Massey University

Tax Risk Management Framework

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1. Introduction

1.1. Purpose & overview

The purpose of the Tax Risk Management Framework (the Framework) is to outline the approved procedures in respect of all tax related activity to be undertaken by Massey University. The formalisation of such procedures will enable tax related risks within Massey to be prudently managed.

As circumstances change, the procedures outlined in this Framework will be modified to ensure that tax risks within Massey continue to be well managed.

1.2. Background

A priority of the Council is to ensure that Massey University maintains the highest standards when complying with its tax obligations, in New Zealand and overseas. As a leading New Zealand university, it is critical that Massey University maintains its social licence to operate, both in New Zealand and in all overseas jurisdictions that it has an educational presence. Being, and being seen as, a good and compliant tax citizen, is a key aspect of achieving this.

This framework ensures Massey University's tax risk is effectively managed in accordance with the Tax Risk Management Policy. The Tax Risk Management Policy and Framework applies to all employees working within Massey University and other entities (collectively the "Group"), in New Zealand and overseas. Therefore, references to Massey University in this document should be read as covering all such Group entities (unless the context specifically requires otherwise).

The framework is intended to provide clear guidance for those working within the Massey University Group that have tax compliance or tax reporting obligations while also fostering mutual understanding between the Finance and Assurance Committee of Council ("FAC"), which has delegated responsibility for tax governance monitoring, and all Massey University staff, including Management, responsible for the tax function on the timely and effective management of and reporting on tax issues.

1.3. Scope and application

This document provides guidance and principles on tax risk management by which all Massey University staff representing entities within the Massey University Group should abide.

This framework also applies to the management of tax obligations and tax risk in overseas jurisdictions by Massey University (therefore, references to Inland Revenue and New Zealand taxes, where applicable, should be substituted for the relevant local tax authorities' taxes where appropriate). Part 4.6 outlines the management of overseas tax risk.

This document sets out:

- The framework for tax risk management at Massey University;
- The definition of tax risks;

- Massey University's tax risk appetite;
- How sources of tax risk will be identified;
- How tax risks will be assessed and responded to;
- How processes and controls will be established to combat tax risk; and
- How the risk identification procedure is monitored at different levels of the organisation so that action can be taken where appropriate.

2. Tax at Massey University

2.1. Tax profile

Massey University (including its wholly owned New Zealand subsidiaries) is exempt from New Zealand income tax. However, Massey University is registered for GST, is liable for FBT and withholding taxes, and must deduct employment-related taxes and other levies (such as PAYE, ACC levies and KiwiSaver deductions). In New Zealand, the tax risk focus is primarily these operational tax types.

Notwithstanding Massey University's New Zealand income tax exemption, it may have income tax (and operational tax) obligations in overseas jurisdictions due to operations or employee presence in those countries and regions. Tax risk may also arise in relation to ventures entered into with non-tax exempt third parties, both in New Zealand and overseas.

2.2. Tax objectives

The Council, through FAC, has set the following overarching objectives for the organisation with respect to tax:

- Ensuring Massey University complies with all tax laws applicable to its activities in all relevant jurisdictions it operates or has a presence in.
- Ensuring there is appropriate engagement at all levels of the organisation to ensure that tax risk is effectively managed and reported on.
- Ensuring that external tax advisor assistance is sought, where applicable, to ensure potential tax risks are well understood, and any tax positions that will be taken are robustly supportable and will not damage the organisation's reputation with tax authorities or the wider public.
- There is regular reporting on tax matters both within the University and to the FAC. The scope and frequency of such reporting is detailed in this policy document.

