KPMG Meijburg & Co Tax & Legal

Good Practices Tax Control Framework: next steps

In its webinar on January 13, 2022, the Dutch Tax and Customs Administration (DTCA), in collaboration with the Dutch Association of Tax Advisors, provided further details on the background to the Good Practices Tax Control Framework (TCF) and elaborated on how to apply these good practices in real-world situations.

The DTCA published the Good Practices TCF (*Good Practices Fiscale beheersing*) in December 2021. They are available for downloading here (in Dutch). The document includes case studies of the TCF and is designed to provide a rough understanding of ways in which an organization can address the different elements of the TCF.

The webinar showed that each organization is unique and that the TCF calls for customization. That said, there are a few basic principles that characterize each TCF. These basic principles, which were covered extensively during the webinar, are concentrated in the following areas:

1. tax strategy and organization;
2. tax control and risk assessment;
3. monitoring and reporting.

Tax strategy and organization

An organization's tax strategy is determined, in part, by its business strategy and forms the basis for effective tax control. The features of a sound tax strategy and tax organization were discussed during the session. In summary, the DTCA expects taxpayers to have adopted a clear policy on the formulated objective, the allocation of duties and responsibilities, tax risk management, the risk appetite, the method of communication, transparency toward stakeholders and monitoring with accountability toward internal and external stakeholders.

Tax control and risk assessment

Where tax control and risk assessment are concerned, the DTCA distinguishes between inherent risks (in everyday processes) and residual risk. Depending on its risk appetite and risk response, an organization is expected to implement explicit controls for managing risks.

Risks can be documented in a risk control matrix; this matrix also includes the controls that are used to manage the risks. The DTCA further distinguishes between key and non-key risks, which are classified based on probability times impact.

Special attention is paid to "black swans", i.e. non-routine transactions or events that have the potential to disrupt everyday processes and controls, and can have an impact on an effective tax control framework. That is why it is important for organizations to effectively manage such events.

Monitoring and reporting

Monitoring is essential. The webinar showed that, for many organizations, monitoring consists of a combination of data analysis and statistical sampling. In this process, statistical sampling basically serves as a safety net. A broad fallback procedure and high-quality tax controls allow organizations to use statistical sampling as a basis for the full monitoring calendar. Statistical sampling continues to be the DTCA's preferred method because it identifies unknown risks and it is relatively easy to do, including by organizations themselves.

Organizations are expected to periodically evaluate the effectiveness of their basic principles and to share their reports of findings with their key stakeholders.

Next steps
The DTCA will increasingly engage with organizations to ask them about the extent to which they have implemented the basic principles of tax control. This means that their TCF is required to meet these basic principles. It is important that a TCF should be geared to a taxpayer's organization; customization is key.

For more information, please do not hesitate to reach out to the Tax Assurance team of KPMG Meijburg & Co or your own contact person at our organization.

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