BEST PRACTICES FOR GOOD TAX GOVERNANCE

The paper “Best practices for good tax governance” was drafted by a group of committed tax directors from three organisations - the Tax Executives Council of the Conference Board, The B Team, and the European Business Tax Forum, to provide insights into best practices that multinationals might adopt in order to enhance transparency and assurance towards their various stakeholders. The idea is that adoption of these practices could benefit not just stakeholders and their respective communities, but also multinationals themselves through better insight into and control over their organisations. The examples and illustrative case studies draw on the practical experience of the contributors in designing and implementing measures that have proven effective over the course of time. It is intended to be a living document that evolves in the future based on contributions from a broad range of interested parties.

Stakeholder capitalism is booming. The days are gone when share price and profits were the only things keeping CEOs awake at night. For a start, shareholders are not the only ones that now have a say in how companies operate. There’s a whole new range of stakeholders, with different priorities and different perspectives, and they all have to be kept happy. And shareholders themselves have changed. Today they don’t just look at the financial position of a business but also expect things like social, governance and environmental issues to be properly addressed by the companies they invest in. Capitalism has taken on a whole new meaning.

Companies therefore need to engage more effectively with their stakeholders to meet their expectations and sometimes varying or even competing interests. Being transparent about their tax footprint is a one step. But stakeholders need to have access to more relevant information to get assurance about the future. And that’s where tax governance comes in. Good tax governance means that companies can demonstrate that they have the tools in place to satisfy stakeholders’ concerns.

Of course this raises the question: what is good? There is no single answer. No ‘one size fits all’. It will depend on each stakeholder’s perspective and on the particular characteristics of the organisation. But while there may be no standardized good tax governance, there are best practices that, depending on the facts and circumstances, are indicators of good tax governance.

Let’s take a look at some examples.

Share your tax strategy
Rather than being cast as a single, static document, a tax strategy should reflect a dynamic set goals, principles and guidance that are cascaded through different accountability levels to induce ‘good tax behaviour’ throughout the organisation. Accountability frameworks can help with this.

Promote local autonomy but don’t lose control over tax
The more management is decentralised the more checks and balances are needed to ensure that the group’s tax policies and risks are being safeguarded and properly managed. Tax control frameworks are a useful tool for this.

Trust can pay a double dividend
Creating a relationship of trust between taxpayer and tax authority can not only help resolve tax uncertainties but also provide assurance that a fair share of tax is being paid. Key to such a relationship is an open and cooperative engagement with full disclosure of relevant facts. Cooperative compliance programs are one way of achieving this.

These and more best practices are explained in more detail in the paper.

It’s worth thinking about who benefits from good tax governance and the best practices that promote it. In fact, ultimately, all stakeholders stand to gain. Of course, in the first instance, it helps corporate management do their job better by giving them more tools to ensure tax-related risks are minimised. It’s also suggested it gives them a better insight into their organisation as a whole. That can’t be a bad thing. In addition, investors and other stakeholders get assurance that the organisation is functioning as they want and expect it to. What those expectations are may vary between different stakeholders, but if done properly, good tax governance should be capable of satisfying them all.

It is hoped that this paper will help make good tax governance even better.