Tax Governance

Demystifying Tax Governance Adoption

12 May 2022, Thursday

Facilitated by:
Accredited Tax Advisors (Income Tax)
Ms Allison Cheung and Ms Jazlyn Tan

KEY TAKEAWAYS

- Companies awarded the TGF, CTRM or ACAP status are accorded certain benefits, such as the extended grace period for voluntary disclosure of errors and step-down audit (for CTRM and ACAP only).
- Having proper documentation and execution of internal controls enables proactive identification, review, and monitoring of tax risks.
- The deployment of fit-for-purpose technology can enhance tax governance and improve the tax risk management effectiveness.

In recent years, the Organisation for Economic Cooperation and Development (OECD) and tax authorities around the world have undertaken numerous measures to ensure that companies are paying the "right amount of tax". The OECD's Base Erosion and Profit Shifting (BEPS) framework and local tax reforms, the rising transparency measures and real time reporting requirements, and the application of big data to identify taxpayers for audits have pressured corporates to rethink their tax strategy.

"Increasingly, global companies are taking a more proactive stance in adopting tax governance and managing their tax risks. Demands for transparency in tax reporting has certainly increased in recent years," shared Accredited Tax Advisor (Income Tax) Allison Cheung, Partner, Asia Pacific Tax Reporting and Strategy Leader, and Accredited Tax Advisor (Income Tax) Jazlyn Tan, Director, Tax Reporting & Strategy, PwC Singapore, in a webinar by the Singapore Chartered Tax Professionals.

(From left) Accredited Tax Advisor (Income Tax) Allison Cheung, Partner, Asia Pacific Tax Reporting and Strategy Leader, and Accredited Tax Advisor (Income Tax) Jazlyn Tan, Director, Tax Reporting & Strategy, PwC Singapore shared their insights on the current tax governance landscape and key observations from their experiences in assisting global companies adopt tax governance.

Tax Governance in Singapore

In Singapore, the Inland Revenue Authority of Singapore (IRAS) has put in place three major voluntary compliance initiatives – the Tax Governance Framework (TGF), the Tax Risk Management and Control Framework for Corporate Income Tax (CTRM) and the GST Assisted Compliance Assurance Programme (ACAP) – to allow companies demonstrate good tax governance and compliance processes within their organisation.

TGF is an overarching principle-based framework providing guiding principles and key practices which a company can adopt in its tax governance policy as part of overall good corporate governance. The framework is about setting the tone from the top and centres on three building blocks:

(i) The company is committed to comply with relevant tax laws and regulations;
(ii) The Board is apprised of the governance structure and policy for managing tax risks; and
(iii) The company makes efforts to cultivate a collaborative and transparent relationship with tax authorities.

CTRM and ACAP go beyond the tax governance policy and are designed to establish robust internal control and systematic risk management processes to identify, mitigate and monitor key tax risks for corporate tax and GST matters respectively.

Companies awarded the TGF, CTRM or ACAP status are accorded certain benefits, such as extended grace period for voluntary disclosure, a one-time waiver of penalties for voluntary disclosure of prior years' errors and step-down audit.

"In practice, most multinational companies (MNCs) would have established their own corporate governance framework of which tax is a part of. In other words, most MNCs would have put in place a certain level of tax governance and controls," highlighted Allison. *"It is then about bridging the gap, if any, between the company's level of tax governance and controls and the specific requirements for each voluntary compliance initiative, as well as ensuring that the company has sufficient documentation to support its case."*

The Construct – How a Tax Governance Framework May Look Like

A tax governance framework generally consists of several documents, such as the tax strategy statement, tax policy, process charts, process operating manual, and risk monitoring activities. These should be considered from a people, process, data and technology perspective.

TAX STRATEGY STATEMENT

At the centre of the tax governance framework is the tax strategy statement which defines the governance standards for managing tax risks. It sets the overall tone from the top and the company's approach toward tax risk management. A sample tax governance policy has also been provided by IRAS.

TAX POLICY AND RISK MANAGEMENT FRAMEWORK

The tax policy and risk management framework define the guiding principles of sustainable tax governance across various tax types. It sets the critical policies and controls posture – what the tax risk appetite should be, what type of matters should be escalated to the Board or audit committee, how new and significant transactions should be handled.

PROCESS CHARTS WITH RISK AND CONTROLS

The process charts document the specific roles and responsibilities of the relevant personnel as well as the controls set up to manage the identified risks. It ensures continuity as new personnel can simply refer to the process charts and take over the process seamlessly. Review and testing of the controls in the process charts should be carried out on a periodic basis to ensure that the controls remain effective.