2.3. Definition of tax risk

For Massey University, tax risk is the risk of additional amounts to pay to tax authorities (including in the form of tax penalties and/or interest) and, most importantly, the adverse impact on its reputation and social licence to operate, in the event that the organisation:

- Makes a material error in the calculation of it tax liabilities that adversely impacts either the organisation itself and/or any key stakeholders, such as staff ("**Tax Underpayment and Reporting Risk**");

- Fails to exercise good governance and oversight of the organisation's conduct in relation to tax, resulting in lasting adverse perception of the organisation by different stakeholder groups ("**Tax Reputation Risk**");
- Undertakes non-routine transactions, including new ventures in New Zealand or overseas, without adequate consideration of the exposure to tax risk ("**Tax Transaction Risk**");
- Undergoes a change in personnel or experiences a lack of experienced resources to effectively manage the tax function and day-to-day compliance ("**Tax Management Risk**"); and
- Misses any compliance deadlines set by the tax authorities or incurs any shortfall penalties or interest as a result of the failure to comply in an accurate or timely manner ("**Tax Compliance Risk**").

2.4. Tax risk appetite

Massey University should maintain a low appetite to tax risk and, in particular, any exposure to Tax Underpayment and Reporting Risk and Tax Reputation Risk should be minimised. Management responsible for the tax function should act in accordance with this approach to effectively manage overall tax risk.

In summary, this means that while Management should look for opportunities to manage Excess Tax Cost and Tax Overpayment Risk, all resultant tax risks should be managed through comprehensive tax policy and procedure documentation, clear sign-off expectations and regular reporting to the FAC on tax risk. Further, risks should be monitored through the use of key risk indicators ("KRIs") pursuant to Part 4.2, as well as any other risk indicators that Management and the FAC agree to be appropriate.

Specifically, Massey University's approach to the tax risks identified above should be as follows:

Tax Underpayment and Reporting Risk

Objective:

All tax returns, internal tax documentation and financial reporting tax notes and disclosures, will be prepared accurately, honestly and in line with all applicable legal and regulatory requirements.

Massey University implements and maintains systems, processes and controls (including sign-off requirements outlined in section 3 below) to achieve this within acceptable levels of accuracy.

This will primarily be measured through any late payment penalties/interest imposed by Inland Revenue or overseas tax authorities, and the number and quantum of late return filings or payments.

Tax Reputation Risk

Objective:

Massey University will always look to actively manage this risk to ensure the organisation's brand and reputation with all stakeholders is strong and maintained. Massey University will also seek to have a good and professional relationship with tax authorities in all jurisdictions where the University has compliance obligations.

This will primarily be measured through any adverse media reports in relation to Massey University's tax affairs as well as the quantum of any financial penalties or interest imposed by Inland Revenue or overseas tax authorities.

Tax Transaction Risk

Objective:

Massey University will ensure that these risks are mitigated to the extent possible when considering new opportunities and ventures with external advice sought, where applicable, to ensure tax risks are well understood prior to entering into such transactions. Any tax risk assumed must be based on a rigorous assessment of the commercial benefits and the potential adverse impact on Tax Reputation Risk. It is not the FAC's intention that Massey University will enter into any transaction solely for tax reasons.

This will primarily be measured through the quantum of any financial penalties or interest imposed by Inland Revenue or overseas tax authorities.

Tax Management Risk

Objective:

Massey University will take appropriate action to ensure this risk is limited and will seek to minimise it through appropriate internal training for Massey University staff involved in day-to-day compliance obligations and by seeking external advice as required. Guidelines will be maintained in relation to the appropriate use of, and access to, digital tax tools, such as Inland Revenue's *myIR* tax account portal.

Tax Compliance Risk

Objective:

Massey University will endeavour to meet all Group/Organisation tax compliance responsibilities within the required statutory timeframes. This includes ensuring all tax returns are filed and potential tax liabilities are paid by the required due dates.

This will primarily be measured through the number and quantum of late return filings or payments and any resulting financial penalties or interest imposed by tax authorities.

Foreign Tax Risk

Objective:

Massey University, through its foreign subsidiary(ies) and through foreign ventures, may operate in certain high-risk foreign environments. Accordingly, it will ensure that particular care is taken in relation to complying with its foreign tax obligations.

