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THE IMPACT!

“SPECIAL EDITION”

TAX HEALTH CHECK

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TAX HEALTH CHECK

Taxation has been the heart of any finance department and effective tax planning can help save an organization a significant amount of cost. In contrast, ineffective tax planning and lack of awareness for tax compliance could cost a fortune to any taxpayer. That is where a tax health check comes into play.

This document aims to provide awareness to taxpayers regarding what a tax health check is and how it can be useful, especially for Companies that have policies and procedures in place for the purpose of mitigating tax exposures and compliance risks.

What is a tax health check?

A tax health check is a proactive review of a taxpayer's accounting and taxation records to ascertain the level of compliance with the taxation laws and identify areas of risk, quantification of tax exposure and recommendations on how to mitigate these risks

Symptoms indicating the need for a tax health check

Initiation of tax audit proceedings or investigations –

It is normal for tax regulators to initiate audits and investigations against taxpayers where potential risk areas are identified and is sometimes used as a means of raising revenue by the authorities, especially in Pakistan.

In case audit proceedings or an investigation is initiated a tax health check can prove useful in identifying potential issues that may arise during proceedings initiated by the regulatory and would provide some time to come up with strategies in order to mitigate the tax exposure involved.

TAX HEALTH CHECK

Changes in tax handling team of an entity –

Job rotation and changes in a team of a particular entity is rather normal in a particular department. Therefore, if an entity is experiencing changes in the people involved in their tax team be it a team member or a team lead, this may provide an opportunity for entities to get a tax health check conducted.

A tax health check in such a situation would help identify issues or potential risk areas which otherwise were not brought to the attention of the management or not identified by the previous team.

Issues identified during Internal audit –

Many entities have an internal audit function which is involved in identifying business risks, financial risks and compliance risks. An internal audit function is also tasked with identifying potential issues with respect to tax compliances of an entity. If certain issues are identified, it may indicate the need for an entity to get its tax health check done. A tax health check can prove useful in quantifying tax exposures and potential risk areas in detail.

This would provide the board of directors of an entity with useful information regarding the tax exposures involved in the Company and potential strategies which can be applied preemptively in order to mitigate such risks.

Changes in statutory requirements –







Tax laws are frequently changed by the Government, especially in a country like Pakistan. Notifications, circulars and amendments are circulated on a daily basis which may make it difficult for an entity to track its compliance levels with respect to the latest regulations.

This may render the need for an entity to get a tax health check performed to make sure their compliance levels are at par and their tax team is up to date with respect to the latest amendments.

In addition to the above, there are other symptoms or circumstances as well which may render the need for a tax health check such as at the time of structuring a transaction or prior to a merger or acquisition wherein a tax health is needed for the entity being acquired.

TAX HEALTH CHECK

Benefits of a tax health check

 <p>Risk mitigation – financial, reputational, litigations and so on.</p>	 <p>Reducing tax exposure and litigation cost</p>	 <p>Identification of potential exposure prior to finalization of a merger or acquisition</p>	 <p>Development of a robust tax infrastructure within the entity</p>	 <p>Taxation is a social phenomenon and would improve reputation amongst stakeholders</p>	 <p>Promotes transparency and enhanced ESG reporting amongst stakeholders and those charged with governance.</p>
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