PROCESS AND OPERATING MANUAL

The process and operating manual is essentially a set of standard operating procedures for tax processes and tax operations. It allows proper transfer of knowledge with greater degree of context and instructions for specific tax processes and operations.

RISK BASED ASSURANCE MEASURES

Internal audit and independent reviews may be performed periodically to review the tax processes and test the existing controls. The underlying objective of these measures is to ensure the presence of internal controls are effective and that they are appropriately executed. In light of the rapidly changing business and tax landscape, such periodic audits and reviews are paramount to the continual relevance and effectiveness of the tax governance framework.

Top 10 List for Tax Governance Readiness

For a start, organisations may consider the following to assess their tax governance readiness.

FOUNDATION

(i) *Tax is on the Boardroom Agenda*

Tax should be on the boardroom agenda. Effective tax governance starts with the tone from the top; the Board endorses the company's tax governance and tax risk management framework. In Singapore, the Board respects that tax risks are key business risks, and this is a necessity for a company to onboard TGF.

(ii) *Guiding Principles of TGF*

A company embarking on its tax governance journey should consider the three guiding principles of TGF. Essentially, the company should be committed to comply with relevant tax laws and regulations, the Board should be apprised of the intended tax governance framework, and there should be a collaborative and transparent relationship with tax authorities.

(iii) *Take Stock*

Periodic check-ins with the finance and operations teams can provide the tax team a better understanding of the company's tax governance readiness and identify any gaps in controls. Accordingly, these would give the tax team a chance to address specific or evolving tax risks in a timely manner.

INTERMEDIATE

(iv) *Documentation*

Documentation provides the basis to support the organisation's tax position in the event of a tax audit. Organisations are expected to maintain proper documentation of their tax controls and tax risk management framework. They are encouraged to align themselves to IRAS' voluntary compliance initiatives and should ensure that they have documentary proof to support their applications.

(v) *Stakeholder Management and Buy-in*

Successful implementation of tax governance hinges heavily on stakeholder management. It is crucial for the tax team to obtain the buy-in from key personnel from other departments to ensure seamless collaboration during the tax governance rollout.

(vi) *Let Technology Do the Walking for You*

The deployment of fit-for-purpose technology can enhance tax governance and improve the execution of tax processes. With the help of technology, the tax team may be relieved of certain manual tasks, and accordingly would be able to focus their attention on the critical business issues instead.

(vii) ***Review and Reflect Every Three Years***

Companies should implement a "maintenance programme" to regularly review the existing controls and ensure that organisation's tax risks are reflected and managed effectively.

ADVANCED

(viii) ***Application to Overseas Entities (for Singapore- or Asia-based global organisations)***

The same tax governance framework and standards that apply to the Singapore headquarters should similarly be applied to their overseas subsidiaries, and where necessary, with an appropriate level of localisation to take into account the different tax regulatory environments.

(ix) ***Add a Readiness Placeholder for Future Pillar Two Reporting***

While the effective date for the jurisdictional adoption of Pillar Two reporting continues to evolve, companies should consider the relevance of Pillar Two to their respective organisation and where applicable, start their readiness planning for Pillar Two impact assessment and process transformation as necessary.

(x) ***Achieve Optimal Tax Risk Management Ecosystem***

Tax governance and tax risk management cannot be carried out by the tax team alone. It requires the entire ecosystem - end-to-end stakeholders, process owners and supporters - to form an optimal operating governance model.

The global tax reform, the growing scrutiny by tax authorities and the increasing tax complexity create a perfect storm for global organisations to grapple with. Managing tax risks and staying ahead of the changing tax landscape can no longer be an afterthought for many global companies. Tax risks are considered a key business risk in many global organisations. There has been a seismic shift that places tax governance deployment as a critical actionable priority. A robust tax governance model starts with the Board setting the tone at the top. More global organisations are proactively seeking the best avenues and resources to incorporate tax governance into the organisation's natural business processes and hence actively manage the organisation's tax risks.

Please click here to rate this article.

Facilitators

Ms Allison Cheung
Asia Pacific Tax Reporting & Strategy Leader
Corporate Tax Partner
PwC Singapore
Accredited Tax Advisor (Income Tax)
Email: allison.cheung@pwc.com

Ms Jazlyn Tan
Tax Reporting & Strategy
Director
PwC Singapore
Accredited Tax Advisor (Income Tax)
Email: jazlyn.tan@pwc.com

Felix Wong is Head of Tax, and Agatha Oei is Tax Specialist, Singapore Chartered Tax Professionals.

For more tax insights, please visit www.sctp.org.sg