When considering the taxation impacts of new transactions and/or ventures (such as in a new foreign jurisdiction or the presence of staff in a new overseas location) external advice should generally be sought to ensure the foreign tax risks (if any) are well understood and can be appropriately managed. This should be the case where external tax advisor assistance has not previously been sought for transactions of a similar nature, and/or other tax policies and precedents are not available as a guide to the tax impacts.

This includes, particularly, in relation to matters such as compliance with foreign payroll taxes and tax withholding obligations that may arise in a new jurisdiction (such as in relation to GST, or its foreign equivalents), to ensure that these will be complied with correctly and will not adversely impact on Tax Reputation Risk for Massey University in New Zealand or overseas. Compliance with personal taxation liabilities for Massey staff travelling to overseas jurisdictions remains the responsibility of the individual, not Massey. In some cases, as determined by the relevant SLT member and CFO, these obligations will be met by Massey.

This will primarily be measured through the quantum of financial penalties and interest imposed by overseas tax authorities.

2.5. Identification of tax risks

Tax risks set out in 2.3 will be identified with reference to their likelihood and impact. Ongoing risk identification will happen continuously, and monitoring of risks identified (as well as consideration of the appropriateness of the risk management process itself) will be carried out in accordance with the steps set out in section 4.

2.6. Relationship with Inland Revenue

Massey University will maintain an open and transparent relationship with Inland Revenue on any applicable tax matters, including in response to any requests for information, risk reviews and/or audits.

Massey University should have a professional and constructive dialogue during any discussions or correspondence with Inland Revenue. As part of this, Massey University should proactively engage with Inland Revenue regarding issues of tax uncertainty when appropriate (such as consideration of taxation rulings).

The responsibility for maintaining the relationship with Inland Revenue lies with the Chief Financial Officer ("CFO") as part of their overall responsibility for Massey University's day-to-day tax compliance. To enable effective relationship management, there should be regular reporting to the CFO on any interactions with Inland Revenue by staff members in relation to any specific tax compliance matters (other than those of a routine nature).

If Inland Revenue initiates a tax dispute with Massey University, the FAC should be notified as part of the regular reporting as outlined in Part 4.1.

These principles for tax authority engagement and relationship management will also apply to foreign tax authorities.

2.7. Global tax developments

The global tax landscape is constantly evolving. As an organisation with international reach, Management should be fully cognisant of the need to ensure that it keeps fully up to date with current and future tax global developments, such as "digital taxes" or in-country sales taxes, which may impact Massey University's operations. Similarly, with a large and diverse staff base, there is the need to ensure that foreign taxation implications are fully considered when Massey University employees operate cross-border.

3. Responsibilities and accountabilities

Massey University's tax risk management, responsibility and accountability policies are set out below, highlighting the responsibilities and accountabilities both internally and through the use of external guidance and advisor engagement.

Additionally, Massey University will have documented processes in place for the preparation around key operational tax areas.

3.1. Role of the internal team responsible for tax

The following Massey University staff have responsibility over the various tax functions of the organisation (noting that this is also to be read in conjunction with Part 3.3):

Tax risk management

Massey University's tax function is primarily managed by the CFO with assistance from the Financial Reporting Manager and the Payroll Team. The CFO has overall responsibility for the operation of the tax function, tax compliance and sign-off on material tax matters, including tax sign-off in relation to new ventures or transactions (such as the setup of new subsidiaries or entities) and tax issues relating to the placement of Massey University staff overseas.

As a general rule, if a potential transaction is identified where ***material tax uncertainty*** exists (as defined below), sign off that would be required that the tax consequences have been appropriately considered, based on the level of ***potential cash tax risk*** is as follows:

- ***Less than NZ$50,000****:* the CFO will engage external tax advisor assistance, and formally sign off prior to proceeding.
- ***NZ$50,000 or more****:* the DVC US or delegate will engage external tax advisor assistance,and formally sign off prior to proceeding.

