

**Krajowa Administracja**

Skarbowa

Cooperative Compliance

Programme

**Guidelines on the Internal Tax Control Framework**

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1. **INTRODUCTION**

All taxpayers are required to submit accurately completed tax returns to the tax authorities. However, the Cooperative Compliance Programme places additional emphasis on disclosure and transparency, extending far beyond the obligations imposed by tax law, requiring taxpayers to inform the authorities about their ongoing and planned activities. Disclosure reflects the taxpayer’s willingness to inform the tax authority of the assumptions adopted for each item in the tax return that the authority may consider uncertain or controversial, including transactions affecting these items. Transparency involves sharing information with tax authorities regarding the internal control system, including the design, implementation, and effectiveness of the Internal Tax Control Framework (hereinafter referred to as the ITCF) that enables the taxpayer to be fully aware of their actions and the tax consequences of those actions, as well as to monitor all tax matters and issues that should be disclosed.

The OECD highlights the significance of the Internal Tax Control Framework as a key element of internal control of the largest taxpayers, often multinational corporations, ensuring the reliability and completeness of tax returns and information disclosed by them. The significance of the Internal Tax Control Framework stems from its ability to ensure certainty regarding the reliability and completeness of information and tax returns. This certainty is verifiable, meaning that its degree can be assessed.

The reliability and completeness of the Internal Tax Control Framework and the operation of the entire Cooperative Compliance Programme are based on the OECD’s concept of **justified trust** that assumes that the ITCF implemented by the taxpayer will be tested by the tax administration, thereby ensuring the certainty of the tax effects agreed upon by both parties as regards disclosed business activities.

The “Guidelines on the Internal Tax Control Framework” (hereinafter referred to as the Guidelines) are not legally binding, and their implementation is voluntary. This document does not impose any orders or prohibitions enforced by the National Revenue Administration. The Internal Tax Control Framework can be implemented without adhering to the indications contained in these Guidelines. A company applying for the Cooperative Compliance Programme, upon joining this programme, should, in accordance with the **comply or explain** principle, indicate the reasons for departing from a specific requirement and specify whether an alternative solution has been implemented or whether any future changes in this regard are planned.

1. **GLOSSARY OF TERMS**

**NRA** – National Revenue Administration

**PFSA** – Polish Financial Supervision Authority

**WSE** – Warsaw Stock Exchange

**ITCF** – Internal Tax Control Framework

**Cooperative Compliance Programme** – a form of cooperation aimed at ensuring the taxpayer’s compliance with tax law under conditions of transparency in undertaken activities, fostering mutual trust and understanding between the tax authority and the taxpayer, while considering the nature of the taxpayer’s activities

**Risk appetite** – the maximum level or type of risk an organisation is willing to accept to achieve a financial or strategic objective

**Risk profile** – describes the types of risks to which a given organisation is exposed and the degree of exposure to those risks

**Risk** – an uncertain event or a series of events which, if they occur, will impact the achievement of objectives; a combination of the likelihood of the occurrence of an event and its consequences

**Tax risk** – the risk of acting in violation of tax law or contrary to the rules or objectives of the tax system

1. **PURPOSE OF THE DOCUMENT**

This document outlines the framework requirements for the organisation and internal activities of a taxpayer related to the tax function for entities seeking to join the Cooperative Compliance Programme. The organisation and internal activities encompass a large portion of the taxpayer’s operations and are outlined – as requirements – in the form of the Internal Tax Control Framework.

The Internal Tax Control Framework serves as guidelines defining a set of elements and tools that support effective supervision over tax matters within an enterprise. Compliance with these Guidelines will help companies minimise tax risk, which, in turn, will contribute to enhanced timeliness and accuracy of submitted tax returns while positioning the company as a reliable and trustworthy partner, both for other market participants and tax authorities.

These Guidelines establish rules governing internal and external relationships within enterprises, their organisation, the operation of internal supervision, key systems and internal functions, as well as statutory bodies and the rules of their cooperation concerning internal control of risks related to the proper fulfilment of tax obligations.

Considering that entities implementing a well-functioning Internal Tax Control Framework should operate with due diligence, particular emphasis should be placed on the professionalism and ethics of individuals in management positions within these enterprises, while their shareholders should be expected to act responsibly and loyally.

Strengthening the role of internal control enhances the effectiveness and transparency of the enterprise’s operations and its security. The effective achievement of a company’s strategic objectives requires an adequate organisational structure with an effective and adequate Internal Tax Control Framework.

1. **INTERNAL TAX CONTROL FRAMEWORK VERSUS OTHER GUIDELINES AND REQUIREMENTS**

These Guidelines are addressed to strategic enterprises that decide to join the Cooperative Compliance Programme, with the aim of achieving, among other objectives, profit generation while ensuring its proper taxation in accordance with the principle of social justice. Therefore, these Guidelines serve, on one hand, as the requirements that participants of the Cooperative Compliance Programme must meet, and on the other hand, as a tax element of the concept of corporate social responsibility.

Nevertheless, it should be emphasised that upon joining the Programme, the taxpayer is not obliged to be an entity that has implemented the principles of corporate social responsibility. However, it is essential for taxpayers to act for the benefit of the communities whose resources they use and through which they achieve their business objectives.

