

Tax Management Maturity Model (T3M)

Meeting tomorrow's
tax challenges today

*An end-to-end tax risk
management methodology*

2016



Why now?

The tax risk landscape is continuously changing. The Organisation for Economic Cooperation and Development (“OECD”) has altered the international tax landscape through the Base Erosion and Profit Shifting (BEPS) Project. The European Commission presented their Anti-Tax Avoidance Package for fairer, simpler and more effective corporate taxation in the EU. Tax authorities increasingly expect organisations to be able to confirm that tax risks are appropriately managed in a way that facilitates real time compliance and data oriented auditing. These challenges are combined with the continued demands for increased transparency from a wide range of stakeholders and all have to be faced by organisations while managing tax risk and opportunity in a cost effective way. This has already had a significant impact on senior management, who are now increasingly focussed on how tax is being managed and how it aligns with the overall goals of the organisation.

Good tax governance can no longer be considered in isolation from the wider business approach governance risk and controls. When considering effective tax risk management

an organisation needs to consider (1) the types of risk an organisation is exposed to; (2) the approaches available to assess, mitigate and monitor these risks; and (3) the lines of defence available to protect the organisation. In other words, you need to understand the current and desired state of the Tax

Control Framework and tax operating model. These principles apply equally to any other risk or opportunity as they do to good tax governance and organisations are starting to realise this. To ensure an organisation has a tax function fit for the future all of this must be considered, combining tax technical expertise with sound principles of good governance. This includes utilizing the latest developments in tax technology to ensure compliance and opportunity maximisation. We are experienced at partnering with organisations through change, be it regulatory change or change driven by business growth or transformational projects. It is when change is in progress that the opportunities to make tax management more efficient and effective present themselves and we want to make sure the opportunity is seized.

How T3M works

T3M is a global tax risk management methodology. It is designed to facilitate a current state review of tax management in any organisation along with the identification of the detailed ambition state with a road map to deliver change. Supported by a state of the art online tooling, this methodology is inspired by the long established principles of good governance set out by the committee of sponsoring organisations of the Treadway commission (“COSO”). By selecting in the online tool one of five maturity levels for the current and desired state of each area of strategic, legal or operational tax risk we have identified, you gain insight as to the maturity of tax management in your organisation.

The maturity levels in relation to each risk have been prearticulated in the model and are easy to select. Whilst there is no ‘right or wrong’ since the proper maturity level depends on your organisation specific needs, we are able to provide detailed recommendations on where and how you need to improve given our knowledge of tax management and your business. Aside from developing an action plan, T3M enables you to clearly communicate to key stakeholders the maturity of the tax function, be it internal audit, corporate finance,

external auditors or tax administrations around the globe. The key components of T3M which comprehensively cover your Tax Control Framework, include:

- **Business and tax environment** – Including strategy, organisation, soft controls and levels of tax awareness.
- **Business operations** – Status, control and documentation of tax influencing business processes.
- **Tax operations (multi tax)** – Processes and controls in place to ensure tax compliance and reporting requirements are met.
- **Tax risk management** – Identification of tax risks, implementation of controls to mitigate tax risks, and communication with stakeholders.
- **Monitoring and testing** – Internal monitoring activity to periodically assess the design and operating effectiveness of existing tax controls and follow up on change management.
- **Tax assurance** – Internal or external review of the tax control framework and design and operating effectiveness of key tax controls.

| Assignment | | Generate report | | | | |
|------------|--------------------------------|-----------------|----------------|--------------------|---------------|-----------------|
| | | Level Initial | Level Informal | Level Standardised | Level Managed | Level Optimised |
| ▶ | 1 Business (& Tax) Environment | | Current | Desired | | edit |
| ▶ | 2 Business Operations | | | Current | Desired | edit |
| ▶ | 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 | | Generate report View model | | | |
|--|---|---|---|--|------|
| 1.2 Tax strategy: 1.2.1 Tax vision, mission & risk appetite and alignment across the business? ¹ | | | | | |
| Please select the statements that best reflect your current and desired maturity level | | | | | |
| Initial | Informal | Standardised | Managed | Optimised | |
| <p>Current</p> <p>There is no clear view on tax vision and mission, risk appetite, desired behaviours or predefined and understood tax risk criteria.</p> | <p>Desired</p> <p>Overall tax risks and possible reputational damages are considered in decision-making. Desired behaviours are implicitly known (more) and are consistent with the overall business strategy. There is no defined overall tax risk appetite agreed by the broader business.</p> | <p>Desired</p> <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>Desired</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>Desired</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> | edit |
| ▶ Supporting evidence | | | | | |

How T3M can help

- In respect of change projects, T3M distills the relevant tax issues down into manageable and digestible portions to ensure you maximise opportunities on tax that arise out of business growth, acquisition, or transformational change within your organisation.
- An easy to understand, collaborative online tool that can be used to illustrate the strategic direction of the tax function and communicate this to stakeholders including Tax Authorities
- Clearly highlights how to change or upgrade the tax function to minimise risk whilst maximising efficiency and opportunity and create a tax function of the future.
- Facilitates informative benchmarking with organisations of similar size or industry.
- Inspired by the internationally recognised controls framework of COSO.
- Considers the organisation as a whole when analysing tax management and not just the tax team in isolation.

What we do



Introduce

Work with management to identify key stakeholders in the organisation to attend a collaborative workshop or interviews to populate the online tax maturity model. Provide an introductory pack to each stakeholder to enable preparation for the workshop or interview combined with desktop review.



Collaborate

Hold a collaborative workshop or range of interviews combined with desktop review to populate the model and assess the current state of the tax operating model and Tax Control Framework. At the same time we consider the detailed desired future state of tax management in each area we discuss. We also collate evidence supporting statements made which can be uploaded to the model and used as an audit trail.



Report and recommend

Provide a report summarising the output of the model. We will evaluate the organisation's feedback and ambition levels, summarizing themes and providing targeted recommendations to enable you to further develop your Tax Control Framework and move to the target operating model you desire. This is based on our PwC global network's experience of implementing effective and efficient tax management solutions in other organisations and will include the consideration of the latest in tax technology. We can also where appropriate discuss how you compare with peers.



Post T3M assistance

Where suitable we can assist you with achieving the optimum Tax Control Framework and tax operating model. This may include a more detailed assessment in areas of weakness, opportunity or relevance. We can also facilitate the use of T3M on an ongoing basis to monitor and test your Tax Control Framework periodically and ensure that the desired state of your Tax Control Framework has been achieved and the standards of control you set yourself are met.



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