Tax compliance

The Financial Reporting Manager is responsible for ensuring Massey University meets its day-to-day New Zealand tax obligations in relation to:

- GST returns and payments;
- Non-resident withholding tax returns and payments;
- Schedular tax returns and payments
- FBT returns and payments; and
- Any other taxes which the Payroll Team and the Financial Reporting Manager agree is to form part of the Financial Reporting Manager's responsibility.

The Payroll Team manages the day-to-day New Zealand employment related tax compliance obligations, including employment income reporting and payments to Inland Revenue. The Executive Director, People and Culture has responsibility for ensuring payroll tax related compliance obligations are met.

Where Massey University has overseas tax compliance obligations, for example in relation to foreign subsidiaries, external advisors are engaged to ensure these obligations are met.

Both the Financial Reporting Manager and Executive Director, People and Culture have reporting obligations to the CFO, who has ultimate responsibility for all tax compliance obligations(with the exception of Massey's controlled entities). This reporting should be undertaken consistent with section 4.1.

Transactions

Prior to entering into transactions, consideration should be given to what levels of sign-off on the tax consequences are required, including whether appropriate external taxation advice has been sought. To assist Management in assessing tax risk:

For ***new contracts, projects and unusual or one-off income or expenditure*** where there is ***material tax uncertainty*** (as defined below) for which ***income or expenditure*** is expected to be:

- ***Less than NZ$500,000****:* the CFO must formally sign off prior to proceeding;
- ***NZ$500,000 or more****:* the CFO will engage external tax advisor assistance prior to proceeding.

Material Tax Uncertainty

It is important that the tax risk management approach is proportionate to the tax risk. It is not expected that CFO or external tax advisor sign-off will be required for every transaction. Only transactions or matters that give rise to material tax uncertainty should be subject to the sign-off thresholds contained in this policy.

Whether a potential transaction or issue has material tax uncertainty will be assessed by the CFO, based upon factors such as the complexity of the issue/transaction, availability of past tax advice or precedent as a guide, and potential quantum of tax at risk.

The CFO may delegate responsibility for making such assessments to the Financial Reporting Manager, or other Massey University staff members, for their areas of direct responsibility on day-to-day tax matters. In making such a delegation the CFO will have regard to the competence of the staff member to make such an assessment. Where such a delegation is made and an issue is identified that gives rise to material tax uncertainty, the CFO must be notified as part of the regular reporting obligations under Part 4.

As a general guide, where the tax implications have been considered by Massey University for issues/transactions of a similar nature (including where external tax advice has previously been sought and/or where a tax policy or tax precedent exists), this should generally not give rise to material tax uncertainty.

A new venture, activity or employee placement (where similar ventures/activities/ placements have not been considered before) in a foreign jurisdiction should be subject to the sign-off thresholds contained in this policy.

3.2. The Finance and Assurance Committee of Council

The FAC considers that the key priorities of Management, in managing the tax function at Massey University, should be:

- Filing complete and accurate tax returns on time;

- Managing Inland Revenue (and other tax authority) interactions and relationships professionally; and
- Engaging with different parts of Massey University (including its foreign operations) to identify and manage tax risk in relation to the different activities and operations at a Group level.

Communication with Management

Communication between FAC and Management is important for accurate and responsible management and minimisation of any tax risks facing the organisation. To maintain the effective lines of communication, the FAC:

- Will be advised of any proposed tax law changes that are expected to have a significant impact on future tax positions of Massey University.
- Will be notified of any material tax risks (potential or actual) as defined in section 3.1; and
- Will be kept informed, on a timely basis, of any significant tax issues or disputes impacting the organisation.

3.3. External tax advisor/specialist engagement

While Massey University is exempt from New Zealand income tax, it is registered and liable for a range of operational tax types in New Zealand: Goods and Services Tax, Fringe Benefit Tax, employment and payroll-related taxes and levies (including Pay-As-You-Earn, Employer Superannuation Contribution Tax, ACC and KiwiSaver deductions) and withholding taxes on certain payments. In addition, Massey University has tax obligations in a range of overseas jurisdictions.

