

A MODEL TAX MANAGEMENT SYSTEM

RC = “reasonable care”

RAP = “reasonably arguable position”

Procedures for the Tax Manager

- Document Tax Section procedures that relate to the RC and RAP tests:
 - ❑ to cover Input, Process and Output; and
 - ❑ procedures on:
 - ◆ pro forma RAP documents on common low risk items;
 - ◆ more detailed procedures for Legal Professional Privilege (LPP) and Restricted Access;
 - ◆ return review responsibilities;
 - ◆ RAP responsibilities;
 - ◆ franking account;
 - ◆ tax files.
- Prepare a Tax Manual containing details of group tax policies, role of external advisors and general tax procedures. The Tax Manual to include:
 - ◆ RC and RAP procedures;
 - ◆ RC and RAP responsibilities (including Divisions);
 - ◆ record keeping requirements, responsibilities (in particular working papers) and rights LPP;
- Review other Corporate Manuals for:
 - ◆ RC and RAP responsibilities; and
 - ◆ record keeping requirements.
- Expand the Records Management Manual to cover the RC test systems and link to the Tax Manual. Procedures should be included for reviewing documents listed for destruction.
- Establish files for LPP and Access Guidelines Documents.
- Establish files for RAP “authorities” (eg, second reading speeches).
- Set up taxation files on each entity.
- Develop a filing system for major projects.
- Liaise with Accounting to ensure copies of their reports are sent to tax manager for further necessary action on tax items.
- Establish communication and training sessions. The tax manager to conduct training sessions on RAP/RC and make sure staff knowledge is up to date.
- The tax accountant/manager should conduct periodic review of selected areas to ensure compliance with tax laws.

- Ensure the system in place does not run down and decay over time. Procedures need to be in place to repair, replenish and maintain the system.

Procedures for Accountants

- Split accounts that are tax sensitive for the Chart of Accounts (with instructions).
- Increase the amount of training and technical support for accountants. Provide technical support for the Tax Manager.
- More effective internal checks of accountants. Formalise and document the arrangement. The checking audits should be expanded to cover record keeping. Accountants could be issued with Tax Manuals, along with more training and technical support.
- Use accountants more effectively to analyse accounts, prepare returns or supporting workpapers. This will entail:
 - ❑ developing Job Descriptions and formally expanding tax responsibilities;
 - ❑ reviewing whether there are sufficient staff on tax matters;
 - ❑ improving training, more direct contact and more newsletters/direct advises.
- Base the RAP system on accountants (as they review quarterly). Accountants to check on the system as follows:

Is it Contentious?	Is it over the threshold?#	Action
Yes	No	Accountant to decide and no need to document
Yes <input type="checkbox"/>	Yes <input type="checkbox"/>	Accountant to arrange for Tax Manager to document the RAP
No <input type="checkbox"/>	Yes <input type="checkbox"/>	Tax Manager to decide RAP and ensure that it is documented <input type="checkbox"/>
Unknown <input type="checkbox"/>	Yes <input type="checkbox"/>	The Tax Manager to document the RAP <input type="checkbox"/>

- Document record keeping system.
- Confirm letters to be prepared by accountants verifying the correctness of the information in the tax returns for the Public Officers and Tax Manager.

The RAP test again is if there is a tax shortfall as a result of a false or misleading statement (eg, an incorrectly claimed deduction in a tax return) and the tax

shortfall relates to an item worth more than \$10,000 or 1% of the return tax (ie, tax payable, not assessable income), then the taxpayer must satisfy the “reasonable arguable position” test to escape penalty. The quantum requirement for trusts and partnerships is \$20,000 or 2% of tax payable.