The Whys, Whats and Hows of Tax Governance

Enhancing Business Efficiencies and Transparency

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Tax governance in recent years has shot up in prominence and continues to gain traction in the wake of global tax transparency trends. In addition to the growing list of mandatory disclosure requirements implemented by tax authorities worldwide, there has also been a proliferation of voluntary transparency measures introduced, such as the release of the first global standard for tax transparency by the Global Reporting Initiative at the end of 2019.

Combined with rapid advances in technology and increased information sharing among tax authorities, the world of tax is more transparent than ever. It is increasingly important to not only pay the right amount of tax but also be in a position to demonstrate it to the stakeholders (which include tax authorities, shareholders, customers, employees and others). Having an effective tax governance is therefore key to gaining stakeholders' confidence that the company's tax affairs are in order.

Fundamentally, tax governance entails putting in place clear controls and processes that consistently provide accurate information for companies. These allow the companies to make informed tax decisions and manage tax risks, and ultimately arrive at sensible tax outcomes in a sustainable and stable manner. A recent Singapore Chartered Tax Professionals webinar featuring an international team from Deloitte explored this topic against the backdrop of today's complex business landscape.

Why Tax Governance? — Impetus Driving Tax Governance

The emergence of various global developments has advocated the need for companies to be responsible taxpayers and pay the right amount of tax. This, coupled with increased calls for tax transparency, board accountability, adoption of technology by tax administrators and the complexity of legislative changes (particularly when supply chains operate in the international arena), emphasises the urgency to have an overarching and robust tax structure in place.

What's more, tax authorities today are continuously reviewing and updating their audit methodologies and processes, and increasingly focusing on the integrity and accuracy of taxpayers' tax data and systems. This has resulted in a progressive move towards a risk-based assessment system where taxpayers are segmented according to different risk profiles, which in turn determines the level of scrutiny they would be subject to.

Companies that have a strong tax governance framework and practices are typically susceptible to a much lower level of tax authority audit intensity and scrutiny than similar companies with a weaker tax governance structure and practices. Increasingly, the tax risk profile that the tax authorities assign to a taxpayer is driven and informed by the tax governance practices of the organisation as well as technical tax risks. Knowing this, it would be prudent to allocate resources to re-evaluate their tax governance framework and ensure that controls and processes are in order.

"It is no longer acceptable to assume that the source information provided by the finance team is accurate. Tax authorities are increasingly expecting the local tax team to be accountable for and be able to explain the information flows reported in the tax returns, even if these data sources are based overseas," highlighted Rakhim Mirzayev, Tax Director at Deloitte Australia.

"It is thus critical for the tax team to be able to articulate such needs to the management so that it can obtain the necessary support to optimise tax operations and ensure tax considerations are accounted for," he added.

What is Tax Governance? — Three Pillars in the House of Tax Governance

Effective tax governance means getting one's "house of governance" in order. Broadly, an effective "house of governance" encompasses a tax governance policy or framework documented and endorsed at the "top of the house" and communicated to all relevant stakeholders (Figure 1)*. It is supported by three key pillars – people, processes and technology.

PEOPLE

The human resource aspect of tax governance focuses on the who, when and how on the strategic and operational levels. The roles and responsibilities of the board, management and employees must be clearly defined and understood in terms of accountability for tax administration and decision making. Appropriate levels of training and communication should also be in place to help each stakeholder understand what is expected of him.

PROCESSES

The processes aspect of tax governance focuses on the control framework. Regardless of whether a tax function is performed inhouse, outsourced, or co-sourced, it is imperative that once the roles and responsibilities are mapped out, the processes are defined and documented within all functional areas, including tax compliance, reporting, controversy, and planning as well as including those processes taking place outside the tax function (for example, potentially relevant to tax such as company's sales and purchases processes). Relevant controls should also be implemented to support the performance of tax functions and obligations, including identifying and mitigating commercial and tax risks.

TECHNOLOGY

The use of technology cannot be further emphasised in tax governance. With tax authorities investing in technology adoption and integrating data for more sophisticated analytics, companies need to take heed and invest in technology to get a grip on its position and to stay ahead.

Companies should consider the need to put in place a tax technology strategy and roadmap, and use tools to move towards real-time tax reporting and management of tax risks. Whether it is automation, analytics, or the use of artificial intelligence, leveraging technology is increasingly no longer a good-to-have but a must-have.