The role of external tax advisors, both in New Zealand and overseas, is therefore critical to managing Massey University's overall tax risk.

As there is no dedicated internal tax team resource, Massey University engages external tax advisors on issues/transactions with material tax uncertainty and, as needed, in relation to certain operational tax issues to determine the tax impacts. In addition, Management and staff engaged in day-to-day tax compliance has access to a comprehensive set of New Zealand tax policy documents, drafted and kept up to date by its current external tax advisor or maintained internally as directed by the CFO.

Where there is ***material tax uncertainty*** (as defined in Part 3.1), Massey University will obtain external tax advisor sign-off.

4. Tax controls and procedures

At Massey University, there should be a "no surprises" attitude towards risk management and, as such, robust policies, procedures and controls should be in place to achieve this.

This policy operates alongside other tax policy procedures to provide Massey University with a robust and effective approach to managing tax and the associated risks. Where appropriate, both the New Zealand and overseas tax risks should be the focus of relevant documentation, such as the library of tax policies created by the external advisor for use by Massey University.

All sign-off requirements must be performed as outlined under section 3 of this policy.

4.1. Monitoring and reporting

Material tax risks will be reported to the Council through the Massey University risk register, as required in the Risk Management Policy. In addition to inclusion of material tax risks on the risk register, Management will also report to the FAC on the tax matters outlined below.

Timing and scope of tax reporting to the FAC

There will be six monthly reporting to the FAC on any material tax risks identified in the risk register as well as the general status of compliance with tax payment and filing obligations, both in New Zealand and foreign jurisdictions.

The reporting will include:

- assurance to be provided by the CFO to the FAC in relation to Massey University's tax compliance obligations (such as timely filing of tax returns and tax payments);
- any material adverse tax matters (such as tax calculation/payment errors or late tax return filings or payments that exceed agreed thresholds);
- any significant incidents that arose in the reporting period that required external tax advisor engagement or engagement with Inland Revenue at the level of a voluntary disclosure or higher; and
- identification of any specific material tax risk areas not otherwise discussed as part of other reporting.

Reporting lines and responsibilities

There will be clear reporting lines established within the Group to enable transparent reporting on all tax matters within Massey University and ultimately by the CFO to the FAC.

In particular, there will be appropriate and timely sharing of information between Massey University Group entities and the CFO, for example in relation to new ventures under consideration, to ensure tax risks can be considered, prior to sign-off by the FAC. This will ensure that the tax implications of any arrangement which the University enters into are monitored and planned effectively to avoid adverse tax implications (including reputational risks).

To enable reporting to the FAC, Management responsible for different parts of the day-to-day tax compliance will regularly report to the CFO on matters pertaining to their areas of direct responsibility. The frequency and form of this reporting will be at the discretion of the CFO. These compliance reports should cover all areas of tax risk, including any exposure to overseas tax obligations, including, but not limited to, risks associated with staff travelling to overseas tax jurisdictions for an extended period of time.

4.2. Key risk indicators

The CFO will monitor the KRIs on an ongoing basis in order to anticipate whether a risk event has had an impact. These key risk indicators may include:

- The number and quantum of tax penalties and interest charged by Inland Revenue or another tax authority;
- The number and quantum of late tax return filings and tax payments;
- Any adverse media in relation to Massey University's tax affairs;
- The change in Total Tax Contribution of Massey University (the total for all types of tax that Massey University pays in New Zealand and globally) each year; and
- Any other risk indicators to be agreed between the FAC and Management.

Where KRIs fall outside of the acceptable or expected ranges as agreed with FAC (in accordance with the risk appetite outlined in section 2.4), Management should report this with an explanation of any reasons why to FAC.

4.3. Monitoring of the tax risk management framework

Management will keep track of current and future developments to domestic and relevant international tax law. Developments identified will be compared against current risk ratings. Following a thorough review, changes will be made to tax compliance processes if required. External tax specialists will be engaged as required, based on the complexity/expected tax risk identified (Part 3.3 details when tax specialists will be required).

