



# Tax integrity risk management by banks



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The public debate with respect to tax evasion or tax avoidance has significantly increased in recent years. Banks may face severe reputational risks when their clients do not act with integrity and adhere to the banks values when managing tax affairs. Management of tax integrity risks by banking clients is therefore a key topic for banks operating in the Netherlands.

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# Introduction

Under the Dutch Financial Supervision Act, banks operating in the Netherlands are required to take measures to guarantee the integrity of the bank and the financial system.

The Dutch Central Bank (“DNB”), as supervisory authority, assesses whether banks are adequately equipped to recognize and manage tax integrity risks by their clients as part of the Systematic Integrity Risk Analysis. The DNB published an important document on good

practices for banks when managing these tax integrity risks.

Banks need to follow a risk based approach to determine the tax integrity risks by their clients. DNB leaves it to the bank to determine which tax integrity risks are within the tax risk appetite of the bank and therefore acceptable. Tax integrity risks have to be identified in a systematic way and actively managed in key processes like the client due diligence and transaction monitoring processes.





# How can Grant Thornton help?

Grant Thornton can assist banks to (further) develop and integrate client tax integrity risk management in the organization.

Grant Thornton follows a proven approach to provide banks with assistance and support during one or more of the following actions that banks should take to manage the tax integrity risks of their client portfolio:

- Design of a tax integrity policy that includes the bank's tax integrity risk appetite.
- Optimisation or set-up of procedures, processes, controls, guidance and work papers.
- Perform a tax integrity risk scan of the client portfolio.
- Individual client due diligence and transaction monitoring based on the bank's tax integrity policy.
- Improve tax awareness within the bank.
- Implementation of a monitoring tool in relation to the management of the tax integrity risks.
- Determination of the internal and external tax reporting requirements.

Please also see a table of the approach





# Our approach on the management of client's tax integrity risks

|                | Phase I   | Phase II   | Phase III  | Phase IV   | Phase V   | Phase VI   | Phase VII   |
|----------------|---|--|--|--|---|--|---|
| <b>Result</b>  | Design of a tax integrity risk policy appetite aligned with strategic goals   | Policy document and process descriptions on tax integrity risk   | Scan of the client portfolio   | Performance of individual client due diligence, including transaction monitoring   | Training schedule to embed the tax integrity risk appetite throughout the organisation  | Process & workflow are clear. Steps and controls have been set up. Control questions have been formulated.   | Reporting to board of directors   |
|                | Tax integrity risk appetite analysis  | Policy & process documents   | Risk analysis  | Individual client due diligence  | Training  | Monitoring tool  | Reporting & Learning circle   |
| <b>Actions</b> | <ul style="list-style-type: none"> <li>• Determine strategic goals (mission &amp; vision) and acceptable integrity risk appetite.</li> <li>• Formulate matching acceptable tax risk limits.</li> <li>• Formulate key tax risk indicators ("KRIs").</li> </ul> | <ul style="list-style-type: none"> <li>• Preparation of tax integrity risk policy document.</li> <li>• Preparation process descriptions, including workflows.</li> </ul> | <ul style="list-style-type: none"> <li>• Periodic scan client portfolio as part of the Systematic Integrity Risk Analysis ("SIRA").</li> </ul> | <ul style="list-style-type: none"> <li>• List of KRI's (phase I).</li> <li>• Standardized lists information requests.</li> <li>• Process description (phase II).</li> <li>• Benchmarking.</li> <li>• Accept/reject procedures</li> <li>• Change in transaction identification monitoring.</li> </ul> | <ul style="list-style-type: none"> <li>• Identify employees who qualify to take part in training sessions.</li> <li>• Differentiation in training: identification and/or managing tax integrity risks.</li> </ul> | <ul style="list-style-type: none"> <li>• Drafting process flowcharts.</li> <li>• Final controls and flowcharts.</li> <li>• Organizing processes in an (yours/our) ICT environment.</li> <li>• Implementation of the test version of the processes.</li> <li>• Training employees.</li> </ul> | <ul style="list-style-type: none"> <li>• Report based on monitoring tool.</li> <li>• Discuss outcome, improvements.</li> <li>• Hand over Report to board of directors.</li> <li>• If and where necessary based on outcome Report/ new legislation à back to phase I.</li> <li>• Maintenance &amp; Learning circle.</li> </ul> |

Maintenance & learning circle





## More information?

Please do not hesitate to contact one of our specialists if you are interested in learning more about managing tax integrity risks or if you would like more information.

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