DDTC Consulting

Grand Design Tax Control Framework:

Beyond Good Tax Governance

2024

“Tax control framework (TCF) is the part of the system of internal control that assures the accuracy and completeness of the tax returns and disclosures made by taxpayers. Implementing a TCF can significantly enhance taxpayers' accountability in both their tax strategies and the resulting tax reports.

The primary objective of TCF is to provide verifiable assurance that tax risks will not materialize due to inadequate controls or a lack of understanding of inherent tax risks within the organization. By adopting TCF, taxpayers can establish an effective, efficient, and transparent tax function within their organization.”

GLOBAL **TRENDS**

Compliance paradigm shift that is no longer enforcement-based

Co-operative Compliance Program

TCF as the main instrument that ensures co-operative compliance

The widespread trend of TCF implementation in countries spread across the region

In Australia, a TCF deemed satisfactory by the tax authority diminishes the likelihood of a taxpayer undergoing a tax audit

In Austria, TCF serves as a replacement for the post-factum tax audit

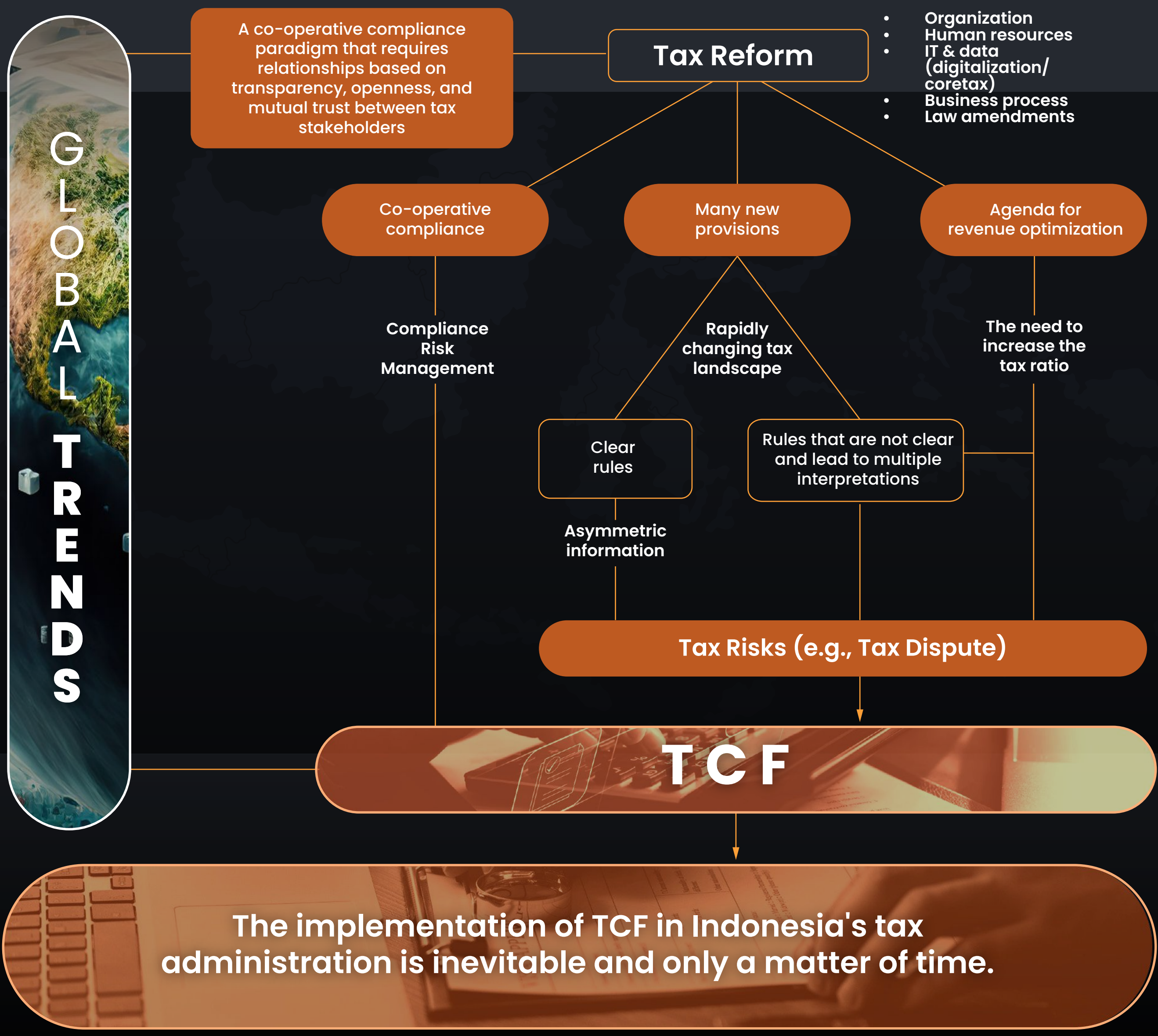
In China, TCF determines tax ratings and low-risk taxpayers are more likely to receive preferential treatment