4.4. Mitigation and prevention of tax risks

The following mitigation and prevention measures are in place to reduce the tax risks of Massey University:

Tax compliance: preparation and sign-off procedures

All tax compliance obligations are subject to the preparation and sign-off procedures outlined in section 3 of this policy document.

External tax specialists will be utilised for sign-off and advice as outlined in section 3.3 above.

Clear tax policies and process documentation to guide Management and Massey University staff responsible for key tax compliance tasks, as to compliance with both New Zealand and overseas tax laws, will be maintained.

Tax compliance: meeting tax filing and payment deadlines

Management will maintain a clear and defined plan for upcoming tax return filing and payment obligations. A priority of Management should be the filing of tax returns and the payment of tax liabilities by their respective due dates in New Zealand and all overseas jurisdictions where such obligations arise.

Internal controls

Controls should be in place to ensure Massey University employees who have a role in the tax compliance function have the skills and knowledge required to adequately perform their roles as outlined within this policy.

Individuals' roles and responsibilities in relation to specific tax types and compliance processes will be documented to ensure clarity of responsibilities and reporting lines.

Regular systems reviews and tax health checks

Management should undertake an independent review of Massey University's accounting and transactions systems on a regular basis to ensure that the systems are correctly accounting for the relevant operational tax types, including GST, FBT, employment-related taxes and withholding taxes.

A goal of reviewing each of these operational tax types at least once every five years should be pursued. Reviews should also be considered following a major system change (including changes to system providers or adoption of new technology platforms). The results of the reviews will be communicated to the FAC as part of the routine tax reporting.

This review should be undertaken in a way to demonstrate to Inland Revenue that the correct amounts are returned in the relevant tax returns and Massey University's processes are robust.

International tax compliance

Management should ensure it is receiving regular international tax updates in relation to overseas jurisdictions that Massey University is operating in, to ensure effective compliance.

4.5. Response when a tax risk arises

In the event that tax risks develop into potential tax liabilities and penalty and interest exposures, Management should be cognisant of the following:

Inland Revenue (or other tax authority) initiated disputes

In its dealings with Inland Revenue all Massey University staff are expected to act with integrity, honesty and transparency. In the event of an Inland Revenue (or other tax authority) dispute (including a tax audit or risk review), Management must notify the FAC as part of its regular tax reporting.

Where an Inland Revenue dispute arises, external tax advisors should be engaged to assist with the response.

Voluntary disclosures

Where an error in a tax calculation that relates to a prior period has been identified, a voluntary disclosure will be filed where it is required by the tax authority.

Where a material error in a tax calculation or tax return filed with a tax authority has been discovered, it should be considered whether external tax advisors should be engaged to assist in mitigating any risks relating to this.

Other tax authority communications

Any other correspondence, documentation or communications in relation to, an Inland Revenue (or other tax authority) dispute or miscalculated tax position, will be prepared depending on the specific risks and shortfalls identified.

External tax specialists will also be engaged depending on the specific risk and shortfalls of the particular circumstances in accordance with section 3.3 above.

Massey University will endeavour to prevent/mitigate any potential tax risks in the first instance, rather than attempting to minimise the potential damage.

4.6. Overseas tax risk management

The principles outlined in this tax risk management policy will apply equally to the management of offshore tax risks that Massey University faces, including for its foreign subsidiaries or other foreign operating entities.

Responsibilities for foreign tax compliance

The CFO has responsibility for ensuring Massey University's compliance with all tax obligations, except for the foreign tax obligations of Massey's controlled entities, where the responsibility rests with the respective Boards.

Having regard to the complexity and dynamic nature of international tax obligations, to ensure effective compliance, Management is expected to engage external tax advisor/specialist assistance.

Tax controls and procedures

Massey University will ensure that its foreign tax compliance obligations and procedures are independently reviewed periodically unless external advisors are engaged to help meet these obligations.