

How strong tax governance builds trust and compliance



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Organizations need to examine their tax governance framework to ensure it is responsive to changing business and tax function requirements

In brief

- Effective tax governance is key to balancing global oversight, local requirements and rising tax authority expectations in a complex regulatory environment.
- Strong tax governance frameworks reduce risk while improving compliance, trusted external relationships and access to preferential treatment such as amnesties.
- Technology, leadership and principle-based frameworks work together to help businesses navigate evolving tax risks with confidence.

Technology, leadership and principle-based frameworks work together to help businesses navigate evolving tax risks with confidence. Yet many governance frameworks designed for a more stable tax environment are no longer sufficient.

Those frameworks struggle to keep pace with accelerating complexity and digitalization - from inconsistent laws and digital business models to digitally-empowered tax authorities and shifting supply chains.

In this environment, tax governance is a strategic imperative that demands renewed focus, clearer accountability and stronger global-local coordination.

A deeper shift in regulatory expectations is reshaping the need for enhanced global tax governance. Tax authorities are redefining their relationships with large taxpayers.

Groups that fail to respond to this shift face growing financial and reputational risk.

The call for behavioral change is not new; demands for greater central visibility of global tax matters, including visibility in the boardroom, have existed for nearly two decades. The Base Erosion and Profit Shifting (BEPS) project put this issue on the agenda.

Today, tax authorities are going further, introducing programs that test how tax governance frameworks are designed, applied and performed in practice. Governance maturity has become a key indicator of a company's tax health.

For tax authorities, the question is simple: does a company's global tax governance framework or approach justify the trust placed in it? This shift is reshaping compliance expectations, elevating the role of governance at both global and local levels. Large business taxpayers that overlook this shift face heightened regulatory attention.

Chapter 1

Adapting tax governance frameworks for new global demands

Evolving tax rules and transparency demands require frameworks that integrate new data, strengthen coordination and ensure compliance across jurisdictions.

A range of current and impending developments (including the 15% global minimum tax and public country-by-country reporting) demand that tax governance frameworks adapt. This means rethinking how frameworks translate business activities into compliant tax filings, payments and the management of controversy.

Governance frameworks must evolve to integrate new data sources, address new and expanded reporting obligations and ensure coordinated action across global and local teams. New, principle-based approaches are essential to keep pace with these pressures.

Ultimately, tax governance is about human talent. It starts at the top with the C-suite, audit committee and executive leadership and extends through tax leaders and professionals in related functions, such as accounting, finance, treasury, legal, human resources, information technology and procurement. Critically, good governance includes local tax and finance teams that accurately reflect business activities in financial systems and disclosures, tax filings and payments.

These professionals are also on the front line of managing inquiries, dispute prevention and management as well as litigation; situations that, without the right knowledge, can create significant financial and reputational risks.

The latest EY Tax Risk and Controversy Survey recognized the importance of strong, strategic tax governance, with more than two-thirds of respondents (69%) expecting their focus on tax governance to grow before 2025. Many US multinationals, for example, start with a global view of tax governance, then tailor policies and training to local needs. Meanwhile, 84% of respondents said that implementing or improving a global framework for tax risk and controversy management would add "some" or "significant" value. These pressures demand governance

models that bridge local and global oversight while remaining resilient to disruption. Clear accountability is central to making governance work.

Everyone must understand what they are responsible for, when and where tasks must be completed, and who else is involved. This information must be shared across internal and external stakeholders to ensure tax risks are managed effectively.

Chapter 2

The human factor: why strong tax governance starts with judgment

Principle-based frameworks help organizations manage tax risk flexibly, guiding decisions and enabling consistent compliance amid disruption.

At its very core, robust tax governance is built on policies, roles and responsibilities, processes and controls that help companies identify and manage tax risk and ensure compliance with laws and regulations.

Improved tax governance creates a culture of accountability, prevention, transparency and ethical behavior. Technology, processes and documentation play pivotal roles, but they are tools in the hands of the people responsible for the tax approach and daily tax operations. Many organizations are adopting principle-based governance models that combine specific tasks with overarching foundations to provide flexibility, guide decisions and support effective execution without constant updates. By focusing on intent and interpretation rather than exhaustive rule-setting, these models enable consistent decision-making even amid regulatory change or business disruption.

