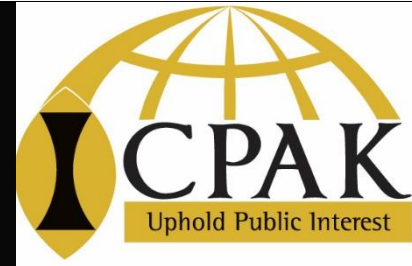


Think Ahead



The 2nd Chapter Seminar (SA) Tax risks and compliance

By Ibikunle Olatunji, FCCA
Senior Tax Manager, PwC South Africa

Credibility

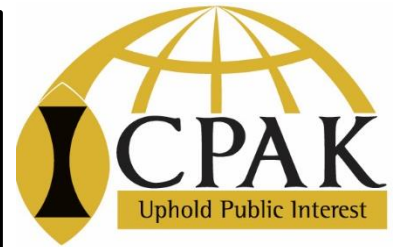
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Professionalism

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AccountAbility

The story so far

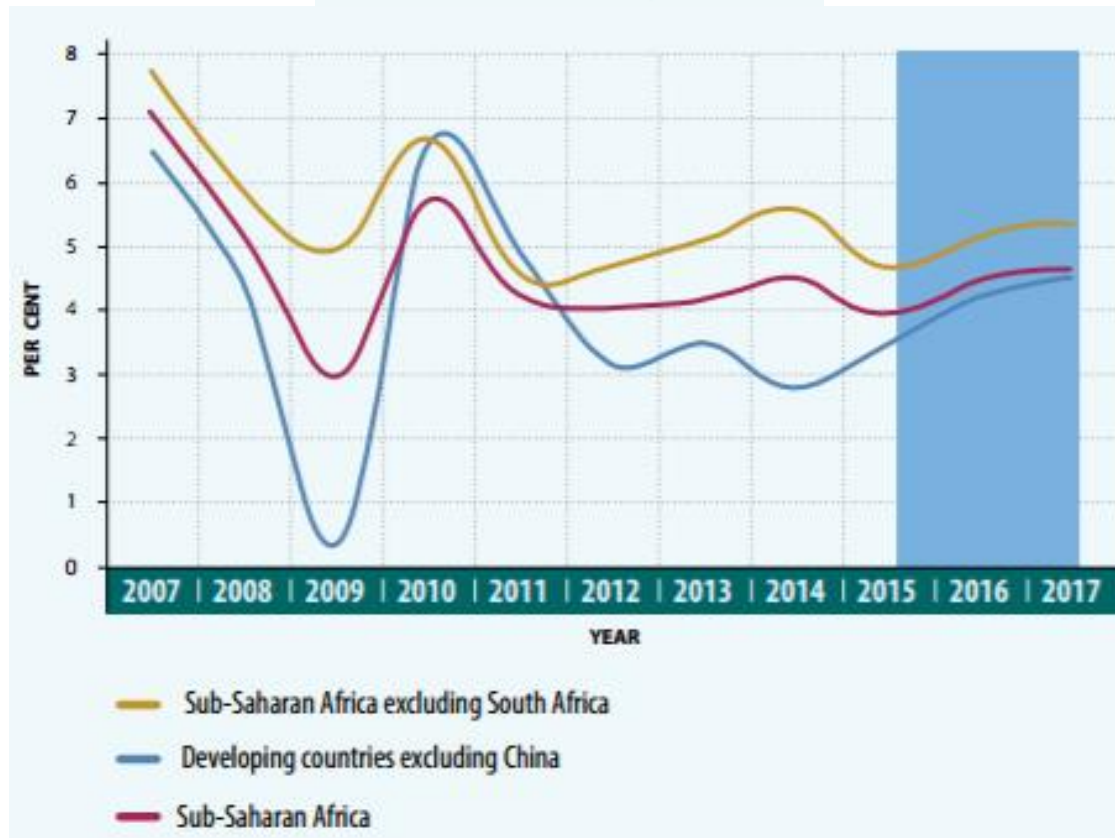


The business environment is changing:

- Globalisation and corporate simplification
- Market pressure – not able to increase prices, so forced to look at managing costs to deliver bottom line growth/maintain profitability
- Political pressure – increased focus of governments on tax revenues in view of widening budget deficits to ‘balance’ the books