It is also worth noting that the entities to which the Cooperative Compliance Programme is addressed may be subject to guidelines on corporate governance issued by the Polish Financial Supervision Authority or the Stock Exchange. These Guidelines are not competitive with the aforementioned documents but complement the requirements set by the PFSA and the WSE regarding the tax function, specifying how effective and adequate Internal Tax Control Frameworks should be implemented.

1. **INTERNAL TAX CONTROL FRAMEWORK**
2. **ITCF Definition**

The Internal Tax Control Framework (ITCF) is part of the internal control system for business operations and includes internal audit and control, tax risk management, and ensuring compliance of the taxpayer’s conduct and that of their staff with tax law and other regulations, including internal ones. The ITCF should also ensure the verification of tax matters by competent external entities.

1. **ITCF Scope**

The Internal Tax Control Framework includes the adopted tax strategy, tax governance, tax risk management system, human resources and organisational management system concerning the tax function, and management of tax documentation and data, as well as information systems supporting the operation of the various elements of the Internal Tax Control Framework.

1. **ITCF Purpose**

The purpose of the ITCF is to achieve complete control over all tax matters to ensure compliance with tax regulations as well as the requirements concerning reporting and managing risks in this area.

The implemented Framework is to ensure that the enterprise has adequate control over its tax processes, which facilitates ongoing identification of risks and timely submission of tax returns containing accurate data. Thus, the ITCF helps effectively manage tax risks that may potentially adversely affect the achievement of the enterprise’s objectives.

Therefore, the primary objective of establishing the ITCF is to create an effective, efficient, and transparent tax function within the enterprise, ensuring the taxpayer’s compliance with tax regulations.

From the perspective of the Head of the National Revenue Administration, it is essential for the taxpayer to demonstrate the capability and willingness to fulfil their tax obligations properly. This capability indicates that the ITCF has been properly implemented, demonstrating that the taxpayer’s tax matters are effectively managed and controlled. What is important to the Head of the National Revenue Administration is the taxpayer’s willingness to act ethically as regards taxation. This is demonstrated through leading by example and strategic decisions made by the taxpayer in the area of taxation.

1. **ITCF Characteristics (Requirements for the ITCF)**

The Internal Tax Control Framework must be **effective and adequate**.

It is considered **adequate** when it is adapted to the size, structure, and activities of the taxpayer, including the economic sector and the scale of domestic and international transactions conducted. The adequacy of the ITCF ensures the effective capacity for its proper operation.

The Internal Tax Control Framework should be aligned with the taxpayer’s business strategy and operations, as well as legal requirements concerning tax matters.

An adequate ITCF must ensure high-quality record-keeping and the effective implementation of new systems and processes as well as changes in the elements existing within the already implemented environment, affecting the operation of the tax function through proper planning, risk assessment, and actions regarding their implementation and post-implementation evaluation.

An **effective** Internal Tax Control Frameworkshould ensure that the company maintains control over tax risk and the products generated through fulfilling tax obligations while enabling the taxpayer to enhance its tax function and its supervision.

The ITCF must comprehensively implemented, properly documented, and regularly reviewed.

The comprehensiveness of the ITCF signifies that it covers the entire organisation and takes into account various roles and areas of responsibility. It must cover all transactions and apply to the entire tax function, rather than being limited solely to the operations of the tax department.

Documentation indicates the need to fully support the internal tax control framework through documents, including the procedures, tax policies, and processes it encompassed. Documentation should also include a description of the rules of conduct and reporting that ensure transactions and events proceed as expected.

Compliance with the policies and procedures included in the Framework should be regularly tested, monitored, and maintained through, among other measures, monitoring the risk profile, the organisation’s risk appetite, monitoring tax risk and reporting in this regard, reviewing tax control issues, and informing senior management about test results.

The ITCF should be reviewed at least once a year by an external or internal auditor presenting their report directly to the supervisory body. An independent audit of the tax function (IATF) related to the ITCF should be conducted periodically at the company's request, with the frequency determined by the company's internal procedures. Moreover, the taxpayer should allocate adequate resources for the implementation of the ITCF and its ongoing monitoring within internal control, risk management, and tax compliance.

The Framework (including procedures, policies, processes, etc.) should ensure that the entity maintains control over tax risk and the products generated through fulfilling tax obligations, as well as over the entity’s tax processes, while enabling ongoing identification of risks and timely submission of tax returns containing accurate data.

To properly fulfil tax obligations in all material aspects regarding the establishment and maintenance of ITCF solutions, the enterprise should examine:

* the repeatability of concluded transactions and the likelihood of their incorrect accounting;
* the impact of incorrectly processed transactions or groups of transactions.

The examination of transaction repeatability is conducted to determine the likelihood of any errors in the systems. It is assumed that if a transaction is a routine one, the systems can process it correctly. The examination of the likelihood of incorrect transaction accounting involves assessing the degree of irregularities in the transaction process and determining the need for implementing solutions to minimise the possibility of such situations occurring in the future.

The examination of the impact of incorrectly processed transactions or groups of transactions demonstrates the materiality of tax consequences related to a tax liability and whether it is necessary to implement solutions to ensure the proper processing of transactions.

It is assumed that sporadic and unpredictable errors are inevitable.

The ITCF must clearly define the scope of responsibility for tax matters and the functioning of the ITCF.

A comprehensive process related to the internal tax control framework includes defining the company’s policy and responsibilities, ensuring appropriate human resources, and implementing procedures to manage the risk of non-compliance with tax regulations, along with systems and processes that effectively operationalise this framework.

