

# Why your organization needs a Tax Plan Implementation Review (“TPIR”)

---

## Background

Board members and senior management are quite familiar with compliance requirements for CEO and CFOs certification and the importance of maintaining strong internal controls over financial results. The certification process extends to internal controls over income taxes balances in the financial statements. For the majority of companies with a well-staffed tax department, monitoring controls remain the strongest and most frequently used controls. Senior management is, however, frequently unaware of the potentially material risk associated with tax plans implemented in the past; Undergoing an annual TPIR assists in mitigating this risk to a manageable level.

## The tax plan

One the top ten internal controls<sup>1</sup> over income taxes is that a tax planning strategy requires approval by the appropriate level within an organization. Depending on the size, nature and impact of the tax plan on the organization, Board level approval may be the appropriate level.

This control should be formalized by having authorised management mandates and policies outlining when approval is required based on the tax plan’s monetary and reputational impact. For example, applying prior year’s tax losses to current taxable income may require the approval of the Vice-President of Taxation but plans requiring the creation and/or amalgamation of companies or off-shore financing may require the Board’s approval. The control should be evidenced by memorandums, printed email, minutes, and resolutions (appropriate to the tax plan and approval level required) to ensure the monitoring control is documented for regulatory compliance requirements.

A significant benefit derived from this process is the added discipline to documenting the entire tax plan –too often a great portion of the tax plan exists only in the heads of senior tax personnel. There cannot be strong internal controls over income taxes when a significant underlying process (with potentially a material impact on financial results) is not adequately documented.

## Implementation

The tax plan as approved requires a variety of parties to complete certain tasks over a period of time in order for the whole plan to work properly: domestic and foreign internal tax staff, internal counsel, outside lawyers and tax accountants, treasury staff and even taxing authorities. Whose responsibility is it to ensure all the steps have been completed as required? Strong internal controls would dictate that the implementation of the tax plan should also be monitored.

---

<sup>1</sup> Please see our article “Top Ten Tax Controls” for a complete list of internal controls over income tax balances.



Moreover, the monitoring should be performed by a person that has full understanding of the plan.

### **Other Concerns**

Once the tax plan is implemented is it generally shelved and forgotten. There is however, on-going risk associated with the implemented tax plan. A company's business and tax legislation are both dynamic whilst the tax plan typically remains static. Implemented tax plans should be reviewed annually to determine if there have been any legislative changes or administrative positions which impact the plan. Furthermore, the tax plan should be reviewed in conjunction with the company's current and future business strategies. For example, tax plans implemented while a company is solely a domestic company prior to purchasing a foreign operation may not longer be appropriate or adequate due to the foreign operation purchase. A written review is evidence of a strong internal control and is part of the overall tax plan documentation.

### **Benefits of completing a TPIR**

- Strengthens internal controls over income taxes and sets a tone of responsibility.
- No surprises – preparing a written report for the review by senior management and/or the Board ensures they are informed on the status of tax plans they have previously approved.
- Facilitates discussion about income taxes at a senior level to ensure the tax department is included in strategic decisions rather than being an afterthought.
- Assists senior management in measuring the value of the tax function in the company. Furthermore, it can be a part of the performance measurement for senior individuals in the tax department. Performance could be base on whether the tax department has been (i) proactive in finding sound methods to minimize income taxes in line with the company's risk appetite, and (ii) been able to manage the tax plan through to a successful implementation?

### **The Claret Partners Limited**

A TPIR is an important part of the strong internal controls for any entity; we can assist you in the following ways.

- Complete the TPIR.
  - Gather adequate documentation on the tax plan.
  - Research of tax law for impact of any changes on the plan and quantify where possible.
  - Assess success of tax plan based on predetermined parameters.
- Drafting mandates, policies and procedures for tax related processes.
- Design and implementation, and testing of internal controls over income tax balances.
- Improve performance of the tax processes by reducing time required to complete and/or enhance information obtained by applying our proprietary operational risk methodology (The Claret Process™©).

*The Claret Partners Limited is a consulting firm dedicated to providing the best in regulatory compliance, tax, risk and governance services as consultants and project managers creating workable and practical solutions. **For more information please contact us at [contact@theclaretpartners.com](mailto:contact@theclaretpartners.com).***