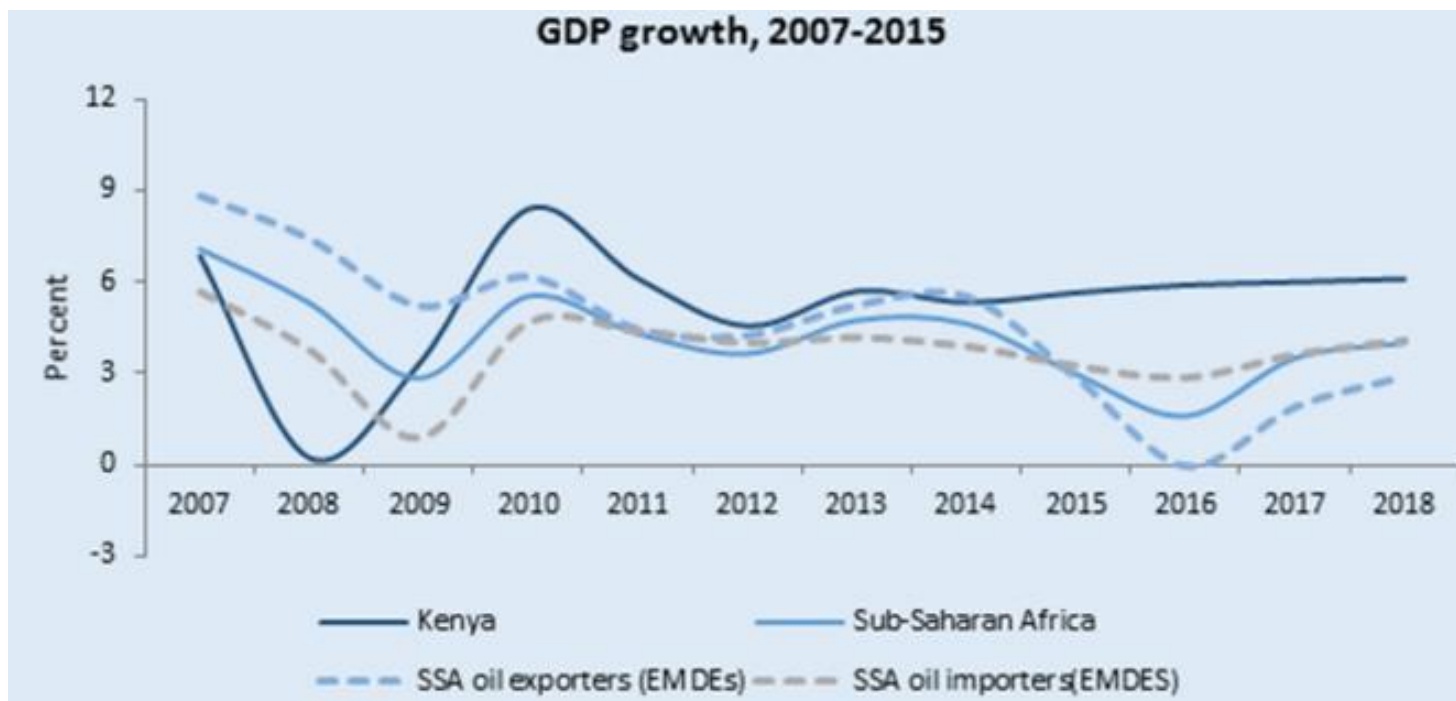
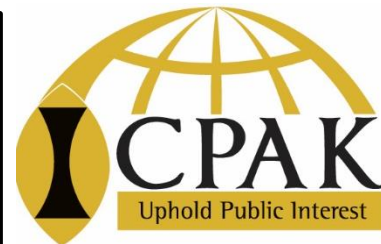
The story so far

GDP GROWTH IN AFRICA AND
DEVELOPING COUNTRIES, 2007-2017



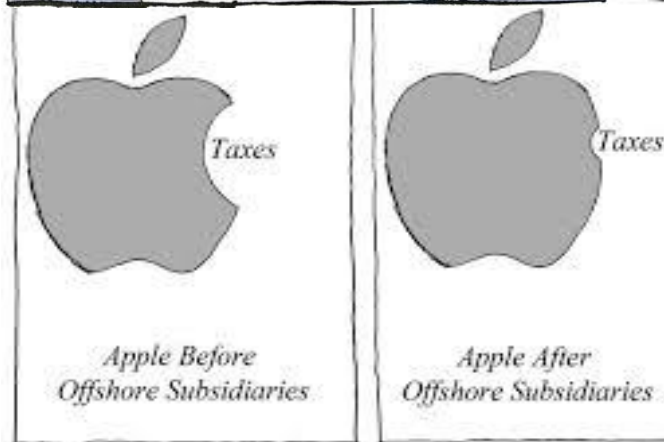
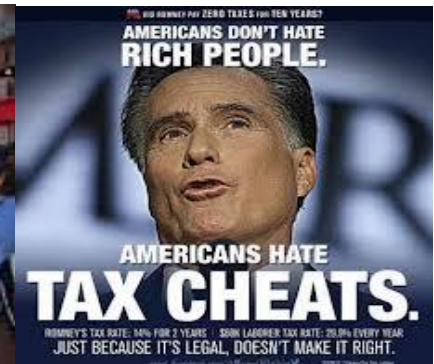
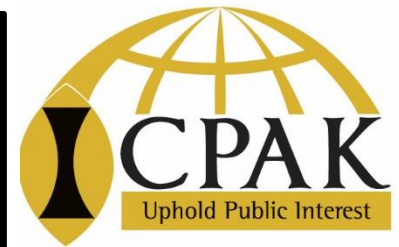
Source: World Bank

