

Tax Espresso – Special Alert

Tax Governance

Greetings from Deloitte Malaysia Tax Services.

The Inland Revenue Board of Malaysia (IRBM) issued the Tax Corporate Governance Framework (“TCGF”) and Tax Corporate Governance Guidelines (“TCGG”) on 11 April 2022. It is part of the IRBM’s initiative towards adopting a cooperative tax compliance process that is both fair and effective in Malaysia.

The release of the TCGF and TCGG is a major step towards fostering a cooperative relationship between the corporate sector and the tax authorities. It is also a positive approach to develop a more consultative and transparent compliance regime in the country. The newly published TCGF is a broad approach in setting out the strategic and operative roles towards tax governance and management within an organisation and aims to provide guidance in line with what is recommended by the Organisation for Economic Co-operation and Development (“OECD”) and expected by the IRBM.

Ultimately, the TCGF requires organisations to formally document the tax management strategies it adopts and set-out clearly the accountability for such strategies and tax risk management. It also requires the organisations to establish how they will evaluate and assess the effectiveness and compliance to its framework established. The organisation’s TCGF is required to be reviewed by independent consultants to express a professional objective view and finally submitted to the IRBM for review and assessment. The TCGF is expected to address:

- Accountability for tax strategies and tax risk management in the organisation
- Clear documentation of significant tax policies and issues
- Record and audit trail of internal compliance review

Organisations that meet the IRBM’s requirements (e.g. typically medium to complex businesses structures, high volume of transactions and an established internal controls system) are encouraged to participate in the “Tax Corporate Governance Framework Programme”. Submissions that satisfy the IRBM’s requirements will be awarded with a participation status confirmation which is valid for 3 years. The IRBM has represented that award holders will be given priority treatment in terms of refunds processing and issues resolution with a dedicated tax officer. They will also be subject to less scrutiny and frequency of audits.

The ideals of the framework and goals of the Tax Corporate Governance Framework Programme are noble and intended to foster greater trust and mutual understanding between the taxpayer and the IRBM. Full implementation of the TCGF is expected in year 2024. However, the IRBM is starting with a pilot project in June 2022 involving selected companies. This is a step forward from the existing “Advance Ruling” system and a positive direction for a more transparent and consultative tax ecosystem.

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If you would like to find out more, please refer to the brochure attached or get in touch with us:

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Tax Governance - Do you have the right processes?

Closer tax scrutiny on businesses?

Organisations are expected to come under intense scrutiny from government, regulatory and other significant stakeholders. This increased scrutiny stems from an increased focus on tax base erosion which has been further exacerbated by the extraordinary spending by governments as a result of COVID-19. This has been reflected in a dramatic increase in legal and regulatory compliance obligations, coupled with expanding reporting obligations across all business areas, from compliance to operations and tax.

To operate effectively in this environment, organisations must rapidly develop and leverage a coordinated strategy for responding to each new requirement while continuing to excel at their day-to-day operations. A strong, adaptable regulatory response mechanism is critical in minimising the potential impacts on both clients and the organisation while balancing risk at the same time.

A challenging corporate environment and external factors led by COVID-19

The changing working environment accelerated by the pandemic is distorting companies' internal information flows and exchanges. As remote working arrangements may become a permanent work approach, companies may have to rearrange their internal communication channels to ensure that tax relevant information are appropriately considered for purposes of tax reporting, to avoid "garbage-in, garbage out" situations.

Fundamental changes in internal corporate systems are another challenge. Finance Transformation projects which are often accompanied by complex Information Technology (IT) implementations, may have a significant impact on decades-old tax compliance life cycle.



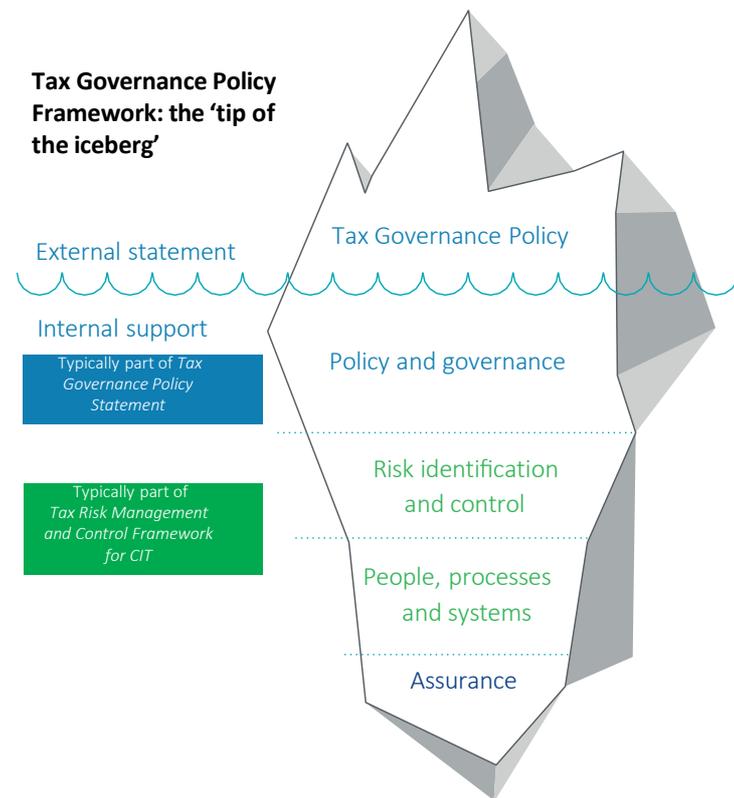
How can Tax Governance help?

