



## TCF and Cooperative Compliance

When the Tax Authority  
collaborates with the company



## What is a TCF?

A TCF [tax control framework] is a system for the management and control of the tax risk. The definition of TCF implemented in the Italian legal system is the result of a long conceptual elaboration work developed mainly in the OECD. It reflects the concern of the countries that wish to identify tools which allow for reinforcing tax-management systems by means of the full involvement of all company departments in the management and control of tax variables and the adoption of an increasing regime of responsibility on the part of the Board of Directors for tax risks.

## What is Cooperative Compliance?

Cooperative Compliance programme (or Enhanced Cooperation) is a system of rewards that allow collaborating and deserving taxpayers a series of substantial and procedural advantages. It is based on collaboration between the Revenue Agency and the taxpayer, in which the relationship hinges on prior contact, aimed at (a) increasing the Revenue Agency's knowledge and understanding of the company's situation and (b) reducing costs and prejudice for the taxpayer (also to his reputation) due to incorrect management of the tax variables in a context of considerable legislative uncertainty.

## The benefits

The benefits of the Cooperative Compliance scheme can be summed up as follows:

- fast track ruling (no more than 45 days since the receipt of request or the integration of documents) regarding the application of tax provisions;
- tax penalties reduced of 50% and, in any case, applied to an amount not exceeding the minimum provided by law;
- suspension of collection until final definition of the tax assessment, for risks communicated promptly and in full, if the Agency has not communicated the company's position;
- no guarantees required to obtain refunds of direct and indirect taxes for the entire period during which the company adheres to the programme.

In addition:

- subjects admitted to the Cooperative Compliance programme are subjected to the exclusive tax supervision of the Revenue Agency (and of the team assigned to said subjects within the programme);
- the specific offence of tax evasion, which is one of the most serious tax offences, is hardly ever recognised within the sphere of a tax risk management and control system approved by the Revenue Agency if the company adheres to the programme.



## The requisites

Whereas the TCF tool can be adopted and used by all taxpayers, Cooperative Compliance - in the initial application phase - is reserved to:

- subjects with a turnover or revenues of not less than ten billion Euro;
- subjects with a turnover or revenues of not less than one billion Euro and which have submitted an application for adhesion to the Pilot Cooperative Compliance programme;
- enterprises that have presented and acted on a query relative to new investments.

At present, primary law provides for the threshold for access to the Cooperative Compliance programme to be lowered - as of 1 January 2020 - to 100 million Euro. However, said threshold, for the tax years 2020 and 2021 is 5 billion Euro.

## Direct and indirect costs

The costs linked to the construction and maintenance of a TCF can consist of:

- direct costs: costs of advisory services (tax and non-tax) aimed at the institution of an adequate internal control system for the management of the tax risk, for the management of the procedure for admission to the cooperative compliance programme, and for the appointment of internal control department;
- indirect costs: costs of the structure, the institution of a tax compliance department, training, and costs for the maintenance of the model.

## The TCF construction process



## The Tax Tool

BDO makes available to the market a database management tool which can be used for TCF construction and management, which allows for:

- integration of the tool in the tax management system within the company's own broader internal control and risk management system;
- the mapping of all relevant activities within the TCF sphere and of the main related risks;
- support and documentation of the TCF control and monitoring activities.

The tax tool:

- is a multi-platform and multi-user web-app tool released in SaaS mode;
- is user-friendly and allows the guided entry of the data necessary for risk assessment;
- uses standardised calculation matrix to assess the risk;
- gives results that can always be exported and viewed as historic series.

## Why BDO?

Because BDO has already assisted medium and large sized companies through the Cooperative Compliance programme admission process. Furthermore, BDO offers assistance throughout all the normal steps of a tax compliance management process and - once the TCF has been instituted - it allows for a virtuous path to be followed, in order to:

- systematically identify the relevant legal obligations and the consequent tax compliance risks with consequent updating of the model;
- recognise the impact of laws and tax risks on company processes;
- define the means of protection and the control systems by which to mitigate the risks identified;
- programme conformity tests by which to check the effectiveness of the company's control systems.



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