The story so far

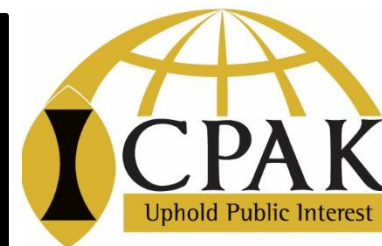


Source: World Bank

The commercial view – global angle



The commercial view – African angle



MTN & Orange Fined \$160M For Tax Evasion In Cameroon

By Kevin Mwanza

Published: January 23, 2016, 5:25 am



24 April 2014



ActionAid campaigners outside the Barclays AGM

Photo: Matt Alexander/PA/ActionAid



PHOTO: MARK CHILVERS/ACTIONAID

British sugar giant caught in global tax scandal

Associated British Foods accused of Zambia tax avoidance after sending massive profits abroad

UN PANEL: CORPORATE TAX AVOIDANCE IS AFRICA'S BIGGEST FINANCIAL DRAIN

Daniel Boffey, policy editor

The Observer, Saturday 9 February 2013 22.00 GMT



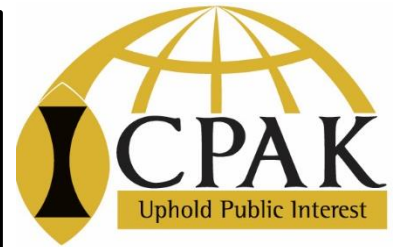
Tell Barclays to clean up its act on tax havens



STOP
The Associated British Foods group dodging their tax in Zambia

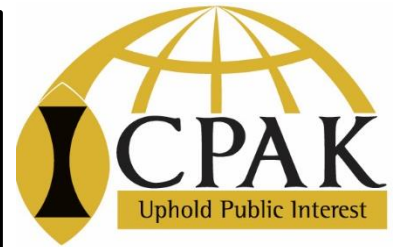
Associated British Foods,
owners of these household brands
have paid "virtually no" corporation tax
in Zambia since 2007 despite making profits of
\$123m

Outline



- Introduction
- What is tax risk?
- Why is tax risk management important and who to?
- A risk management framework for tax?
- Current and emerging trends in tax risk management

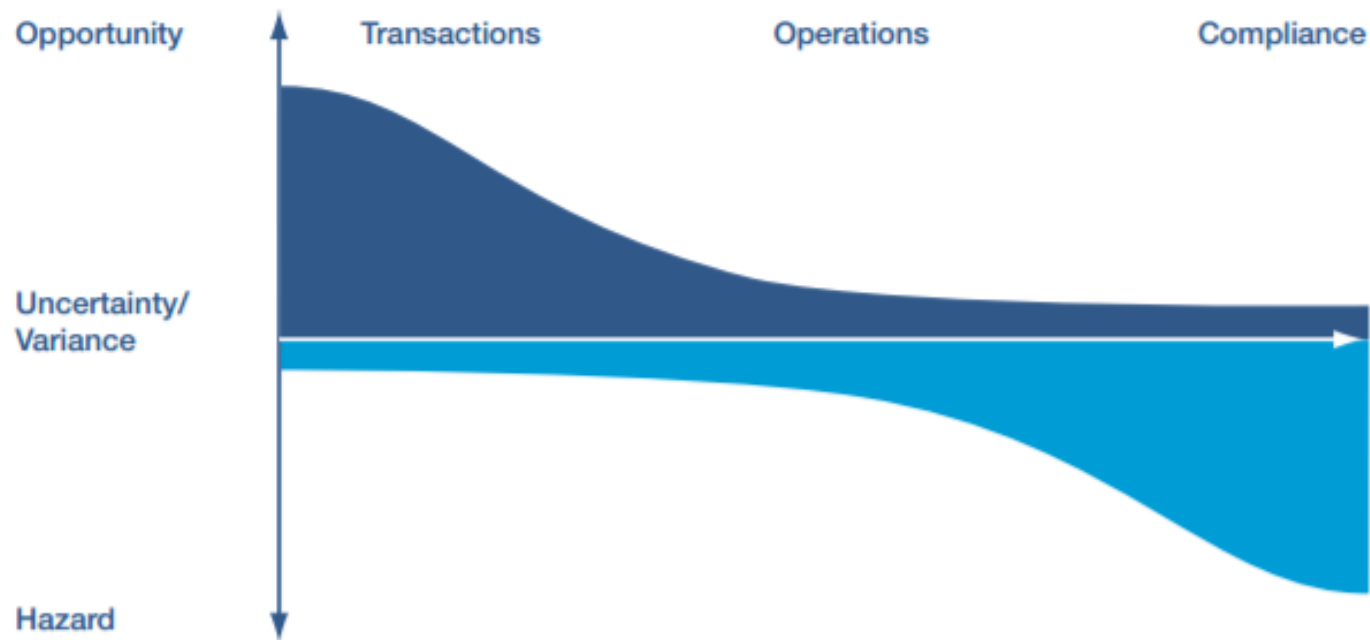
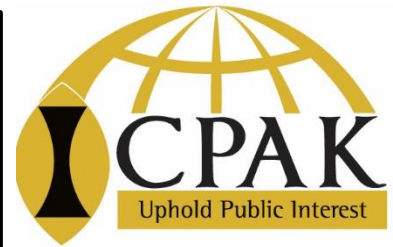
Defining tax risk