Solutions related to the internal tax control framework also involve designing a control system to mitigate risk, which includes, for example, segregating responsibilities, delegating duties to staff or third parties, conducting assessments of actions affecting taxation, and monitoring to ensure the effectiveness of control measures.

1. **Internal Tax Control Framework Structure**

The structure of the guidelines is based on three management levels that encompass the components of the Internal Tax Control Framework.

The first level pertains to **strategic management**, encompassing tax strategy, tax governance, and roles and responsibilities. This level outlines the directions and objectives of the taxpayer’s actions in the tax area and is linked to the entity’s organisational culture, the ethical values promoted by the entity, especially by the management board and senior managers, who act as role models for other staff members and shape the behaviour of all individuals involved in the execution and supervision of the enterprise’s tax function.

The second level pertains to the **processes of the tax function and control over those processes**. This level includes tax planning, tax risk management, control, and other processes and procedures regulating the operation of the tax function. The processes and procedures demonstrate how the enterprise operates with regard to the tax function and how it achieves the established objectives and directions of action.

The third level addresses the **management of human resources, tax information and data, as well as matters related to IT infrastructure**. This level demonstrates whether the entity has adequate resources to control and manage the tax function, with a focus on ensuring the reliability of reporting both externally and internally within the organisation.

All levels must demonstrate that the entity has implemented management of the tax function based on an end-to-end process of fulfilling tax obligations, including the record-to-report process.

1. **ITCF in Strategic Management**

## Enterprise Strategy and Tax Strategy

The entity’s strategy should demonstrate that tax matters are regarded as a corporate responsibility, with paying taxes in the amount and within the timeframe required by law seen as a rightful return of a portion of profit to the society in which the entity operates and utilises its resources.

The entity’s tax strategy outlines the vision and mission regarding taxation as well as long-term tax objectives, while considering their impact on achieving the entity’s business objectives. It is consistent with the rules set out in the entity’s strategy and the ethical values adopted by the entity.

The development of the tax strategy should involve senior managers, including those responsible for non-tax departments.

The tax strategy should be regularly reviewed and adapted to reflect changes in the environment and within the organisation, as well as to respond to new risks and emerging exceptional situations.

The entity should have a properly documented procedure for reviewing the strategy, outlining responsibilities for controlling and monitoring its implementation, including risk responses and changes.

The tax strategy should be formalised as a document approved at the governing body level, following its prior approval by the supervisory body.

The tax strategy should serve as a catalogue of decision-making frameworks, encompassing objectives and means to ensure the proper and timely fulfilment of tax obligations. The organisation should incorporate into its tax strategy that it aims to ensure tax compliance. Consequently, the accounting and reporting processes should be structured in a way that ensures tax compliance. The tax strategy should address the following:

* tax risk – which is a general orientation regarding tax threats that may arise within the company’s operations or from the mere fact of operating in a specific industry; the tax risk strategy should define the organisation’s approach to mitigating tax risk by minimising threats from the tax environment and leveraging opportunities offered by tax law;
* risk appetite (the desired level of tax risk that the company is willing to accept in its operations – the tax strategy should describe the entity’s readiness to take risks, including its willingness to consider tax positions that may be rejected or challenged by the tax administration;
* level of the governing body’s involvement in the decision-making process regarding tax planning;
* reporting;
* tax return filing;
* tax payment strategy.

The tax strategy should be tailored to the size and structure of the enterprise and the industry in which it operates, in order to effectively implement its objectives. It should also ensure proper documentation of the decisions made, their financial and tax implications, and their adequate communication to stakeholders.

The tax strategy should **support the tax risk management process** by preventing tax risks from arising through, among other things, outlining the company’s approach to business relationships with entities from tax havens, related parties, as well as tax avoidance and evasion.

The company should systematically **assess the impact** of its business decisions on tax matters and the effects of tax decisions on the entity, including through **benchmarking**, such as comparing its results over time.

The tax strategy should be implemented through appropriate processes that ensure its effectiveness, including education, training, and the development of procedures for handling actions inconsistent with the tax strategy adopted by the taxpayer.

Although publishing the tax strategy is not mandatory, **it** **is considered good practice that demonstrates the taxpayer’s transparency**.

The tax strategy should also address managing relationships with the National Revenue Administration and other tax authorities, as well as business relationships, including the rules of external and internal communication. It should also define the taxpayer’s approach to transparency, as well as regulations and requirements relevant to its activities.

The tax strategy must take into account external regulations and requirements relevant to the entity’s activities.

## Tax Governance

The entity should have a regulated tax governance framework that includes defining tasks, roles, powers, obligations, and responsibilities in tax matters, as well as a description of the tax function, including the structure of the unit responsible for ensuring compliance with tax obligations. In other words, tax governance should be a set of rules governing internal and external relationships within enterprises, including relationships with their shareholders and clients, their organisation, the functioning of internal supervision, key internal systems and functions, as well as statutory bodies and their rules of cooperation concerning internal control over tax compliance risk.

Tax governance is part of corporate governance, which includes, among others, guidelines for executive and non-executive directors, transparency in determining remuneration for key management personnel (including the governing and supervisory bodies), and the functioning of audit committees.

Tax governance regulates the tasks, roles, powers, obligations, and responsibilities in tax matters of the entity’s bodies, management, and staff. Tax governance also includes the rules for delegating authority.

