Far North District Council

Tax risk governance framework

For adoption by the Audit, Risk and Finance Committee

May 2022

pwc

1. Purpose

This document establishes the tax governance framework and strategy **(Appendix One)** for Far North District Council (FNDC).

1.1 Background

FNDC has a high public profile. As such, FNDC must maintain exemplary governance and tax compliance standards.

Although FNDC is largely exempt from paying corporate income tax, it is required to correctly account for Goods and Services Tax, Fringe Benefit Tax, PAYE, and a range of other withholding taxes. These taxes make up a significant portion of the New Zealand Government's annual tax take. Accordingly, the tax obligations of FNDC cannot be taken lightly.

Inland Revenue has signalled its expectation that all large organisations should have tax risk management incorporated within their governance framework. This is consistent with international best practice; tax authorities in foreign jurisdictions, including Australia and the United Kingdom, have been advocating this approach is taken by large Public and Private sector organisations.

1.2 Risk management

The Audit, Risk and Finance Committee is, along with other responsibilities, tasked to:

- Assist the Chief Financial Officer (CFO) to determine FNDC's appetite or risk.
- Review whether management has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of FNDC's significant risks.
- Consider whether appropriate action is being taken by management to mitigate FNDC's significant risks.
- Ensure that management is kept appraised of FNDC's governance body's views on uncontrolled risk.
- Ensure management are keeping the Audit, Risk and Finance Committee fully apprised of all independent sources of assurance, via the risk management framework.

Proactive tax risk management can facilitate mitigation of:

- Operational risk – by way of reducing the potential for reputational damage befalling FNDC as a result of non-compliance, and the possible negative impacts on various stakeholders, such as employees and suppliers.
- Financial risk – through minimising the financial impact of non-compliance, and the costs associated with over- or under-paying tax by FNDC.
- Compliance risk – in terms of ensuring areas of non-compliance are identified, thereby minimising any penalties or interest being imposed by Inland Revenue and reducing the risk of FNDC being subject to an Inland Revenue audit.

2. Tax risk profile

FNDC has an obligation to fulfil its tax compliance obligations as required by tax legislation, including the Income Tax Act 2007, KiwiSaver Act 2006, Goods and Services Tax Act 1985 and Tax Administration Act 1994.

Given the high profile and public nature of FNDC, there is a need to adopt a conservative approach towards tax compliance. Accordingly, FNDC will adopt a "LOW" tax risk profile such that it has an open and honest working relationship with Inland Revenue.

3. Tax risk management strategies

The following strategies will be adopted by FNDC to ensure that it maintains a low tax risk profile and effectively manages its tax obligations and potential tax risks.

FNDC will develop a tax risk management plan to be formally adopted by the Audit, Risk and Finance Committee – **see Appendix One**. The plan will be reviewed *at least* every three years. The plan will:

- Identify key areas of tax compliance risk that are faced by FNDC.
- Establish the steps required to effectively manage or mitigate each risk area.
- Provide clear and realistic time frames to carry out the steps.

3.1 Responsibility for tax issues

The CFO has overall responsibility for the management of the tax issues of FNDC. As appropriate, the CFO may delegate responsibility for tax issues to another appropriately qualified person.

The CFO has overall responsibility as the myIR account owner for FNDC. The CFO is responsible for administering and maintaining staff delegations and permissions of myIR login accounts and for ensuring delegations are updated as and when staff leave or join the organisation.

3.2 Reporting tax risks to Audit, Risk and Finance Committee

Any 'significant tax risks' will be reported in the first instance to the CFO as soon as they are identified and where appropriate, to the chair of the Audit, Risk and Finance Committee within two weeks of being identified.

A 'significant tax risk' to FNDC may include, but is not limited to, a circumstance where an incorrect interpretation is made that results in a situation where:

- Penalties and interest could be imposed against FNDC.
- A tax liability is required to be settled that is in excess of $20,000.
- FNDC could be subject to prosecution.
- An accusation of tax avoidance could be levied.
- There is risk of negative publicity.

FNDC will report on all tax risk management matters to the Audit, Risk and Finance Committee at least once a year. As part of that report, a summary should be prepared and presented to the Audit, Risk and Finance Committee setting out key issues, and may include the following:

- Key financial information including any outstanding taxes due, and any interest or penalties imposed during the year.
- Particulars of any proposed legislative tax changes which could impact on FNDC.
- Details of any significant outstanding taxes in dispute with Inland Revenue.
- Details of advice sought and future matters to consider.
- A table of tax tools and services used and whether each aligns with FNDC's 'LOW' risk tax profile; i.e. Strategy vs Achievement.

