Invercargill City Council

Tax Risk Governance Policy

Purpose

This document establishes the tax governance framework for the Invercargill City Council Group (the Group). For this purpose, the Group explicitly includes:

- Invercargill City Council
- Invercargill City Holdings Limited
- Invercargill Airport Limited
- Electricity Invercargill Limited

Background

The Group has a high public profile, and relatively speaking, the entities in the Group are considered to be significant enterprises. As such, the Group must maintain exemplary governance and tax compliance standards.

Although Invercargill City Council (Council) is largely exempt from paying income tax, there are a number of nuances to the income tax legislation that applies to a local authority; the other entities in the Group have the usual income tax obligations of other taxpayers.
In addition, the entities in the Group are required to correctly account for Goods and Services Tax, Fringe Benefit Tax, PAYE, and a range of other withholding taxes. These taxes make up a significant portion of the New Zealand Government's annual tax take. Accordingly, the Group's tax obligations cannot be taken lightly.

Inland Revenue has signalled its expectation that all large organisations should have tax risk management incorporated within their governance framework. This is consistent with international best practice; tax authorities in foreign jurisdictions, including Australia and the United Kingdom, have been advocating this approach is taken by large Public and Private sector organisations.

Risk Management

The Risk and Assurance Committee is, along with other responsibilities, tasked to:

- Assist the Group Manager Finance and Assurance to determine the Group's appetite for risk.
- Review whether management has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of the Group's significant risks.
- Consider whether appropriate action is being taken by management to mitigate the Group's significant risks.
- Ensure that management is kept appraised of the Group's governance body's views on uncontrolled risk.
- Ensure management are keeping the Risk and Assurance Committee fully apprised of all independent sources of assurance, via the risk management framework.

Proactive tax risk management can facilitate mitigation of:

- Operational risk – by way of reducing the potential for reputational damage befalling the Group as a result of non-compliance, and the possible negative impacts on various stakeholders, such as employees and suppliers.
- Financial risk – through minimising the financial impact of non-compliance, and the costs associated with over- or under-paying tax by the Group.
- Compliance risk – in terms of ensuring areas of non-compliance are identified, thereby minimising any penalties or interest being imposed by Inland Revenue and reducing the risk of the Group being subject to an Inland Revenue audit.

Tax Risk Profile

The Group has an obligation to fulfil its tax compliance obligations as required by tax legislation, including the Income Tax Act 2007, Goods and Services Tax Act 1985 and Tax Administration Act 1994.

Given the high profile and public nature of the Group, there is a need to adopt a conservative approach towards tax compliance. Accordingly, the Group will adopt a "LOW" tax risk profile such that it has an open and honest working relationship with Inland Revenue.

Tax Risk Management Strategies

The following strategies will be adopted by the Group to ensure that it maintains a low tax risk profile and effectively manages its tax obligations and potential tax risks.

The Group will develop a tax risk management plan to be formally adopted by the Risk and Assurance Committee. The plan will be reviewed *at least* every three years. The plan will:

- Identify key areas of tax compliance risk that are faced by the Group.
- Establish the steps required to effectively manage or mitigate each risk area.
- Provide clear and realistic time frames to carry out the steps.

Responsibility for tax issues

The Group Manager Finance and Assurance has overall responsibility for the management of the tax issues of the Group. As appropriate, the Group Manager Finance and Assurance may delegate responsibility for tax issues to another appropriately qualified person.

The Group Manager Finance and Assurance has overall responsibility as the myIR account owner for the Group. The Group Manager Finance and Assurance is responsible for administering and maintaining staff delegations and permissions of myIR login accounts and for ensuring delegations are updated as and when staff leave or join the organisation.

Reporting tax risks to Risk and Assurance Committee

Any 'significant tax risks' will be reported in the first instance to the Group Manager Finance and Assurance as soon as they are identified and, where appropriate, to the chair of the Risk and Assurance Committee within two weeks of being identified.

A ‘significant tax risk’ to the Group may include, but is not limited to, a circumstance where an incorrect interpretation is made that results in a situation where:

- Penalties and interest could be imposed against an entity in the Group.
- A tax liability is required to be settled that is in excess of $20,000.
- An entity in the Group could be subject to prosecution.
- An accusation of tax avoidance could be levied.
- There is risk of negative publicity.

The Group will report on all tax risk management matters to the Risk and Assurance Committee at least once a year. As part of that report, a summary should be prepared and presented to the Risk and Assurance Committee setting out key issues, and may include the following:

- Key financial information including any outstanding taxes due, and any interest or penalties imposed during the year.
- Particulars of any proposed legislative tax changes which could impact on the Group.
- Details of any significant outstanding taxes in dispute with Inland Revenue.
- Details of advice sought and future matters to consider.
- A table of tax tools and services used and whether each aligns with the Group’s ‘LOW’ risk tax profile; i.e. Strategy vs Achievement.