For example, rather than listing every law requiring compliance, a principle-based model guides tax teams to act in line with both the spirit and intent of applicable laws. Similarly, rather than focusing solely on filing accurate and timely tax returns, practitioners should ensure tax positions reflect the organization's broader values and objectives and maximizing dispute prevention when possible. So, while some elements of a governance framework may be codified, others may be more subjective. But the common link between the two is people. People drive tax governance. People's

decisions, interpretations and actions determine whether a governance framework operates effectively or fails, either inherently or under scrutiny.

"One of the main advantages of this principle-based approach is that it's much more subjective," says Brian Foley, EY Global Tax Accounting and Risk Advisory Services Leader. "Rather than ticking boxes for every completed task, tax practitioners are encouraged to think about the processes involved and develop a rationale explaining how they have complied with governance requirements."

Aligning sustainability imperatives with tax governance strategy

Tax leaders are encouraged to adapt their governance frameworks to address environmental, social and governance (ESG)-linked taxes, incentives and reporting. Jurisdictions are increasingly taxing behaviors, such as carbon emissions, deforestation and use of plastic - pushing tax teams to coordinate closely with other functions to ensure compliance. Responding to regulations like the EU's Carbon Border Adjustment Mechanism (CBAM) and clean energy incentives under the US's Inflation Reduction Act (IRA) has become a leading challenge for tax leaders. Alongside mandated requirements, companies face growing expectations for voluntary ESG disclosures under programs such as the Global Reporting Initiative.

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Failing to access available incentives, such as those under the US Inflation Reduction Act or EU green transition schemes, presents its own form of risk in the form of opportunity cost. Governance frameworks that overlook this dimension may inadvertently leave value on the table.

Strong governance frameworks help align tax and ESG approaches, promote transparency and build trust with investors and the public. In many cases, ESG commitments can be integrated into existing tax approaches with minimal structural change.

Chapter 3

Enablers of robust tax governance

Technology is a powerful enabler. With it, organizations can embed accountability, strengthen controls and align tax governance with broader business priorities.

Technology is an essential enabler of agile, future-ready tax governance. Digitization, automation, cloud platforms and artificial intelligence (AI), including generative AI (GenAI), can help tax teams manage risk, enhance transparency and achieve compliance. They do this by delivering clearer insights, stronger controls and faster, more coordinated responses.

Complex frameworks like BEPS 2.0 Pillar Two, public country-by-country reporting and the Foreign Account Tax Compliance Act (FATCA) make data-enabled governance vital. Technology supports efficient data collection, can help prevent double taxation, and enables proactive tracking of disputes and risks.

Despite these benefits, 75% of organizations lack a single data view of their active tax disputes, according to **EY's Tax Risk and Controversy Survey**.

At the same time, tax authorities are advancing their own technology capabilities. More than 40 tax administrations globally now use or plan to use AI, including for granular transaction audits and transfer pricing analysis.

Tax teams are well advised to match this capability by designing governance frameworks that deliver similar levels of analysis and readiness for tax authority scrutiny. High-quality, consistent, timely data is vital for effective governance. Yet achieving this across diverse systems, legacy platforms and newly acquired entities remains a significant challenge.

Technology itself brings governance challenges, from securing sensitive data under laws such as the EU's General Data Protection Regulation (GDPR) to managing AI risks, such as algorithm opacity and accuracy.

Clear governance frameworks are essential to control these risks and ensure technology delivers its intended benefits.

Senior executives are well advised to champion tax governance as a strategic priority, aligning tax governance with broader corporate governance and risk management frameworks. Tax teams need C-suite support to establish effective frameworks, working closely with finance and ESG leaders to embed governance across the organization.

To thrive, organizations should adopt the following:

1. A clear, well-documented tax methodology or policy. The policy must align with the company's business objectives and risk appetite. Many countries now require evidence of the group's global governance approach. Some jurisdictions also require all or part of the tax policy to be made public.