- Decisions, activities and operations undertaken by an organisation give rise to various areas of uncertainty – business risks
- These uncertainties give rise to tax risk
- Tax risk management is about understanding where these risks arise and making judgement calls as to how they are dealt with

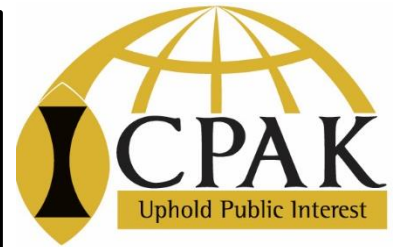
Managing tax risks is about managing uncertainties in business!

Defining tax risk



Ensuring that the opportunities are maximised can be as important as managing the hazards

Defining tax risk

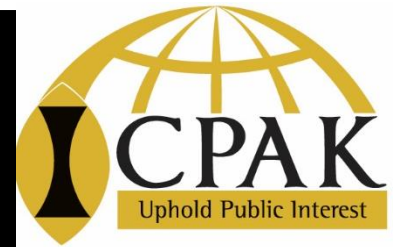


Formulating a tax risk management policy

A company's policy on tax risk management will therefore determine:

- The value that can be achieved by taking risks
- The costs that can be saved by reducing risks
- The resources needed to manage both the upside opportunities and the downside risks

Types of tax risks



Specific risk areas

Transactional risk

Operational risk

Compliance risk

Financial accounting risk

Generic risk areas

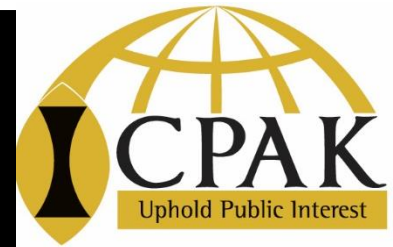
Portfolio risk

Management risk

Reputational risk

Types of tax risks

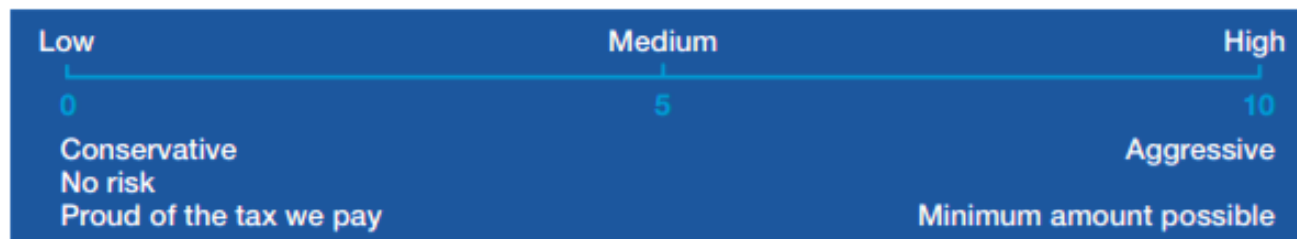
Specific risk areas



Transactional risk

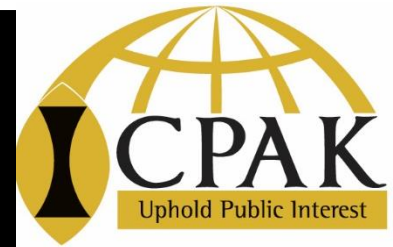
- the risks and exposures associated with specific transactions undertaken by a company
- the more unusual and less routine a particular transaction is, then generally, the greater the tax risks associated with the transaction are likely to be

Examples: One-off, non-routine transactions, such as acquisitions/disposals of businesses or parts of a business, restructuring or reorganisation