### 6.2.1. Leading by Example

The governing body and senior managers should ensure effective and adequate organisational control, which means striving to have a competent workforce, instilling a culture of integrity throughout the organisation, monitoring awareness of the organisation’s strategy and values, and setting a positive behavioural example.

The governing body and senior managers should identify the organisation’s priorities in decision-making processes concerning its objectives derived from its mission and vision. They should also be proactive in promoting values and building the organisational culture, and expect the same approach from other staff members.

The governing body and senior managers must ensure an organisation-wide understanding of its standards and values and set an example that reinforces them. Their behaviour should strengthen employees’ trust in them and the company and encourage adherence to the organisation’s standards and values.

The organisation’s values should balance the needs and concerns of various stakeholders, such as employers, suppliers, business partners, competitors, the National Revenue Administration, other regulatory authorities, investors, the local community, and society at large.

The behaviour of the governing body and senior managers should directly impact openness within the organisation, fostering a culture that enables mature acting and problem-solving, including dispute resolution, and trust-building. It should also motivate and encourage staff to be creative. The governing body and senior managers should lead by example by handling “bad news” as required, encouraging staff to promptly report risks and communicate “bad news”, and by supporting and setting whistleblowers and individuals who report problems as role models.

Regarding whistleblower protection, it is recommended that the company implements the requirements arising from Directive (EU) 2019/1937 of the European Parliament and the Council on the protection of persons who report breaches of Union law.

* + 1. Roles and Responsibilities

#### Governing Body’s Role

The governing body is responsible for identifying and managing risks associated with the company’s strategy and operations, including tax risk. It should continuously cooperate with the company’s chief tax officer.

The governing body should identify and analyse tax risks associated with the company’s strategy and operations, as well as those of related entities. It is also responsible for determining the level of risk appetite and the measures taken to mitigate potential tax risks. The governing body should update the level of risk appetite annually.

Any material transaction that:

* is unusual, or
* generates material tax risk, or
* involves a new supplier
* should be approved by the company’s governing body and the chief tax officer.

The governing body determines the materiality threshold for transactions requiring its approval.

The governing body also approves short-term tax plans for the tax year, which define the impact of operational and financial plans for the next tax year on tax matters. Tax plans for the next tax year should align with the tax strategy and tax policy and include the calculation of tax for the next tax year and deferred tax in relations to the balance sheet result, along with justification.

The governing body also cooperates with the supervisory body in developing the tax strategy. Having prepared the tax strategy, the governing body submits a written annual report on the implementation of the tax strategy to the supervisory body, including explanations.

The written annual report on the implementation of the tax strategy should include:

* in-depth explanations regarding the vision of the tax strategy;
* a description of the tax risk strategy implementation, including actions taken based on the tax risk assessment, with a description of major risks faced by the company with respect to its risk appetite;
* its implementation plans for the current tax year and the next one, including a description of actions taken in this regard in previous tax years;
* the sensitivity of the company’s results to significant changes in external taxation factors;
* implemented and planned changes concerning determination of the risk appetite level and the tax risk management system;
* other changes made to the tax strategy, particularly those regarding the vision of the tax strategy and plans regarding its implementation.

The governing body should also declare in the aforementioned report that:

* the report includes all material tax risks and uncertainties relevant to the company’s financial condition for the upcoming 12 months.

This declaration must be supported by facts confirming the adopted position.

Based on the tax risk assessment, the governing body should plan, implement, and maintain an adequate and effective ITCF tailored to the company’s needs. The governing body continuously monitors the operation of the ITCF and, at least once a year, conducts a systematic assessment of their adequacy and effectiveness, documented in an ITCF performance report for the supervisory body.

In the written ITCF performance report, the governing body should include, in addition to the assessment of adequacy and effectiveness of the ITCF:

* the current scheme and description of the ITCF operation;
* any material irregularity in the ITCF operation observed in the current tax year, its cause, and corrective actions taken;
* any material change made to the ITCF and any material planned ITCF improvements or adjustments due to changes in the enterprise or its environment;
* a description of any changes in the matrix of responsibilities for the tax function and the framework’s operation.

The governing body should also declare in the aforementioned report that:

* the governing body’s report presents information on all material irregularities in the ITCF operation;
* changes to the ITCF have been approved by the Audit Committee and the supervisory body;
* to the best of its knowledge, with due diligence, the implemented ITCF ensures that no material irregularities in tax compliance will arise;
* to the best of its knowledge, with due diligence, it is fully justified to state that the financial statements are prepared on a going concern basis.

This declaration must be supported by facts confirming the adopted position.

Once a year, the governing body submits the ITCF performance report and the tax strategy implementation report to the Head of the National Revenue Administration, along with the assessment of the reports made by the supervisory body.

* + - 1. *Supervisory Body’s Role*

The entity’s supervisory body conducts **regular** assessments of the application of the rules arising from the ITCF and supervises the implementation of the tax strategy, as well as the effectiveness and adequacy of the ITCF. It assesses the governing body’s reports on the implementation of the strategy and the functioning of the ITCF.

To ensure the highest level of care for tax matters, the company’s Audit Committee should include at least one person with relevant experience in tax matters and knowledge thereof. It is desirable that qualifications in tax matters be confirmed by holding the title of a certified auditor, tax advisor, or an equivalent internationally recognised certificate, or an academic degree in tax law, accounting, or financial auditing.

