and external control processes. Tax managers would have direct and frequent interaction with peer operational leaders at level 4 concerning business decisions and local control frameworks.

THE CONFERENCE BOARD

THE B TEAM

EBTF European Business Tax Forum