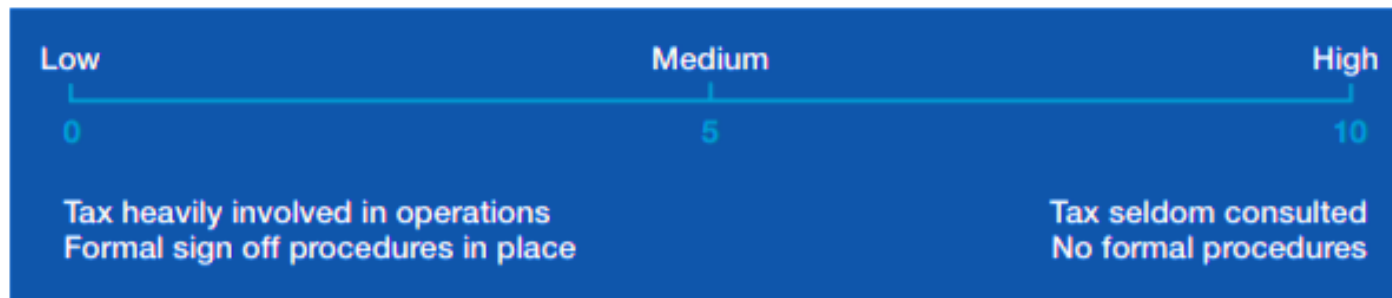
Types of tax risks

Specific risk areas



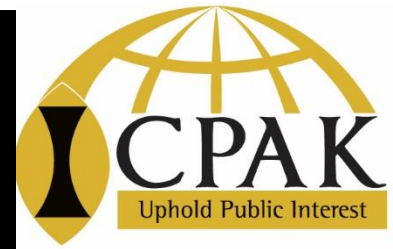
Operational risk

- concerns the underlying risks of applying the tax laws, regulations and decisions to the routine every day business operations of a company
- different types of operation will have different levels of tax risk associated with them



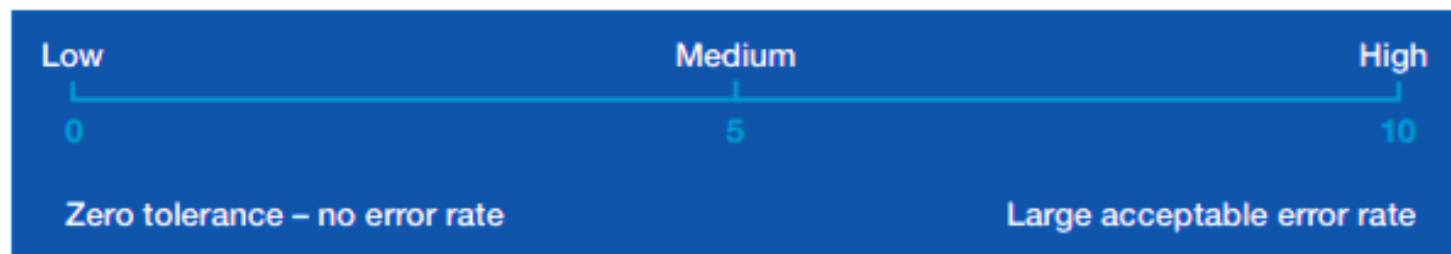
Types of tax risks

Specific risk areas



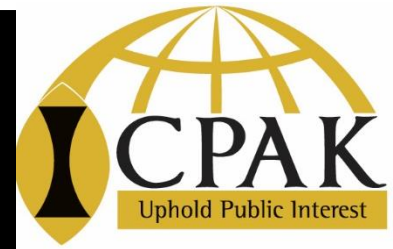
Compliance risk

- concerns the risks associated with meeting an organisation's tax compliance obligations
- tax compliance risk would primarily relate to the preparation, completion and review of an organisation's tax returns (of whatever type and not only corporate tax returns) and the risks within those processes