2. Robust tax and finance controls. These processes help identify, assess and manage tax risks. Strong frameworks include feedback loops to drive continuous improvement. Risk management measures must evolve to meet internal and external challenges.

Many tax functions face challenges such as outdated or poorly designed processes, misalignment with changes in tax law or administration practices, insufficient staff to operate controls, lack of regular testing, and gaps in training or compliance. Effective tax governance helps close these gaps.

3. Skilled tax professionals. Tax professionals must be technically proficient and able to adapt to regulatory change and ambiguity. The tax talent model is evolving. Teams now need skills beyond tax knowledge, including negotiation, mediation and technology capabilities to leverage tools such as generative AI.

4. Clarity on roles and responsibilities. Every business should maintain a responsible, accountable, consulted and informed (RACI) matrix. This tool clarifies roles and responsibilities for key tasks and deliverables, ensuring accountability and reducing confusion.

Many leading companies extend this approach with a risk and control matrix (RACM). The RACM strengthens tax governance by mapping risks and controls more effectively, particularly for tax risk management. Both matrices help define

cross-functional relationships and support clear communication.

5. Leadership commitment. The most successful governance frameworks secure full board, audit committee and C-suite oversight, with a clear tone at the top setting expectations for tax governance. This level of commitment, increasingly required by tax authorities, may include evidentiary letters or management interviews to demonstrate that key stakeholders understand the group's tax risks and exposures.

Senior executives are well advised to champion tax governance as a strategic priority, aligning tax governance with broader corporate governance and risk management frameworks. Tax teams need C-suite support to establish effective frameworks, working closely with finance and ESG leaders to embed governance across the organization.

6. Technology to support effective tax governance. Technology supports modern tax governance not only through controls, audit tracking and workflow tools, but also by helping manage complexity, prevent double taxation and proactively track disputes.

As tax authorities advance their own technologies, including AI for audits and transfer pricing analysis, tax teams must ensure parity of capability while addressing challenges such as legacy systems, data consistency and AI risks.

Presenting tax authorities with the structure of a company's tax governance approach does not fully meet current requirements. Many tax authorities now expect evidence that the framework works in practice.

Evidence may include controls testing results and examples of how tax risks were identified and addressed. "Show, not tell" has become the global standard for tax administrations.

Chapter 4

Risk management as a core governance priority

Strong tax governance frameworks enable organizations to identify, manage, prevent and reduce tax risks proactively while supporting transparency and regulatory trust.

Tax teams play a central role in identifying and managing tax-related risks, from

compliance gaps and transfer pricing exposures to regulatory change. Strong governance frameworks help achieve global visibility, embed effective controls and support proactive risk management.

Tax authorities are formalizing these expectations through structured compliance assurance programs. The UK's Business Risk Review+ and Australia's justified trust model are well-established examples, while Singapore and Malaysia have also introduced similar frameworks to encourage transparency, voluntary disclosure and demonstrable governance maturity.

Globally, authorities are increasingly linking trust and risk treatment to the strength of a company's governance approach.

Marlies De Ruiter, EY Global International Tax Services Policy Leader, notes that tax risk management is a complex task involving multiple workstreams.

Some responsibilities, such as tracking tax law change, are beyond the capabilities of a single tax function. Greater collaboration and coordination with other teams is therefore essential.

"Tax teams often struggle to keep up with constantly changing tax policies, business dynamics and systems and processes," De Ruiter says. "It's simply unrealistic to expect them to do so."

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They need a better way to manage the stream of change to create predictability, along with access to stronger tools and resources.” De Ruiter suggests that partnerships are essential. Tax teams unable to track legislative changes need a governance framework that enables collaboration with external stakeholders. This includes identifying core tax responsibilities that can be entrusted to third parties, along with measures to reduce the associated risks.

Ultimately, effective tax governance ensures tax-relevant business activities are accurately and consistently reflected in tax returns, payments and the structured management of any resulting controversies or adjustments.