Any significant penalties and interest (over $5,000 in total) for any tax type should be reported to the Risk and Assurance Committee, at the earliest opportunity.

Tax awareness and training

The Group will ensure that all relevant staff are provided with adequate training and resources to effectively identify and manage its tax obligations and risks. Where appropriate, this may involve sending selective staff on external courses or engaging an external speaker to conduct in-house training.

Meetings and correspondence with Inland Revenue

The Group will endeavour to maintain strong working relationships with Inland Revenue, other government bodies, and related third parties. All dealings with external parties will be undertaken in a professional and timely manner.

Apart from routine PAYE, FBT and GST returns and payments, all other correspondence, meeting requests or queries from Inland Revenue must be immediately referred to the Group Manager Finance and Assurance. The Group Manager Finance and Assurance is the only person authorised to correspond or meet with Inland Revenue to discuss the tax matters of the Group – although they may delegate this responsibility to others where appropriate.

Tax advice and rulings

The Group will maintain detailed information and computations supporting all tax return filing positions. If there is any uncertainty in respect of a filing position where the amount of tax exceeds $10,000, the Group will seek written advice from external tax advisors.

In some instances, the degree of uncertainty over a particular tax issue may warrant seeking a Binding Ruling from Inland Revenue. No approach should be made for a Binding Ruling without the prior approval of the Group Manager Finance and Assurance. However, the Group Manager Finance and Assurance may obtain agreement from the Risk and Assurance Committee if considered appropriate.

Tax returns and payments

The Group will file all returns and pay any resulting tax liability on, or before, the stipulated due dates. When preparing and filing tax returns, the Group will be transparent, and fully disclose all relevant information supporting a tax position in a tax return. The Group will only adopt tax positions that are highly likely to be correct based on current law. Notwithstanding this, the Group will endeavour to ensure that the most tax efficient position is adopted.

Any tax payments in excess of $20,000 must be authorised by the Group Manager Finance and Assurance. However, the Group Manager Finance and Assurance may delegate this in accordance with the Group's delegation authorities.

Tax payments must be supported by detailed tax computations and explanations which are initialled by the preparer and then countersigned by that person's superior prior to payment.

The Group Manager Finance and Assurance (or someone delegated by the Group Manager Finance and Assurance) will review the Group's Inland Revenue accounts on a monthly basis to ensure that all returns have been assessed by Inland Revenue and payments have been allocated appropriately. Any unreconciled items will be reported to the Group Manager Finance and Assurance.

Filing and record keeping

In terms of the Tax Administration Act 1994, the Group is required to retain tax records for seven years. To assist in archiving and the subsequent retrieval of relevant tax records, the Group will separately file each tax return and supporting computation and advisory correspondence based on the year of assessment and tax type.

In addition, the Group will maintain a detailed index of the relevant tax files to enable their efficient retrieval should they be requested by Inland Revenue in later years. Specifically, the index should contain details relating to the file reference, relevant tax period, tax type, subject of the document on file and location of the file, and evidence of review by the Group Manager Finance and Assurance. This index should be maintained irrespective of whether the information is in electronic or hard copy format.

Regular reviews

The tax risks of the Group potentially increase over time through a combination of personnel and legislative changes. To ensure the tax compliance procedures of the Group are kept up to date and accurate, an independent external review of GST, PAYE/Withholding Taxes and FBT should be undertaken every three years. This review will tend to be undertaken in a 'rolling' format, with a different tax type being reviewed each year.

Penalties and voluntary disclosures

Wherever possible the Group should endeavour to minimise any penalties and Use of Money Interest. Accordingly, any tax discrepancies identified should be addressed and disclosed to Inland Revenue as soon as possible. Unless the discrepancy has been identified pursuant to a (current) tax investigation, the Group (in consultation with the Risk and Assurance Committee) should always consider making a Voluntary Disclosure as a means of minimising any potential penalties.

Revision History:	2021, 2025
Effective Date:	25 February 2025
Review Period:	This Policy will be reviewed every six (6) years, unless earlier review is required due to legislative changes, or is warranted by another reason requested by Council.
New Review Date:	February 2031
Associated Documents / References:	
Supersedes:	Tax Risk Governance Policy 2021
Reference Number:	A3542789
Policy Owner:	Group Manager Finance and Assurance
Policy Training:	Manager – Financial Services, Manager – Financial Planning, ICHL Group Finance Lead, Financial Accountant