What are the 7 Habitual Tax Mistakes?

- **Habitual Mistake 1.** Taxpayers tend to be reactive to tax problems and tax risks. This will translate into additional tax exposure through the imposition of tax penalties and interest, and lead to bad relationships with the Revenue Service. Proactive tax risk management will eliminate the additional tax exposure, improve Revenue Service relationships, and place control of the tax risk management process back in the hands of the business, and not the Revenue Service. This then translates into a golden opportunity to develop an ongoing tax planning process, to keep tax exposures under control, and in a proactive manner. Refer to Chapter 1.

- **Habitual Mistake 2**. Tax compliance departments in businesses try to cover their tax risk without outside professional assistance, except on a reactive basis. This contributes to Habitual Mistake 1; tax risk management becomes reactive. By creating a tax team that participates proactively in the {TRM} process, the business is able to expand its tax risk cover from 40% to 100%. Refer to Chapter 2.

- **Habitual Mistake 3**. Most businesses do not have a road map of how and where they are going with their tax risk management, other than blindly ensuring that they are "fully tax compliant". Without a properly formulated {TRM} strategy in place, the goals and objectives, and the manner of executing a {TRM} process so as to minimize tax risk, cannot be achieved properly. An extensive, and fully maintained, {TRM} strategy is what is required. Refer to Chapter 3.

- **Habitual Mistake 4**. Insular tax compliance from an ivory tower can only mean that tax compliance is probably at its lowest, despite attempts to ensure the opposite by businesses. All key stakeholders must be involved from the CEO, CFO, the board and the audit committee, to the outside legal team and tax advisors. Tax managers are often left on their own and expected to remain on top of tax compliance, law and regulatory changes and the management of a complex series of relationships throughout the organization so as to get to the "tax truth" in many transactions, financial accounting and operation areas. Their ability to be totally transparent, so as to limit ongoing exposure to Revenue Service, revised assessments, is stifled by their lack of authority to access all key areas of the business and outside advice, in areas that go beyond technical tax issues. Allowing transparency and connectivity into the mix, turns the insular tax compliance problem around. Refer to Chapter 4.

- **Habitual Mistake 5**. Lack of facts, facts and more facts, often leads to bad tax compliance and unnecessary mistakes that could have been avoided. Getting to the bottom of the facts takes time and effort, and is the most important starting point in any {TRM} strategy implementation. Thereafter the technical expertise can be applied properly. Large transactions illustrate this point time and time again as businesses continuously fail to check the facts, check the advice, then check the facts again. Refer to Chapter 5.

- **Habitual Mistake 6**. Financial accounting supplies the numbers on which tax compliance is based. Simply relying on these numbers as is usually the case with most tax managers is not enough, by a long shot. Internal audit procedures must be expanded to self-audit the higher tax risk areas in a business, so as to self expose any mistakes and non-compliance before the Revenue Service does. This plays back into proactive tax risk management, and the avoidance of unexpected and additional tax charges that may be crippling, if driven by the Revenue Service. Here self disclosure of mistakes is advocated in a carefully orchestrated manner to fit within the overall proactive {TRM} strategy. Refer to Chapter 6.

- **Habitual Mistake 7**. Lack of communication between the tax manager and the rest of the business, and only processing numbers to compile tax returns, is the reason why tax compliance in most businesses only covers 40% of the total tax risk in those businesses. The other 60% tax risk is hidden, and can only be exposed through a systematic process of people to people communication, and not just through processing numbers. The one must verify the other. This calls for new communication systems to be implemented in the business to circumvent and put an end to the bad habit of limited people communication. Refer to Chapter 7.

BBA Ltd

TAKE BBA LTD, part of the international Rialtry Group, (a fictitious name but the facts are real) as an example. They faced a major tax audit on all fronts. The trigger had been an article in the Exposé magazine, citing them as having sneaked assets offshore, under the radar screen without detection by the Revenue Service, and now they were leaking huge sums of money to a tax friendly jurisdiction, escaping significant tax charges in their country of effective management.

Four years later, they concluded their tax risk management {TRM} process. The {TRM} process was heralded a great success by the board of directors of BBA Ltd, the Rialty Group, and the Revenue Service. Why?

There were no less than 30 key tax areas that required investigation and audit by the Revenue Service. Revenue Service audit teams were typically given 100 man hours per key tax area to audit, and then would be expected to deliver a result through revised assessments. 3000 man hours would have been spent completing all the audits to arrive at a result for the Revenue Service. This would have meant an equal, if not greater amount of time and resource to be spent by BBA Ltd. With a very small tax department, they would have had to hire an extensive number of outside consultants at great expense.

What was at stake for BBA Ltd. With hindsight now, they were facing a potential tax exposure of about $300m, plus penalties and interest of another $300m to be added. Had the Revenue Service thrown 3000 man hours at the process they would have raised BBA Ltd as a debtor of in the region of $600m. On the total man hours spent, the Revenue Service would be looking to collect as much of that $600m as they could.

Again, with hindsight, and the conclusion of the {TRM} processes suggested in this book, the Revenue Service spent less than 100 man hours. Because the taxpayer completed and controlled its own tax audit, internally, and self-disclosed to the Revenue Service the outstanding amounts of tax that they had found definitely to be due to the Revenue Service, it turned out that they had to pay much less that the $ 600m estimated. A host of potential transactions that the Revenue Service may have been inclined to investigate had they controlled the audit process, were cleared and no revised assessments were issued, where under more adversarial circumstances, the Revenue Service may have treated the process otherwise. At the end of the day, a fraction of the $600m was raised in revised assessments.

For the taxpayer, what was the result? They faced tax charges up to $600m. This equated to three times more than the estimated income tax burden of the taxpayer for the year of assessment. Through a carefully implemented {TRM} process, and by being completely transparent, they reduced their feared tax exposure to a fraction of that amount. A substantial tax saving. Plus, had the Revenue Service spent 3000 man hours, the taxpayer would have spent at least double that time hiring professionals to defend the legal actions of the Revenue Service. The additional cost to BBA Ltd in time, effort and expense would have equated to about $10m to bring the tax disputes to conclusion. The costs associated with the {TRM} process were one third of that amount.

All round, a significant saving of time, energy and expense. And the result was satisfactory to all.