



TAX MANAGEMENT SERVICES

Senior Accounting Officers Certification of Tax Accounting Arrangements – Are you ready?

TAX

Senior Accounting Officers (SAO) of approximately 2,000 of the largest companies in the UK are to be held personally responsible for the adequacy of the framework of responsibilities, policies, appropriate people and procedures in place for managing tax compliance risk, as well as the systems and processes which put this framework into practice.

Clause 93, Schedule 46 of Finance Act 2009 is the latest development in HM Revenue and Customs' (HMRC) approach to tax compliance. They are increasingly enquiring into the efficacy of governance and the underlying processes and controls, rather than focussing on the tax return itself. This approach has been seen across the taxes and reflects HMRC's view that tax is ultimately the responsibility of the Board and in particular the CFO. In a wide ranging debate on this subject in 2008 hosted by KPMG, Dave Hartnett, the Acting Chairman of

HMRC stated "The CFO is the guardian to the approach to taxation and must understand the risks and not simply by relying on the tax director"¹

What are the rules?

The new requirements come into force for accounting periods beginning on or after 21 July 2009 and apply to companies that in the preceding financial year either alone or when its results are aggregated with other UK group companies has turnover of more than £200m or has a relevant balance sheet total of more than £2bn. The legislation stipulates that the SAO of a qualifying company must take "reasonable steps" to ensure that the company establishes and maintains "appropriate tax accounting arrangements" and in particular, monitors the accounting arrangements of the company to identify any aspects in which those arrangements are not appropriate tax accounting arrangements.

Accounting end period	Legislation comes into effect from
30 September 2009	1 October 2009
31 December 2009	1 January 2010
31 March 2010	1 April 2010

¹ Source: Changes in the Climate of Tax Administration in the UK and the OECD, March 2008, KPMG LLP Tax Governance Institute; <http://www.taxgovernanceinstitute.com/>



“Every transaction could affect the tax position, so the ramifications will go far beyond the tax department”

Source: Institute of Directors, Compliance Week May 09

The Senior Accounting Officer

- Must establish, maintain, monitor and certify appropriate accounting arrangements for each qualifying company. This includes identifying any respects in which those arrangements are not appropriate
- Must certify the position annually to HMRC
- Is subject to a personal penalty of £5,000 in the event of a failure to comply with either of the above (£10,000 for both)

Questions for companies to consider include:

- Who will take responsibility for this in the organisation?
- Does the SAO understand what is being asked of him/her?
- How well are the end to end accounting arrangements understood?

- What “reasonable steps” can be carried out to prepare for these rules?
- Should the role of the internal audit function change in response to SAO?
- Have you engaged with the external auditors?
- When should you engage with your CRM?

SAO as part of a global trend

It is evident that there is a global trend (represented by Senior Accounting Officer sign off in the UK, Tax Control Framework in the Netherlands, Circular 90 in China) to set standards for tax risk management and governance. This was reinforced by the recent meeting of the Forum of Tax Administration in Paris, where 34 tax authorities met to discuss next steps in making tax part of overall corporate governance.



How can we help?

Our view is that companies should be seeking at least to understand their current operating framework and the end to end tax arrangements so that they are better prepared to deal with potential shortcomings sooner, rather than later.

HMRC have stated that there will be no transitional period, however an SAO who begins to assess the appropriateness of the company's accounting arrangements immediately will be treated as having taken "reasonable steps" in respect of that period. This "light touch" approach only applies however to the first year after the introduction of the legislation.

If you think that this legislation applies to your organisation, our main recommendation is for your company to take the time to assess what tax accounting arrangements there are currently in place for all taxes. You may wish to include representatives from many parts of your business for example, Finance, Human Resources, Procurement, Risk, Internal Audit and, of course, Tax in your discussions. This can help you establish your current position and what you may need to do to maintain and monitor the arrangements going forward.

If your organisation is likely to exceed the limits in the near future, consideration should be given to assessing your position now and identifying any potential shortcomings which should be remediated.

This can be done relatively easily in a half day session with key personnel. A good 'as is' picture will then be a starting point for any further work deemed necessary to fulfil the requirements of Schedule 46, and should go a long way to satisfy the "reasonable steps" in the first year.

Potential benefits include:

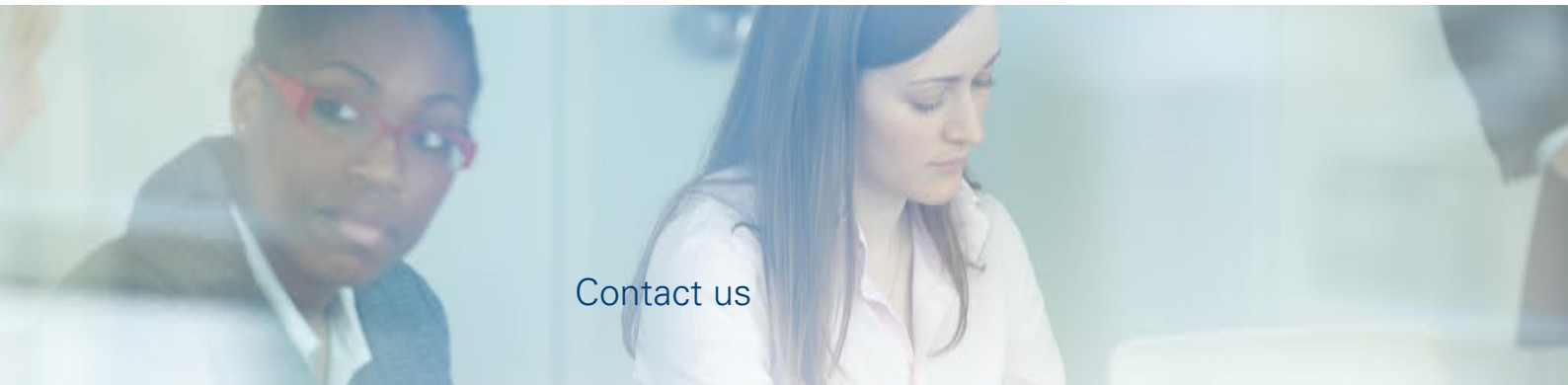
- Early compliance with legislation, availing of the "light touch" window
- The opportunity to assess your framework and how tax processes, tax risk and efficiencies are managed
- Clearly defined responsibilities, policies and procedures that are aligned with the wider organisation
- Smarter use of the limited tax/finance resources available
- A closer understanding of the business and working relationship of the different areas of your business
- Standardisation and automation opportunities, driving out cost and improving efficiencies
- Tax as a key part of an integrated management information system

- Improved and aligned risk management across the organisation
- A more cost efficient way over time, of dealing with multi-country national standards, as and when they are introduced

KPMG's approach in action

KPMG in the UK has significant experience in advising businesses as they design, implement and sustain the governance and accounting arrangements that Schedule 46 is seeking to enforce. For example, using KPMG's global set of principles, we undertook a wholesale review of a corporation's accounting arrangements and governance processes that impacted on the UK. In particular, KPMG enhanced their existing "Controls Framework" and ensured it was aligned with COSO¹ guidance. At the more granular level, KPMG determined the inherent tax risks that were not being correctly accounted for and helped implement appropriate and sustainable control and monitoring activities. This also included a review and implementation of appropriate measures for the corporation to gain assurance around the financial accounting activities that had been outsourced to a shared service centre.

¹ Committee of Sponsoring Organisation



Contact us

KPMG's overarching message is "safely compliant at minimal cost." KPMG in the UK has an established methodology and a global set of principles to deliver this.

Contact us to discuss your response to this legislation.

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