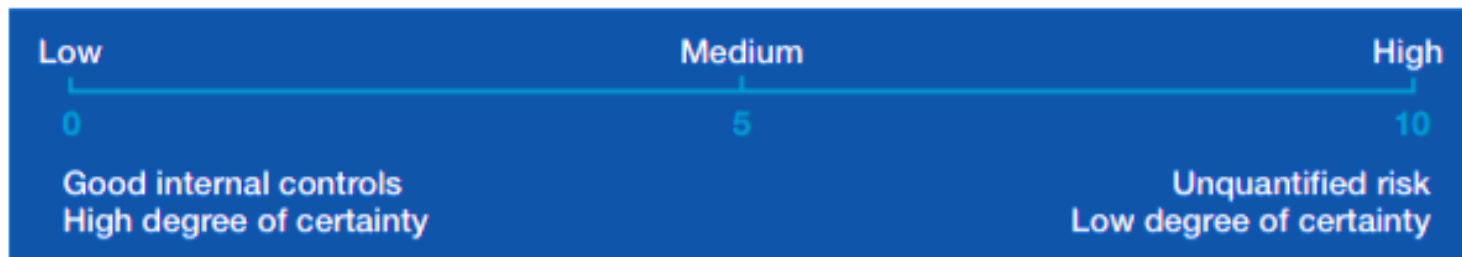
Types of tax risks

Specific risk areas



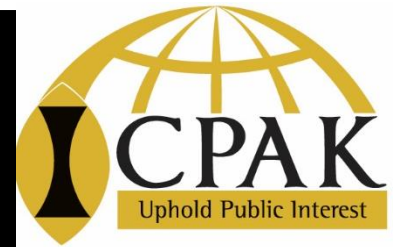
Financial accounting risk

- the Sarbanes-Oxley Act of 2002 brought the risks in the financial accounting area into sharper focus
- increasingly, corporate governance codes require documented and tested internal controls over financial reporting



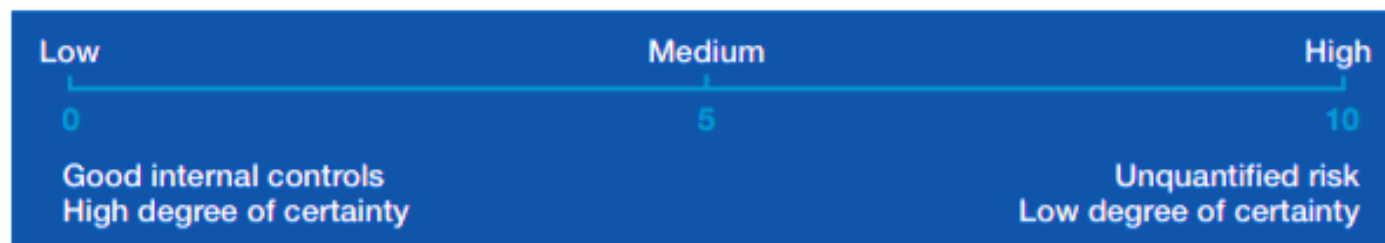
Types of tax risks

Generic risk areas



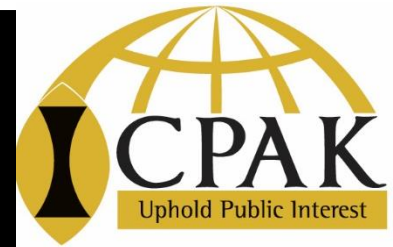
Portfolio risk

- concerns the overall aggregate level of risk when looking at transactional, operational and compliance risks as a whole and considers the interaction of these three different specific risk areas.



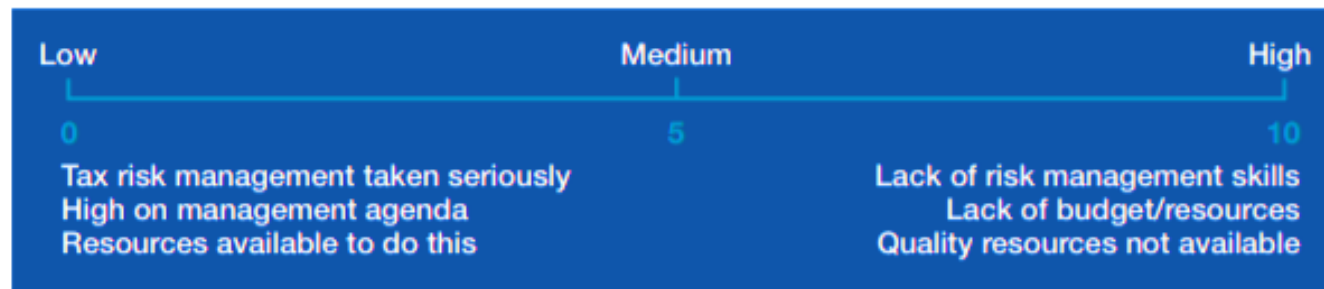
Types of tax risks

Generic risk areas



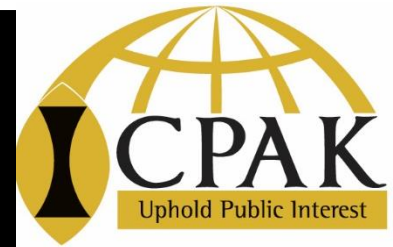
Management risk

- highlights the risk of not properly managing the various risks set out above
- few tax functions actually have a documented tax risk management policy.
- even fewer can only claim that all their tax risks have been managed in a systematic way