Ten drivers and benefits of effective tax governance

Behavioral change is a major force compelling tax leaders to act, but it is not the only factor driving stronger global tax governance. By its nature, tax governance touches a wide range of activities across the group. These include:

1. Aligning the group’s tax approach with its overall risk appetite.
2. Giving stakeholders confidence in tax compliance and reporting.
3. Identifying and addressing tax risks earlier in their lifecycle.
4. Meeting new reporting and disclosure requirements effectively.
5. Ensuring tax data is accurate, timely and well-governed.
6. Strengthening links between tax, leadership and other business functions.
7. Defining the company’s relationship with tax authorities and regulators.
8. Applying rigor to the management of external advisers and partnerships.
9. Supporting sustainability goals and financial performance.

10. Enabling participation in tax programs that reward strong governance.

“Adopting a hands-on approach to governance ensures the tax function is well-positioned to tackle three key corporate priorities: ensuring tax and regulatory compliance, supporting broader risk management and ethics practices, and improving the organization’s sustainability metrics and reporting,” says Luis Coronado, EY Global Tax Controversy Leader. “But modern tax governance goes further, aligning and coordinating the tax function with the wider organization’s core values and goals.”

Chapter 5

Compliance assurance programs: reshaping tax enforcement

Compliance assurance programs are reshaping tax enforcement, linking strong governance to reduced scrutiny and encouraging greater cooperation with authorities.

Compliance assurance programs have become one of the most significant forces shaping tax governance today. More tax authorities now view governance as a key factor in deciding how and when to intervene, including whether to conduct an audit. These programs aim to build justified trust between taxpayers and authorities. These programs categorize taxpayers based on demonstrable governance, rewarding strong performers with fewer inquiries and audits.

Some programs are voluntary and described as cooperative compliance. The Netherlands’ Horizontal Tax Monitoring program, which provides real-time engagement on tax positions, has been a blueprint for many other countries. A smaller number of programs, typically in large, mature economies, are mandatory and fall under compliance assurance. They are based on reviews

of tax governance and several years of tax return data, often following cycles such as a three-year review covering three years’ data across main tax types.

Both voluntary and mandatory programs depend on ongoing cooperation from taxpayers, and tax authorities globally are expanding the use of these programs. Examples include Australia’s Top 100 and Top 1,000 programs, both mandatory for larger taxpayers. Many jurisdictions are also making cooperative compliance programs mandatory for the largest companies. The global trend is clear: tax enforcement is shifting from voluntary cooperation to compliance assurance as authorities pursue behavioral change.

This shift toward greater governance will bring friction. Poor performance in a single jurisdiction, even if distant from headquarters, can affect the entire group. In extreme cases, governance failures can lead to significant exposures or even financial restatements.

Seven steps for tax governance success

1. Take objective stock of the company’s current global tax governance approach.
2. Scan for weaknesses against current leading practices, including identifying areas likely to come under scrutiny in tax administration programs.
3. Identify the elements of tax governance that offer the quickest and most substantial return on investment, such as developing a global RACI matrix or updating the group’s tax policy.
4. Make a priority list for action and assign ownership and accountability.
5. Communicate the approach widely.
6. Consider including effective global tax governance execution in selected individuals’ key performance indicators (KPIs).
7. Monitor implementation, perfor-

mance and maintenance needs.

In an era of heightened scrutiny, companies must actively build and sustain skilled, collaborative and ethically grounded teams to manage the complexities of global tax governance. This may include creating tax risk or controversy leadership roles or forming committees to oversee major transactions.

As compliance assurance programs become standard practice, tax governance must move beyond formalistic frameworks to become a lived reality that fosters a culture of accountability, transparency and trust. Such a culture is the hallmark of organizations that turn ambition into action and governance into a strategic asset, positioning themselves for resilience, trust and sustainable success.

Summary

Tax governance has become central to managing regulatory risk and sustaining trust with tax authorities and stakeholders. Organizations that embed strong governance frameworks and integrate governance into strategy are better positioned to navigate complexity, drive compliance and build resilience in a fast-changing environment.

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