The Audit Committee should periodically prepare a report on its activities and the development of cooperation with the external auditor regarding the review of tax matters and submit it to the supervisory body. This report should be prepared at least every three years and in the event of the termination or non-renewal of the contract with the external auditor.

The Audit Committee should advise the supervisory body on the selection of a candidate to conduct the external audit, their reappointment, or dismissal. The Audit Committee should also compile a list of candidates to conduct the external audit. When carrying out this work, the Audit Committee should consider the supervisory body’s comments. Based on the above, the supervisory body should select its candidate to conduct the external audit, who should then be presented at the general meeting.

The Audit Committee should present the proposal for conducting the external ITCF audit to the supervisory body. The supervisory body should act in a manner that facilitates and improves the work of the external auditor conducting the audit of tax matters. When defining the terms of the contract with the aforementioned auditor, attention should be paid to the scope of the audit, the materiality principle applied in the methodology, and the audit fee. The supervisory body should decide on the form of the contract.

#### Chief Financial Officer’s (Chief Tax Officer’s) Role

The chief financial officer (chief tax officer) should prepare a tax strategy and a tax payment strategy.

The chief financial officer (chief tax officer) is responsible for ensuring effective management of tax risk and the organisation’s awareness of all taxes for which the company is responsible.

The chief financial officer (chief tax officer) is responsible for implementing relevant measures to ensure the preparation of tax returns with an appropriate level of certainty. They ensure the availability of opinions and advice that enable the assessment of actions affecting tax matters and making rational decisions in this regard.

Decisions impacting tax matters should be made based on a rational interpretation of accurate information, with a full understanding of tax law.

The chief financial officer (chief tax officer), or another person responsible for the tax function, is accountable for implementing the ITCF solutions, including tax accounting, covering the comprehensive process from inputting preliminary data into the accounting systems to obtaining the numerical data that serves as the basis for fulfilling tax obligations.

The chief financial officer (chief tax officer), with due diligence, is responsible, in cooperation with the HR department, for ensuring an adequate workforce or engaging third-party entities at the necessary level, both in terms of quantity and expertise.

1. **ITCF in Tax Function Processes and Their Control**

## Tax Function

A properly operating tax function should be based on the Internal Tax Control Framework.

The tax function is related to the correct calculation of taxes and making payments, including ensuring compliance with the law. It also involves interactions between various business departments of the enterprise (other than finance and accounting) that, as a result of their activities, have an ultimate (direct or indirect) impact on taxes. A properly operating tax function must be integrated with other business functions and requires synergy of multiple elements, including processes, organisational structure, communication, data management, personnel, technology, leadership, as well as risk control and management.

The ITCF should include a description of the end-to-end process and particular workflows in areas relevant to tax matters, as well as procedures for specific typical cases important from a tax perspective.

Processes occurring within the tax function and those indirectly or directly affecting its operation should meet the criterion of compliance with legal provisions, regulatory requirements, and contractual provisions that impact the taxpayer’s activities and tax matters.

The organisation of the tax function should encompass the Internal Tax Control Framework, including management and control, internal reporting systems, systems for information flow and protection, as well as documentation workflow.

The organisation of the tax function should be reflected in the taxpayer’s organisational structure and in the description of processes and roles. The processes, roles, and structure of the tax function must be documented. The taxpayer should oversee the tax jurisdiction of both its own entity and its subsidiaries. The taxpayer should regularly – at least once a year – submit to the Head of the National Revenue Administration a report regarding tax obligations and taxes paid in the previous tax year in another tax jurisdiction, insofar as such information has not been provided to the NRA under CFC or CbCR reporting.

This report should also include detailed information on subsidiaries in tax havens, including details on business establishments by country and specific information on turnover, number of staff members, profits, and taxes paid in tax havens.

The entity should also implement a tax policy addressing particular taxes. The tax policy should be consistent with the tax strategy, documented, and cover tax risk management, tax planning, reporting, and monitoring.

## Outsourcing and Tax Matters

Strategic and key responsibilities, as well as functions of the governing body, may not be outsourced, as in the case of an outsourcing agreement, responsibility for managing tax risk rests with the taxpayer’s governing body.

When outsourcing tasks within the tax function (or tasks affecting tax matters), the taxpayer should exercise particular caution with regard to material activities whose weakness or improper execution could significantly impact non-compliance or improper compliance with legislative requirements and/or business continuity.

The taxpayer should have an outsourcing strategy, including periodic assessments, contingency plans (for crisis management), and exit strategies, as well as established methods of managing tax risk related to outsourcing agreements. This includes considering risk concentration where a single service provider serves multiple entities or engages in chain outsourcing (where the service provider subcontracts certain tasks to another entity).

The outsourcing agreement should be in written form and meet specific requirements. Among other things, such an agreement should define the operational area to be outsourced, specify service quality requirements, and the service provider’s ability to meet these standards, as well as the rights and obligations of both the taxpayer and the service provider, rules regarding the monitoring of the performed activities, and termination clauses.

The outsourcing agreement should guarantee the taxpayer’s internal audit unit or external auditor full and unrestricted audit rights. It should also ensure effective access to information for supervisory authorities by guaranteeing rights to information, inspection, and database access as necessary for conducting an audit. The level of monitoring and auditing required by the agreement should be proportionate to the risk associated with the scale and scope of activities entrusted to another entity.