Types of tax risks

Generic risk areas



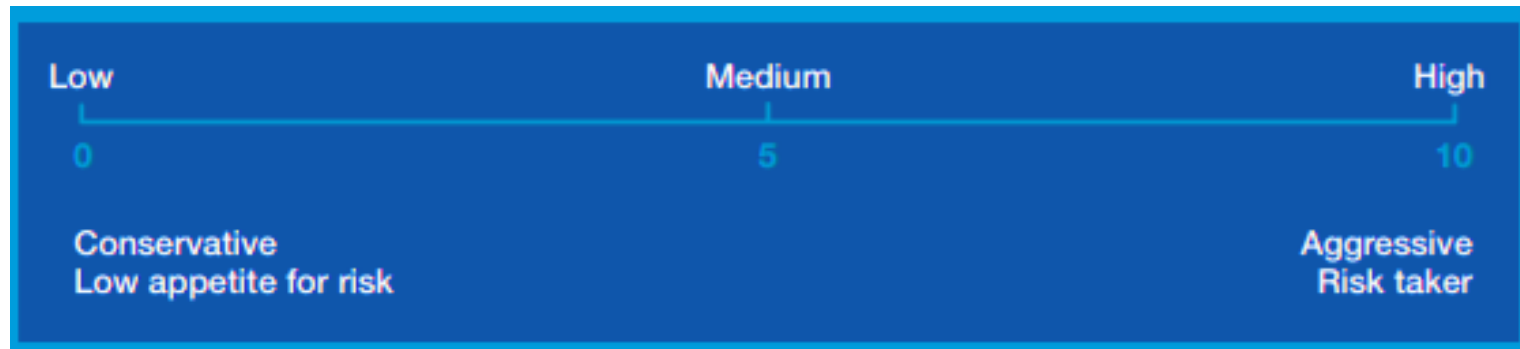
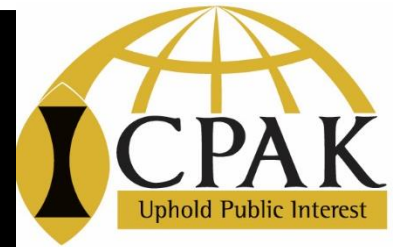
Reputational risk

- highlights the risk of not properly managing the various risks set out above
- ‘trial by media’ increasingly on the rise



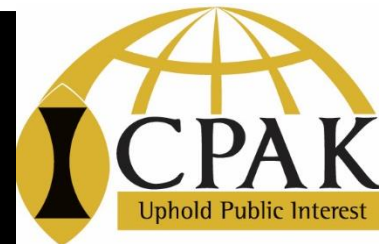
Types of tax risks

Summary

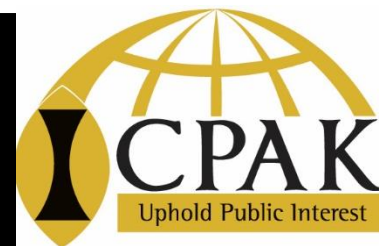


- Inherently cautious
- Spend more time managing risk
- More concerned about compliance risk
- Greater concern about reputational risk
- More aggressive
- Accept more compliance risks
- Have higher materiality levels
- Less concerned about upsetting Revenue authorities
- Less time managing tax risk

Who should care about tax risks?

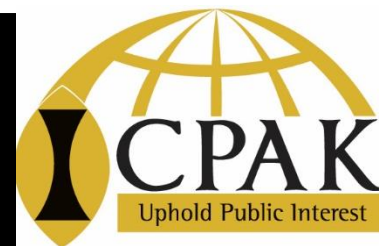


Who should care about tax risks?



Stakeholders	Types of tax risk						
	Transactional	Operational	Compliance	Financial accounting	Portfolio	Management	Reputational
Board				✓	✓		✓
CEO/CFO	✓	?		✓	✓	✓	✓
Tax function	✓	✓	✓	✓	✓	✓	✓
Legal & treasury	✓		✓				
Business units		✓		?			
Auditors & tax advisors	✓	✓	✓	✓	✓	✓	✓
Revenue & other regulatory bodies	✓	✓	✓			✓	
Investors & analysts				✓	✓		✓

Managing tax risks



The COSO* Internal Control Integrated Framework

- Mostly widely recognised and applied risk management framework in the world
- Sets out interrelated components in an integrated system of internal control
- Applies to various organisations of all types and sizes.
- Equally applies to tax risk management



*COSO – Committee of Sponsoring Organizations of the Treadway Commission. Set up in the United States in 1992 to develop a framework for Internal Control