3.3 Tax awareness and training

FNDC will ensure that all relevant staff are provided with adequate training and resources to effectively identify and manage its tax obligations and risks. Where appropriate, this may involve sending selective staff on external courses or engaging an external speaker to conduct in-house training.

3.4 Meetings and correspondence with Inland Revenue

FNDC will endeavour to maintain strong working relationships with Inland Revenue, other government bodies, and related third parties. All dealings with external parties will be undertaken in a professional and timely manner.

Apart from routine PAYE, FBT and GST returns and payments, all other correspondence, meeting requests or queries from Inland Revenue must be immediately referred to the CFO. The CFO is the only person authorised to correspond or meet with Inland Revenue to discuss the tax matters of FNDC – although they may delegate this responsibility to others where appropriate.

3.5 Tax advice and rulings

FNDC will maintain detailed information and computations supporting all tax return filing positions. If there is any uncertainty in respect of a filing position where the amount of tax exceeds $20,000, FNDC will seek written advice from external tax advisors.

In some instances, the degree of uncertainty over a particular tax issue may warrant seeking a Binding Ruling from Inland Revenue. No approach should be made for a Binding Ruling without the prior approval of the CFO. However, the CFO may obtain agreement from the Audit, Risk and Finance Committee if considered appropriate.

3.6 Tax returns and payments

FNDC will file all returns and pay any resulting tax liability on, or before, the stipulated due dates. When preparing and filing tax returns, FNDC will be transparent, and fully disclose all relevant information supporting a tax position in a tax return. FNDC will only adopt tax positions that are highly likely to be correct based on current law. Notwithstanding this, FNDC will endeavour to ensure that the most tax efficient position is adopted.

Any tax payments in excess of $20,000 must be authorised by the CFO. However, the CFO may delegate this in accordance with FNDC's delegation authorities.

Tax payments must be supported by detailed tax computations and explanations which are initialed by the preparer and then countersigned by that person's superior prior to payment.

The CFO (or someone delegated by the CFO) will review FNDC's Inland Revenue accounts on a monthly basis to ensure that all returns have been assessed by Inland Revenue and payments have been allocated appropriately. Any unreconciled items will be reported to the CFO.

3.7 Filing and record keeping

In terms of the Tax Administration Act 1994, FNDC is required to retain tax records for several years. To assist in archiving and the subsequent retrieval of relevant tax records, FNDC will separately file each tax return and supporting computation and advisory correspondence based on the year of assessment and tax type.

In addition, FNDC will maintain a detailed index of the relevant tax files to enable their efficient retrieval should they be requested by Inland Revenue in later years. Specifically, the index should contain details relating to the file reference, relevant tax period, tax type, subject of the document on file and location of the file, and evidence of review by the CFO. This index should be maintained irrespective of whether the information is in electronic or hard copy format.

3.8 Regular reviews

The tax risks of FNDC potentially increase over time through a combination of personnel and legislative changes. To ensure the tax compliance procedures of FNDC are kept up to date and accurate, an independent external review of GST, PAYE/Withholding Taxes and FBT should be undertaken every three years. This review will tend to be undertaken in a 'rolling' format, with a different tax type being reviewed each year – see **Appendix One** for the proposed format of reviews.

3.9 Penalties and voluntary disclosures

Wherever possible FNDC should endeavour to minimise any penalties and Use of Money Interest. Accordingly, any tax discrepancies identified should be addressed and disclosed to Inland Revenue as soon as possible. Unless the discrepancy has been identified pursuant to a (current) tax investigation, FNDC (in consultation with the Audit, Risk and Finance Committee) should always consider making a Voluntary Disclosure as a means of minimising any potential penalties.

3.10 Tax policies

To assist staff with the day to day tax treatment of issues specific to FNDC and to ensure a consistent tax treatment of items across the organisation, FNDC may subscribe to PwC's Online Tax Policies. PwC maintains PAYE, GST, FBT, and KiwiSaver tax policies, and are regularly updated for legislative changes. These tax policies will provide an outline of common tax issues arising and how they should be treated in the various tax returns of FNDC.

4. Tax governance framework – adoption

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Appendix One: Tax Risk Management Strategy

Tax services			**Financial Year Ended**		
	30 June 2022	**30 June 2023**	**30 June 2024**	**30 June 2025**	**30 June 2026**
Access to online tax policies	✓	✓	✓	✓	✓
Independent tax evaluations:					
• PAYE / Withholding taxes	✓				
• GST	✓			✓	
• FBT	✓				✓
• PAYE / KiwiSaver data analytics		✓			
Annual report to Audit, Risk and Finance Committee on tax risk management	✓	✓	✓	✓	✓
External advice sought on major issues	As required	As required	As required	As required	As required
Tax training provided to staff	As required	As required	As required	As required	As required