## Tax Risk Management System

The entity should have an effective tax risk management system in place to support decision-making by the governing body, supervisory body, and senior managers.

Tax risk management should address the following:

* specific one-time transactions carried out by the taxpayer, where uncertainty may arise regarding legal assessments under tax law and uncertainties arising from particular court rulings. The more atypical the transactions, the higher the risk;
* the application of tax law provisions, regulations, and decisions to the taxpayer’s routine activities and daily operations;
* issues related to the improper fulfilment of obligations concerning the preparation and filing of tax returns, making payments, responding to tax authority inquiries, and fulfilling any statutory obligations, including providing information about third parties;
* the accounting area, including the accurate determination of the tax liability in the taxpayer’s accounting records;
* the aggregated level of risk encompassing combinations of transactional, operational, and compliance risks.

The taxpayer’s risk management model should also address the risk of improper management of the aforementioned risks, as well as the risk associated with potential damage to the company’s brand value or reputation due to negative information regarding the taxpayer’s tax matters being made public.

An effective tax risk management system includes the following components:

1. setting objectives,
2. risk identification,
3. risk assessment,
4. risk response,
5. information and communication,
6. monitoring and control

* which ensure the achievement of objectives in the strategic, operational, reporting, and compliance areas.

Setting objectives:

To identify tax risks, the organisation must first determine its actual objectives, including those related to taxes. These objectives should relate to processes or areas, not organisational units. They should also be specific, measurable, achievable, relevant, and time-bound.

Risk identification:

Tax risks should be identified in the context of the organisation’s actual objectives, rather than organisational units or tasks to be performed.

The entity should identify risk areas relating to processes and procedures, arising not only from the interpretation and implementation of tax regulations but also those related to the enterprise’s human resources and its accounting system (IT system). In identifying risk, the entity should take consider, among other factors, analysis of the enterprise’s historical data, reports generated by IT systems, and external data, including court rulings and tax interpretations. Additionally, the identification of tax risks related to atypical or previously unknown activities can be supported by advice from tax experts, such as accountants, tax advisors, legal counsels, statutory auditors, or the NRA.

Risk identification and analysis is a process that should be regularly repeated, and its results should be documented.

Risk assessment:

For entities operating abroad, either directly or through controlled entities, the entity should establish rules for assessing risks related to specific tax jurisdictions, categorising countries for tax purposes, and profiling both domestic and foreign entities within the group.

The assessment made based on the above criteria should not negatively impact the NRA’s opinion regarding the accuracy of the implemented Internal Tax Control Framework. Otherwise, the entity may dispute the NRA’s stance within other tax law institutions, outside the Cooperative Compliance Programme.

Before the organisation’s management makes a decision on how to handle identified tax risks, it is necessary to determine the acceptable level of risk (i.e. risk appetite). The tax risk appetite must be measurable in order to be addressed.

The governing body should require and enforce that the managerial staff operates solely within the limits defined by the risk appetite. Procedures for situations where the risk approaches or exceeds critical thresholds should also be established.

Risk response:

The entity should have procedures in place for responding to tax risks, aimed at reducing their impact or likelihood of occurrence.

The enterprise may choose one of four possible approaches to tax:

* decide to avoid a particular tax risk (including refraining from specific actions);
* decide not to respond if the risk is immaterial to the enterprise;
* decide to shift the consequences of the tax risk to another entity;
* decide not to respond and accept the existence of the risk due to its very low materiality;
* take actions to mitigate the risk.

When comparing the level of a particular type of tax risk associated with the enterprise and its accepted risk level, all activities should be considered, not just single events.

A detailed analysis of the tax risk response must include a series of subsequent actions, including, among others:

* selection of possible methods for mitigating tax risk;
* comparison of the effectiveness of alternative methods;
* estimation of the cost of applying a particular tool and analysis of its effectiveness;
* analysis of the impact of particular risk mitigation methods on the overall performance of the enterprise.

Information and communication:

The entity should establish rules for communicating tax risks. It should also specify informational mechanisms that ensure, among other things, that the key rules of tax risk management and any modifications thereto are properly communicated, that proper information channels are in place to ensure accessibility for relevant individuals at the right time, and that consultations with participants in the risk management system are possible. The entity should define both internal and external communication channels and reporting mechanisms. Internal communication within the organisation regarding tax risks should be both horizontal and vertical. The entity should ensure consistency between the information flow within the organisation and its IT system.

Monitoring and control:

The aim of risk monitoring and control is to assess how the tax risk level has been impacted by the tax risk management tools applied. This assessment involves re-comparing the level of tax risk with its acceptable level within the entity.

Monitoring and control of tax risk should involve, among other things, internal and external audits, the implementation of electronic control procedures, employee training, and contact with the NRA bodies.

The effectiveness of the control process should be measured by its level of advancement and comprehensiveness. The level of control advancement depends on the scope of the controlled documents, the effectiveness of the controls, and the reports generated based on them. Control comprehensiveness is measured by the scope of the activities being controlled.

Both the objectives and the risks themselves, as well as the actions taken to mitigate or avoid them, should be monitored, as can change over time, for example, due to changes within the organisation or in its environment.

The risk assessment must be monitored as well, as the impact and likelihood are not constant over time. Therefore, tax risk management should be monitored at every stage: from objectives, through identification and risk assessment, to response – each of these elements can change, new risks can emerge, and the response may prove ineffective. In particular, the organisation should define rules for monitoring legislative changes and tax risk alerts.