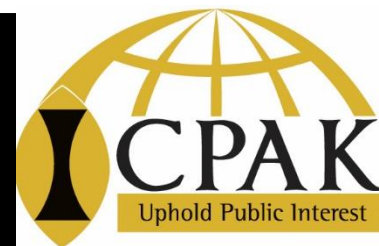
Managing tax risks

The Tax Control Framework

- A well-developed tax strategy that agrees with wider business objectives
- A clearly defined and communicated strategy which describes the approach to managing tax
- Understanding of where the risks are and also controls that are able to mitigate the risks
- On-going monitoring of the key controls



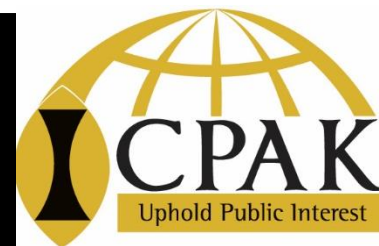
Managing tax risks



The PwC Tax Management Maturity Model (T3M)

- End-to-end tax risk management methodology
- Inspired by the COSO Framework
- Building blocks for Tax Control Framework ('TCF')
- Assess current and desired TCF maturity level
- Takes entire tax function into account
- Multi tax, covering all taxes
- Helps to communicate your TCF to internal and external stakeholders
- Facilitates informative benchmarking with peers
- Supported by PwC's global network
- Responsive web design, enables use on mobile devices

Managing tax risks



The PwC Tax Management Maturity Model (T3M)

Assignment Generate report						
Collapse All Expand All	Level1 Initial	Level2 Informal	Level3 Standardised	Level4 Managed	Level5 Optimised	
▶ 1 Business (& Tax) Environment		Current	Desired			edit
▶ 2 Business Operations			Current			edit
			Desired			
▶ 3 Tax Operations		Current		Desired		edit
▶ 4 (Tax) Risk Management		Current		Desired		edit
▶ 5 Monitoring/Testing	Current		Desired			edit
▶ 6 (Tax) Assurance	Current		Desired			edit

1 Business (& Tax) Environment

4/4
Generate report
View model

1.2 Tax strategy: 1.2.1 Tax vision, mission & risk appetite and alignment across the business?

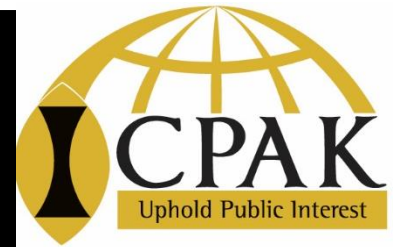
Please select the statements that best reflect your current and desired maturity level

Initial	Informal	Standardised	Managed	Optimised
<div>Current</div> <p>There is no clear view on tax vision and mission, risk appetite, desired behaviours or predefined and understood tax risk criteria.</p>	<p>Overall tax risks and possible reputational damages are considered in decision-making. Desired behaviours are implicitly known (mores) and are consistent with the overall business strategy. There is no defined overall tax risk appetite agreed by the broader business.</p>	<div>Desired</div> <p>Management has a clear view on tax vision & mission, tax strategy and risk appetite and this is documented, communicated and aligned with overall business strategy (including expected behaviours). Actual behaviours, however, are not always aligned with this.</p>	<p>Processes are in place to align organisational activity with tax strategy and risk appetite. Desired attitudes and behaviours are communicated and respected. Action is taken to manage instances of misalignment and address behaviours when appropriate.</p>	<p>Vision, mission and tax strategy are fully aligned and are the basis for all decision making processes (in alignment with the tax risk appetite criteria). The values that follow from them are reflected in the behaviour that the workforce displays. There is a culture of continuous review, self assessment and improvement.</p>

▶ Supporting evidence

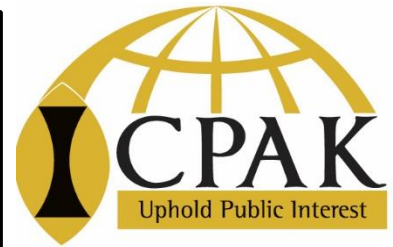
Emerging trends

Global changes and Africa's realities



- Increase in reporting and disclosure requirements
- Enhanced stakeholder scrutiny and reputational risk force companies to continuously re-evaluate their tax decisions
- Increase in number and size of tax audits and controversy cases
- Growing reliance on tax control frameworks to manage tax risk

Some tips for managing tax risks and compliance in Africa



Have a clear strategy for managing tax

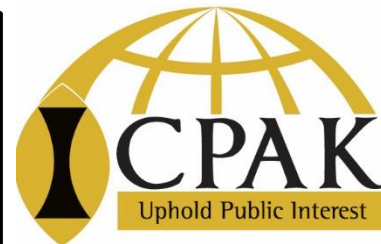
Align tax considerations with operational issues

Resource the tax function adequately

Have clear processes for identification and management of tax risks

Leverage tax data management and analytics tools

Thank you



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