The Hows of Tax Governance — Three-Step Approach

"An effective way to start on tax governance is to look at it in a three-step approach binding everything together, starting with the strategic first step." Explaining the details, Andreas Kirsch, Tax Director at Deloitte Singapore said, "At the strategic level, it is mainly about the overall governance, tax risk appetite and key objectives. The next step is the compliance level, which involves mapping out the possible tax risks for each tax type, ensuring tax obligations are complied with, and that corresponding processes are in order – from posting of data to lodgement of returns. Stepping into the heart of tax governance is the last step – management. This involves tax administration, such as ensuring returns are filed on a timely basis and that right documentation is maintained to support tax positions taken." (Figure 2)*.

How to manage tax risks?

To facilitate a robust tax governance framework of identifying, escalating, and mitigating tax risks, a "three lines of defence" approach may be adopted:

1) The first line of defence is provided by functions that own and manage risks, such as employees who have the necessary skills and knowledge to identify and manage risks as part of their accountability for achieving objectives.
2) The second line of defence is provided by functions that oversee or who specialise in compliance or the management of risks, where they have the oversight, tools and advice necessary to support the first line.
3) The third line of defence is provided by functions that provide independent assurance and whose main role is to ensure that the first two lines are operating effectively.

Putting the above into context in the case of the preparation of an indirect tax return, the first line of defence would be the finance team that collects the data, analyses them and drafts the return.

The second line of defence would be the tax director who undertakes a review of the final draft of the return, while the third line of defence would be the independent internal audit team that validates the work done by the finance team and the tax director on a regular basis.

Bringing them all together, Accredited Tax Advisor (Income Tax & GST) Sharon Tan, International Tax Partner at Deloitte Singapore, commented, "An effective tax governance (together with automation and outsourcing) is key to enabling companies to achieve the 5Cs" – Cost efficiencies, Compliance processes with accurate tax return outcomes, Controversy risk management, Controls that are robust and Credibility with regulators. Indeed, with tax reputation at stake, a sound tax governance framework would provide the credibility that the company's numbers can be relied upon for decision making and risk management. It also allows companies to properly allocate or redeploy limited resources in terms of effort, monies, and time towards higher priority focus areas. At the same time, it ensures tax compliance with the relevant laws and that risks are managed by highlighting out the outliers and waylayers."

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*Figure 1 The house of tax governance