Continuous monitoring should be conducted to periodically review the risk assessment and the effectiveness of actions taken in response to tax risk.

The tax risk management system should include the following elements:

* register of tax risks;
* procedures for responding to tax risks that mitigate their impact or likelihood (risk analysis aimed at minimising risks should be included in the risk register through the formulation of a follow-up action plan, risk profile evaluation, and integration with the strategic planning process);
* rules for tax risk communication;
* rules for monitoring legislative changes and tax risk alerts;
* key performance indicators (KPIs) and key risk indicators (KRIs) for all tax risks.

## 7.4. Monitoring and Control

The governing body should implement a policy for controlling documentation and processes that form part of the tax function. The procedure for controlling the tax function should include internal control, internal audit, and external audit.

Control activities should be an integral part of the taxpayer’s daily operations. An effective control system requires the establishment of relevant control structures, with control activities defined at every level of operation.

The internal control system within the tax function encompasses all policies and procedures that collectively support the effective operation of the tax function, including aspects such as approval and authorisation processes, access restrictions and transaction control, account reconciliations, physical security, and segregation of duties.

Internal control procedures within the tax function should be documented in a clear and simple manner to enable the identification of any deviations. Internal controls in the tax function should be subject to regular reviews as part of the risk management process and continuously improved in light of new threats, such as new markets and technologies, changes in the structure, or new business partners.

Both individual controls and the internal control system as a whole should be regularly monitored and evaluated. Identifying an unacceptably high level of risk, control errors, or events falling outside the organisation’s risk tolerance by an audit firm may indicate that an individual control or the internal control system are ineffective and need improvement.

The taxpayer should ensure that the internal audit function operates as an independent and objective activity aimed at improving the performance of the tax function and its interactions with other functions of the taxpayer, in relation to tax matters and other processes and procedures that impact them either directly or indirectly, as well as delivering value to the company.

The role of internal audit in tax matters includes independent monitoring, verification, and evaluation of the effectiveness of tax risk management processes, internal control, and tax governance. Consequently, internal audit supports the internal control system by providing an independent perspective on the functioning, adequacy, and effectiveness of controls, i.e. an assessment of the existence and operation of the internal control system.

Organisations may utilise the work of external auditors to obtain assurance regarding activities covered by internal audit.

Monitoring should include the examination of events and other instances to determine the outcomes of controls and ways to improve them. Existing controls should also be assessed as part of each risk assessment and reassessment.

**8. ITCF in Human Resources, Information, and IT Infrastructure Management**

## 8.1. Management of Tax Function Human Resources

To ensure the proper performance of the tax function, the organisation should maintain efficient and well-prepared human resources. Maintaining appropriate tax personnel should focus on:

1. management,
2. utilisation of capabilities,
3. appropriate incentives and motivation.

Management:

To ensure the proper operation of the tax function, including the structures responsible for tax compliance, the entity should have a tax function HR management system in place, covering career and development management.

Tax function HR management involves assigning tasks related to the tax function to individuals with the necessary knowledge and skills, supervised by experienced professionals, while maintaining a balanced allocation of human resources.

The tax function HR management system includes:

* defining needs and implementing appropriate resources to ensure the proper operation of the tax function;
* developing and adopting role-specific requirements;
* developing and adopting a training plan;
* developing and adopting task delegation rules.

Staff development system (training plan):

The effective operation of the Internal Tax Control Framework requires appropriate training, qualifications, knowledge, and experience among employees involved in the tax function, including tax structure staff.

The entity should ensure the education of its internal team, including senior managerial staff (as well as providing external consultants advising the enterprise), regarding new threats related to “tax reputation” and broader issues of “fiscal responsibility”. The objectives should include the development of internal information and training to prevent a fragmented view of tax issues and to promote a horizontal (transdisciplinary) approach to taxation.

Task delegation:

Task delegation requires, among other things, consideration of the risks associated with delegating new or unfamiliar tasks, as well as the risk of non-performance of tasks or errors in their execution by individuals to whom they have been assigned, and taking steps to ensure that those involved receive appropriate training. The entity should take steps to monitor and control individuals providing outsourced services. This includes identifying risks arising conflicting priorities of those performing these services or time constraints that may prevent their proper execution.

The scope of advisory services and outsourcing of tasks to external entities should be defined within the staff management system. It should cover areas such as external audit, tax advisory, accounting services, and services related to assessments conducted by statutory auditors.

Task outsourcing to external entities must be based on the skills and knowledge specified in the requirements defined in the tax function HR management system.

When engaging external entities, the entity should take rational steps to ensure the proper execution of these tasks, among others, assess the competencies and qualifications of the third parties to whom tasks are outsourced. This assessment aims to ensure the proper accounting of transactions that impact tax matters.

Task outsourcing to external entities must also be based on an assessment of whether a given entity or individual is properly controlled.

Utilisation of capabilities:

The utilisation of capabilities refers to considering the ability of appropriately trained staff to properly and reliably perform tasks in their roles, when determining the scope of tasks related to the tax function being entrusted.

Incentive system:

An important aspect of managing tax function HR is motivation, which is the responsibility of the head of the tax department. This includes maintaining effective communication, fostering discussions, providing feedback, and setting realistic goals for staff.

