

## TAX MANAGEMENT

### FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2.
- 2 All employers, and all purchasers and providers of goods and services, are required to account for payroll, direct and indirect taxes in relation to a significant proportion of their transactions. In doing so, they have a duty to, for example, the Inland Revenue and HM Customs and Excise (the 'revenue-collecting authorities'), and are required to comply with regulations governing the bringing to account and payment of tax due. Failure to satisfy these requirements will expose organisations to a regime of strict financial penalties; and as a result, they will incur a real but avoidable loss.
- 3 Public sector bodies, other than public-sector corporations, are generally exempt from taxation other than in relation to employment taxes and value added tax. However, over recent years there have been major changes in the management and delivery of public services and an increased emphasis on commercial activities. There have been transfers of activities from exempt public sector bodies to taxable entities through the creation of controlled and associated companies, the establishment of joint ventures with partners in other parts of the public or in the private sector, through public/private partnerships, and through PFI.
- 4 Public sector bodies increasingly have the potential to be involved in transactions where the taxation dimension is neither obvious nor straightforward. Consequently, a failure to recognise and understand the taxation implications of particular decisions at the planning stage may result in avoidable losses. In addition, failure to monitor the changes affecting taxation on existing transactions may have the same outcome. Therefore, it is essential that taxation issues are managed effectively.
- 5 There has also been the introduction of new taxes that impact upon public-sector organisations, such as insurance premium tax, landfill tax, climate change levy and aggregates levy.
- 6 Together, these developments have brought the responsibilities of members with regard to the management of taxation into much sharper focus, and require that members should be able to demonstrate a proper professional knowledge and understanding of taxation issues and tax management.

### INTRODUCTION

#### **Applicability**

- 7 The public's reliance on professional accountants for the integrity of the finance function includes a reliance on efficient and effective tax management. This presumes not only that tax liabilities are recognised and reported, but also that the risks of avoidable tax losses are minimised. Some responsibility will usually be more closely identified with the director of finance or equivalent postholder. However, the duty of care in discharging these responsibilities belongs to all members involved in the process, at any level in the organisation. Accordingly, this SoPP is applicable to all members who are involved in the management of taxation.

- 8 The detailed requirements of the management of taxation and the reporting of liabilities and obligations, as well as the responsibilities of the director of finance, will be determined by the legal framework within which the member's organisation operates. Where specific professional accounting standards have been developed by recognised standard setting bodies for particular organisations, CIPFA's Ethics SoPP states that members are required also to comply with these standards.

### Scope

- 9 'Tax management' can be defined as ensuring that systems and procedures are in place and that records are maintained to secure that:
- 9.1 The tax implications of any proposed transaction are properly recognised before decisions are made.
  - 9.2 The tax implications of existing transactions are kept under review.
  - 9.3 Tax liabilities, recoveries or obligations are:
    - 9.3.1 Identified before the relevant transactions are entered into.
    - 9.3.2 Calculated in accordance with regulations.
    - 9.3.3 Recorded at the appropriate time.
    - 9.3.4 Accounted for in the proper tax period.
    - 9.3.5 Disclosed to the appropriate revenue-collecting authorities in the required manner.
    - 9.3.6 Documented satisfactorily at all stages.

### Objectives

- 10 The efficient and effective management of taxes with a view to ensuring that tax liabilities and obligations are properly reported and accounted for to ensure the avoidance of any tax losses.

## KEY PRINCIPLES

### Responsibilities of the director of finance

- 11 **Within the specific legislative framework for each organisation, directors of finance should ensure that systems exist to secure the efficient and effective management of taxes, in particular to ensure that tax liabilities and obligations are properly reported and accounted for and to prevent any tax losses.**

#### *Guidance*

- 12 To ensure that they meet their obligations and duties under this SoPP, directors of finance should:
- 12.1 Define and allocate duties in relation to taxation and tax management.

- 12.2 Take all reasonable steps to ensure that financial-control systems are operating effectively to produce the necessary information and minimise the risk of error.
- 12.3 Secure an appropriate level of knowledge and financial awareness amongst those staff who might be involved in processing transactions involving elements of tax.
- 12.4 Provide proper assistance to any routine inspection or special investigations undertaken by the revenue authorities.
- 12.5 Review the justification for, and the quantum of, any assessment made as a result of any such inspection or investigation .
- 12.6 Make such arrangements as are necessary to monitor the discharge of these responsibilities.

### Administration

- 13 **Directors of finance should ensure that they either nominate themselves as tax officers or nominate a specialist tax officer to assist them discharge their responsibilities.**

#### *Guidance*

- 14 Professional advisers may be appointed where considered necessary, but the responsibility will remain that of the director of finance. The director of finance should consider undertaking a cost-benefit analysis including, where relevant, an assessment of the likely net benefit to the public finances in general, before entering into any professional advice arrangements. Whichever approach is adopted, the director of finance should ensure that there are proper arrangements set down in writing.
- 15 Proper written arrangements should include:
  - 15.1 The preparation and verification of any relevant returns which require the signature of the director of finance or the nominated officer.
  - 15.2 How to deal with communications with the relevant revenue authorities and with any external advisers.
  - 15.3 How to keep up to date with legislative, case law and custom & practice developments, and how to determine the implications for the organisation.
  - 15.4 The provision of advice to elected members, board members and other officers, as appropriate.
  - 15.5 How to recognise the point at which in-house expertise is exhausted or in-house resources are constrained, and hence the need to obtain specialist professional advice and/or assistance.

### Financial control systems

- 16 **Directors of finance should take all reasonable steps to ensure that financial control systems are set in place to enable the organisation to bring all of its tax liabilities to account and to ensure that tax is recovered to the fullest possible extent.**

### *Guidance*

- 17 This requires action to be taken to:
- 17.1 Minimise the risk of large or persistent errors through the automation of calculation and recording functions, by the existence of validation reconciliations and controls, and by management-review procedures.
  - 17.2 Review the design of systems to provide the information required by revenue authorities on returns or for other purposes is produced in the format required, efficiently and on time.

### Financial awareness

- 18 **Directors of finance should take all reasonable steps to create and maintain an awareness of the importance of effective tax accounting across the whole organisation, but especially amongst those responsible for initiating and processing transactions.**

### *Guidance*

- 19 This requires action to be taken to provide that:
- 19.1 Clear lines of communication are established by tax officers for the dissemination of all relevant information to appropriate members of staff, especially that relating to significant changes in regulations.
  - 19.2 Information disseminated is designed to complement the standing financial instructions and the procedures manuals of the organisation concerned. All processes having tax implications are fully documented in such guidance.
  - 19.3 The risk of large or persistent errors is minimised, through the automation of calculation and recording functions and the existence of validation controls and reconciliation and management review procedures.
  - 19.4 The design of systems is reviewed to ensure that the information required by revenue authorities on returns or for other purposes is produced in the format required, efficiently and on time.