In Malaysia, having a TCF means a taxpayer will be subjected to less scrutiny and a lower frequency of tax audits

In Russia, the better the taxpayer's TCF, the more limited the documentation that can be requested by the tax authority

Having a TCF is an indication that the taxpayer has implemented good tax governance with a system and procedures for controlling tax risks within the company. Therefore, a taxpayer's TCF is a prerequisite for tax authorities to carry out risk-based audits.

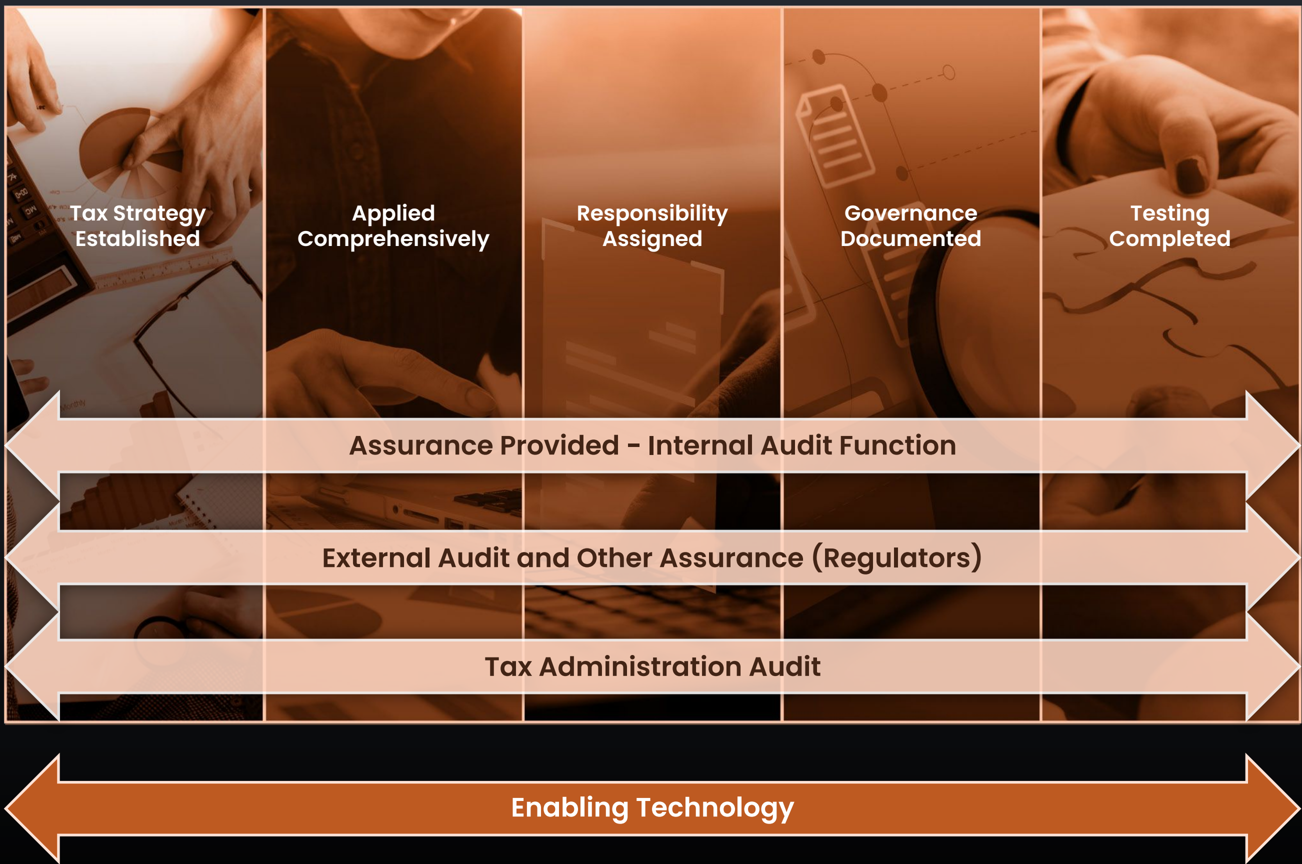
TCF IN THE CONTEXT OF INDONESIA



KEY ELEMENTS OF TCF

An effective TCF is one that enables taxpayers to detect, correct, and prevent misrepresentations, as well as identify and mitigate tax risks within the taxpayer's internal controls. To ensure that the resulting TCF meets these expectations, the OECD has issued guidelines that include at least six essential elements of TCF: (i) documenting tax strategy, (ii) covering all company's transactions, (iii) describing the management responsible for TCF implementation, (iv) documenting the entire corporate governance, (v) conducting internal testing of TCF, and (vi) providing tax assurance.

According to OECD (2016), there is no standard TCF that applies equally to all companies (no one size fits all) because a company's internal control system reflects specific conditions of its business activities and industry. However, the six building blocks of TCF mentioned above serve as guidelines in designing TCF within the company's internal system.



WHY YOU SHOULD HAVE TCF?

Establishment of compliance with tax laws and realization of effective tax management with efficient business processes

Compliance with tax laws

Tax laws are intricate and ever-changing, non-compliance results in penalties. TCF ensures accurate and timely filing, mitigating risks.

Risk management

Tax risks stem from calculation errors, law misinterpretation, and poor documentation. TCF identifies, mitigates, and monitors risks, aiding proactive risk management for businesses.