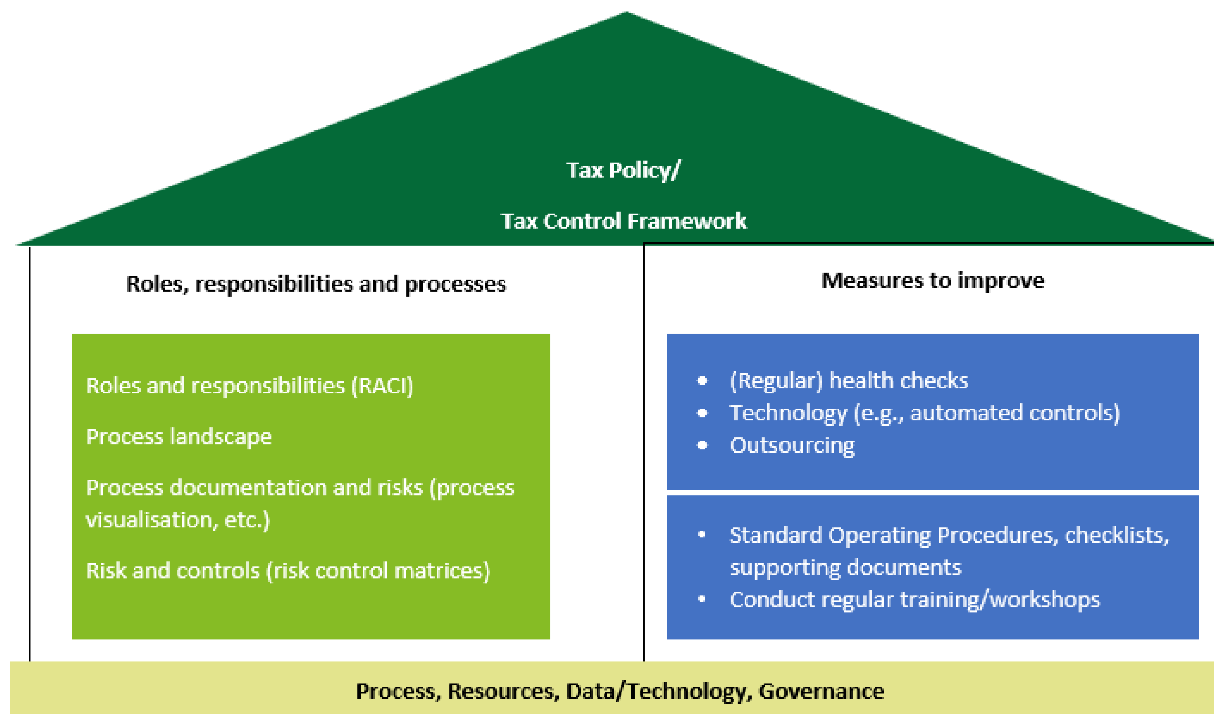
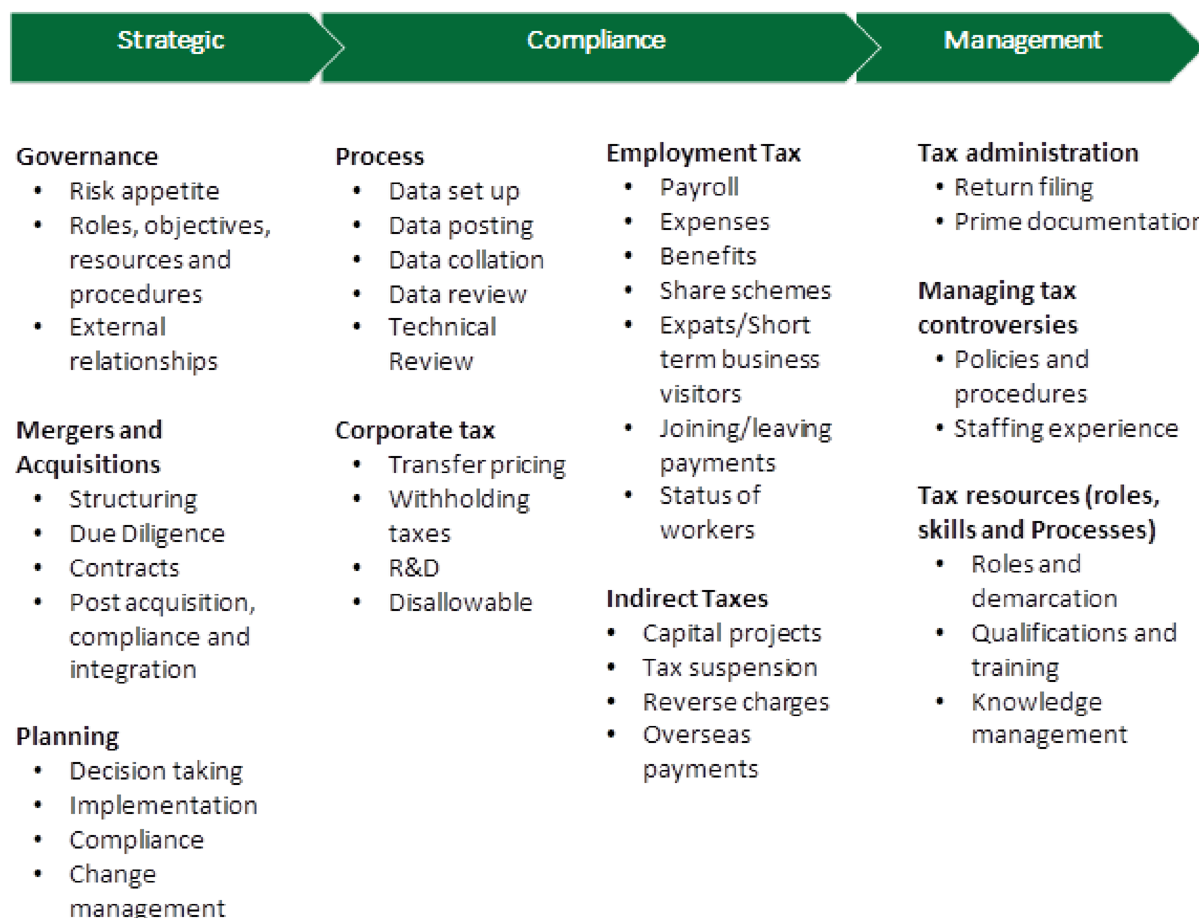


*Figure 2 The three-step approach to implementing tax governance



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