The CFO’s evolving role in tax

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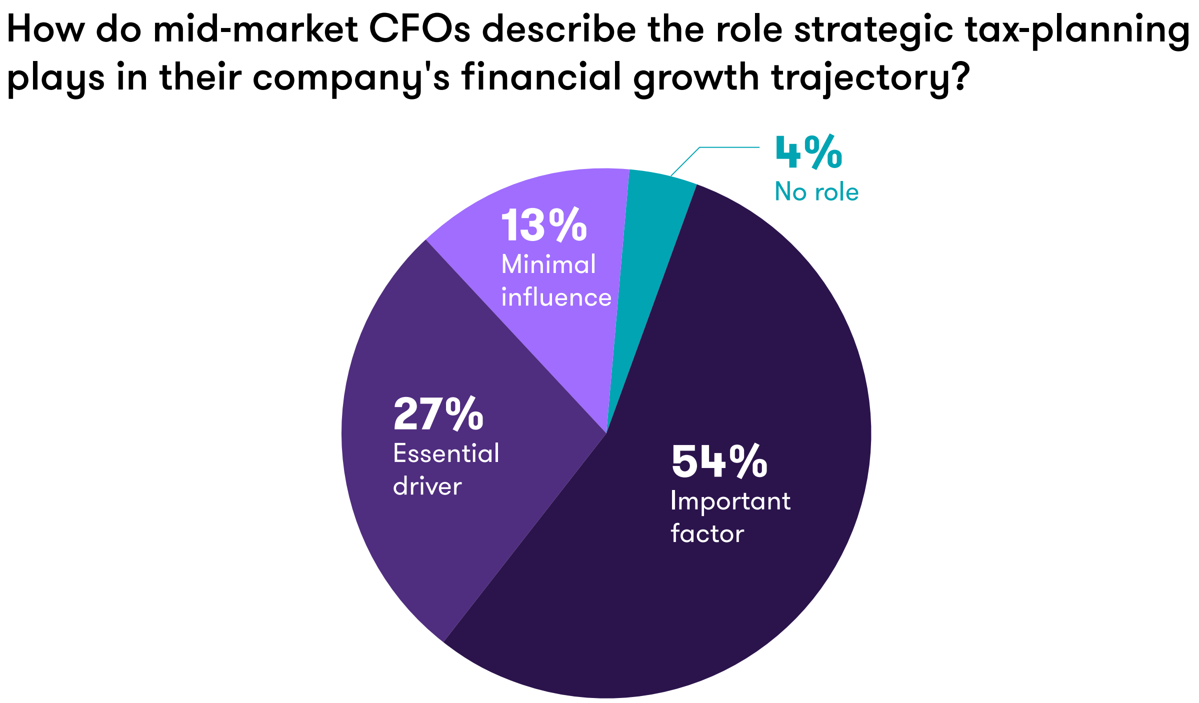
The tax agenda has never been a higher priority for CFOs. This reflects the heightened scrutiny from regulators and stakeholders. CFOs are no longer just expected to oversee financial activities – they need to ensure that their companies navigate a changing tax landscape effectively, while also identifying opportunities to enhance overall business performance.



This shift is driven by compliance obligations and increased scrutiny of the business.

The Criminal Finances Act 2017

The introduction of this legislation marked a significant turning point in how businesses approach tax compliance.

Under this law, if an employee or associated person facilitates tax evasion, the company could be held criminally liable unless it can demonstrate that it had reasonable procedures in place to prevent such activities.

What does this mean for CFOs?

CFOs often find themselves at the forefront of ensuring compliance with this law, playing a critical role in introducing and maintaining preventative procedures that protect the company from legal and financial repercussions.

This responsibility has heightened the need for CFOs to be deeply involved in tax governance, ensuring that their organisations have robust systems and controls in place to mitigate the risk of non-compliance.

The Senior Accounting Officer regime

The Senior Accounting Officer (SAO) regime, which applies to all companies with turnover exceeding £200 million or a balance sheet total of more than £2 billion in the previous financial year, requires the SAO to take personal responsibility for the company's tax accounting arrangements. This includes ensuring that appropriate tax accounting processes are in place and functioning effectively, with evidence to support any conclusions.

What does this mean for CFOs?

An example of recent developments in the regime is the increased focus on transfer pricing. While this has historically almost exclusively been the domain of the tax function, it's now an expectation that the CFO takes on the SAO role, and therefore needs to ensure that all appropriate documentation and benchmarking is in place.

Failure to meet these obligations can result in personal financial penalties, providing a clear incentive for CFOs to prioritise tax compliance. The personal accountability imposed by this regime has led to a greater emphasis on understanding and managing tax risks at the organisation's highest levels.

Scrutiny of board and audit committees

In recent years, there's been an increasing emphasis on environmental, social, and governance (ESG) factors within corporate governance. While the initial focus of ESG was largely on sustainability and environmental issues, there's now growing interest from Boards and Audit Committees in tax governance as well. The Financial Reporting Council (FRC) updates in January 2024, for example, underscored the importance of tax governance in the overall ESG framework.

The FRC updates in January 2024 also mean Audit Committees want more comprehensive assurances that all aspects of tax are managed effectively, and that the company’s tax strategy aligns with its broader corporate governance objectives.

What does this mean for CFOs?

This heightened scrutiny has prompted CFOs to take a more proactive role in tax governance.

These factors, among others, necessitate that CFOs fully understand how tax is managed, recorded, and compiled within their business. By extension, CFOs must also consider how tax can be leveraged from a more strategic perspective to enhance business performance.

of CFOs say they have a 'robust and effective risk management framework' to manage tax and financial risks with no room for improvement

Integrating tax into the CFOs responsibilities

While its clear tax is high up on CFO's agenda, their lack of confidence in their ability to manage financial and tax risks suggests there's still scope for personal development in this area.

For CFOs to successfully navigate the complexities of modern tax governance and risk management, they need to adopt a holistic approach that aligns tax with the broader business strategy and leverages data and technology effectively. Here are two key strategies that CFOs can implement to ensure success:

Fully integrate tax with the finance function

In many organisations, we see tax teams operate in silos, separated from other parts of the business and not made aware of key changes in the business. This siloed approach can prevent the tax function, or external tax advisers, from being agile and responsive to business opportunities, and mitigate risks, as they arise. CFOs need to break down these silos and ensure that tax is considered at the earliest stages of decision-making processes, and fully integrated with the finance function.

By involving tax experts in the initial planning of business decisions, CFOs can ensure that the company takes full advantage of available tax opportunities, realises actual cash benefits and ensures that any compliance considerations are taken into account.

Embrace data and technology

The rapid advancement of data and technology presents CFOs with an unprecedented opportunity to transform the way tax is managed within their organisations. By leveraging robust tax technology and data analytics, CFOs can significantly reduce the time and resources spent on routine tax and compliance activities, freeing up tax professionals' time to focus on more strategic, value-adding activities.

For example, data analytics can be used to identify trends and opportunities in tax data, enabling CFOs to make more informed decisions that drive greater value for the business. While there may sometimes be different technology solutions for tax and finance, it's important to ensure that requirements are looked at alongside each other and any solutions are implemented with the wider picture in mind.

As the role of the CFO evolves, the importance of tax governance and risk management will continue to grow in the coming years. It's crucial for CFOs to understand the extent of their responsibilities for tax and how to discharge them efficiently and effectively. By aligning tax with the broader business strategy and embracing data and technology, CFOs can not only ensure compliance but also drive strategic value for their organisations.

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