The concept of appropriate incentives refers to clear job/task descriptions, well-defined career paths, development, and further training opportunities for tax function HR. Appropriate incentives also include a proper compensation policy and highlight the taxpayer’s ability to attract and retain high-quality tax specialists or professionals from other fields whose work may impact the proper operation of the tax function or tax settlements.

## 8.2. ITCF in Tax Information and Data Management

The entity should manage tax documentation, information, and data.

Processes related to the tax function include, among others, the collection, management, publishing, and storage of tax information and data.

These processes should be described and documented while indicating the extent of their digitalisation and automation.

Information and data to support the proper operation of the tax function should be adequate and relevant to tax processes and provided in a timely, accurate, consistent, and useful manner.

Information and data should be provided with optimal resource utilisation.

The entity should ensure the availability of data necessary for the proper operation of each process within the tax function. To protect information and data, the entity should implement adequate mechanisms to safeguard essential resources and their associated capabilities. These mechanisms should also ensure the protection of sensitive information against unauthorised use.

The entity should ensure an adequate level of information accuracy, completeness, and correctness in relation to the values and expectations linked to the tax function. It should also provide the management with reliable and relevant information to enable them to run the business and fulfil their fiduciary and supervisory responsibilities.

To ensure the proper operation of the tax function, the entity should implement data and information management that meets legal requirements and the specifics of the business activities.

The adopted solutions regarding the management of the tax function and supervision of its operations should meet the supervisory requirements set by the governing body. The entity should adopt a **policy for controlling tax documentation and processes**, as well as other processes that may affect the proper fulfilment of its tax obligations and products generated by the tax function.

Data and information management should meet specific requirements regarding quality, fiduciary principles, and security, based on criteria such as effectiveness, efficiency, confidentiality, integrity, availability, compliance, and reliability.

The entity should adopt an internal reporting model for tax results, covering data collection and analyses of reports concerning the operation of the tax function, and translating them into management reports.

## ITCF in IT Systems

The effectiveness of the Internal Tax Control Framework requires the establishment of **relevant processes and ensuring an adequate level of their automation**. To ensure proper management of tax matters, it is also necessary for the entity’s **IT** **strategy** to align with the requirements for the effective operation of the tax function and the implementation of the tax strategy.

The implemented IT solutions within the tax function should ensure the accurate preparation and submission of tax returns, financial statements, and other documents required by law, as well as the management of tax calculations and payments.

To enable the proper operation of the tax function, the entity should ensure:

* flexibility;
* integration;
* reliability;
* operational security
* of IT support for tax processes, including those concerning resources, infrastructure, and IT systems.

The taxpayer should maintain a description of the tax function’s process workflow[[1]](#footnote-1), specifying the level of automation and IT accessibility for different management levels, as well as a defined process for collecting, managing, publishing, and storing tax information, including the scope of data and data sources used for tax reporting purposes.

The entity should implement appropriate solutions to ensure the **accuracy** of static data stored in IT systems and used for preparing financial and tax reports, including financial statements, tax returns, and other internal and external information. **The lack of reliability of static data is considered a system error.**

Proper **IT support for the tax function** should:

1. include descriptions of IT processes;
2. define a set of requirements that the company’s management should consider to ensure effective control of these processes;
3. provide guidelines for managing the IT function with respect to responsibility delegation, goal setting, and performance assessment;
4. illustrate interconnections with tax function processes.

The Internal Tax Control Framework should be supported by IT control tools. Such mechanisms can be considered effective if they provide sufficient assurance regarding the reliability of the data within the information system. Controls should be performed automatically by dedicated software at various stages of information processing and should cover the following areas:

* application access controls to ensure information protection and confidentiality;
* controls performed at data entry;
* data processing controls (i.e. checks to ensure that all data is processed, no data is lost or artificially created, processes are executed with the correct file versions, and calculations performed in the course of data processing are accurate);
* output controls, where outputs consist of the results of processing operations and the formatting of generated information (output controls must ensure that the reports under review are complete and accurate and confirm that they are indeed sent to the intended recipients).

Furthermore, it should be systematically verified whether automated IT controls are appropriate for the intended purpose, effectively implemented, and whether they can be fraudulently bypassed or circumvented at any level.

IT controls may also be conducted manually, i.e. in a non-automated manner, based on reports generated by IT systems. When manually reviewing reports produced in an electronic format, it is essential to systematically verify their reliability, taking into consideration:

* whether the source of the information is adequate;
* whether the applications generating the reports hold valid certifications;
* whether the data can be modified or reprocessed before being displayed or printed (By whom? When? What are the authorisation levels?).

The implemented IT system management, including control mechanisms, should minimise risks related to, among others:

* unauthorised access;
* improper management of data access rights, leading to persistent risks (lack of function segregation, ex-post adjustments);
* data or application modifications;
* excessive system rigidity preventing necessary adjustments;
* disruptions in the IT chain;
* data security;
* dependencies on systems or applications that process data incorrectly, handle incorrect data, or are affected by both of these malfunctions
* failure to implement necessary changes in systems or applications;
* improper handling;
* data loss or the inability to access all necessary data.

Compliance with these IT system requirements may be verified as part of an internal or external audit using COBIT® standards.

1. The workflow of tax function processes includes a description of the software that supports staff by, among other things, defining the roles of each individual in document processing and specifying the intermediate states of files. [↑](#footnote-ref-1)