Financial reporting integrity

Taxes affect business expenses and financial statements. TCF ensures accurate tax recording, enhancing financial reporting integrity.

Tax optimization

Tax planning cuts costs for businesses. TCF identifies legal opportunities such as credits, deductions, and deferrals for lower tax burdens, boosting cash flow and profits.

Reputation and stakeholder trust

Tax law compliance and transparent reporting build stakeholder trust. TCF fosters a compliance culture, showcasing ethical corporate practices.

Proactive tax strategy

TCF aids businesses in aligning tax strategy with financial goals. This encompasses planning, risk assessment, and ongoing alignment with business strategy.

Government relations

TCF vital for efficient revenue collection. Ensures compliance, curbs evasion, and enables fair policies. Enhances cooperation, fostering positive business-government relations.

GRAND DESIGN TCF

Issues

1. Supporting infrastructure is not yet ideal
2. Low level of tax awareness
3. **Tax risks are not well managed**

Risks
- Compliance
- Transactional
- Operational
- Reputational

Current Conditions

1. Compliance with tax laws needs to be improved
2. Business processes and tax management have not fully utilized ideal tax management principles.

Tax Control Framework

- **Policy**
  Implementation of Tax Control Framework tailored to taxpayer's conditions
- **Strategy**
  - Making tax a strategic issue for the company
  - Environmental scanning
  - Tax risk management
  - Formulation of strategy
- **Attempt**
  Development of a documented Tax Control Framework with a complete description based on key elements of TCF

Legal
Tax Law and its Implementing Regulations

Expected Conditions

1. Establishment of compliance with tax laws
2. Realization of effective tax management with efficient business processes

Strategic Environment
- Good Governance
- Best Practice

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