Against the backdrop of a changing environment, it is increasingly important for organisations to put in place a robust and effective Tax Governance Policy Framework.

Such a framework incorporates the governance of specific projects and transactions as well as day-to-day tax operations, enabling compliance with both new obligations and ongoing requirements. A strong framework also leverages the finance and the tax functions as a true strategic business partner, who actively involved in the identification and implementation of requirements and regularly collaborating with compliance teams and affected lines of business across the organisation.

As a result, businesses can take a proactive approach to better manage tax declarations and tax risks associated with incorrect data. With an improved level of data accuracy, the taxpayer's standing with all stakeholders, in particular the tax authorities can be increased, in addition to reducing compliance costs, avoiding tax penalties and strengthening the tax controversy management.

Tax Governance — Do you have the right processes?



“As all countries rely on tax revenue, governance in taxation is therefore very crucial. To mitigate unnecessary penalties from being imposed, adverse impact on operating cash flows which will affect day to day operations, and all other avoidable repercussions, it is timely that listed issuers manage their tax function well over which the Board Audit Committee should have adequate oversight”¹

A *Tax Governance Policy Framework* (TGP) aligns the strategy and objectives of the finance and the tax functions with those of the overall organisation and helps the tax function effectively identify and deliver value while continuing to comply with underlying legislative and regulatory requirements.

The TGP must be formally documented and approved “at the top of the house” and it must also be communicated to all relevant stakeholders to ensure that “bottom-up” activities are effectively aligned.

A *Tax Risk Management and Control framework* (TRMC) supports the finance or tax function in managing tax risks, identifying tax opportunities and integrating governance policies, internal controls and tax processes to achieve strong tax risk management that aligns with the established risk policy. A TRMC should include the following:

- Identification and documentation of key internal controls in place to monitor, manage and mitigate risks arising from financial reporting, tax compliance and other tax activities;
- Periodic assessment of tax risks facing the organisation, including internal and external environmental matters; and
- Identification of processes and tools needed to effectively align tax function resources and activities with the organisation’s overall aims and objectives.

There is no “one-size-fits-all” tax governance structure applicable and appropriate for all projects across organisations. Each alternative should be reviewed and considered on a project-by-project, issue-by-issue, and/ or organisation-by-organisation basis to determine which is most appropriate.

Whether the solution is based on process, business or geography, it’s vital that certain key components are included in the final governing structure. These components include the project sponsor, adequate resources, a project management team, and frequent and transparent communication.

Malaysia tax aspects

In Malaysia, there is currently no statutory requirements for businesses to have a formal TGP in place. However, the focus on this topic is gaining momentum. The Malaysian Institute of Accountants (MIA) issued a *Tax Governance Guide* in November 2021 as a reference for large companies in reporting the management of tax matters in their annual reports. The Inland Revenue Board (IRB) has also issued the *Tax Corporate Governance Framework* (TCGF) and *Tax Corporate Governance Guideline* (TCGG) on 11 April 2022, with full implementation expected to take effect in 2024. A pilot project covering selected companies is expected to take place in June 2022.

The TCGF covers a wide spectrum of tax matters including income tax, petroleum tax, transfer pricing, withholding tax, Labuan tax, incentives and rulings. Some benefits for TCGF participants include reduced scrutiny on tax compliance, faster tax refunds and having a dedicated IRB officer as a single point of contact between the IRB and taxpayer.

¹ Malaysian Institute of Accountants, ‘Tax Governance Guide.’, Malaysian Institute of Accountants 2021, <https://www.mia.org.my/v2/> (accessed 16 November 2021).

Tax Governance — Do you have the right processes?

Deloitte’s “Global Process Approach” on tax processes

Companies should commence their Tax Governance journey by verifying their understanding of their tax processes by means of a process walk-through.

Deloitte’s “Global Process Approach” for tax processes may be the right approach for such an initial analysis, as it has been proven effective and does not require a separate documentation tool.

The “Global Process Approach” refers to defined process steps, where standardised questions are assigned to each step. The as-is process is therefore matched with the standard process, so that potential gaps can be identified immediately.



Deloitte’s “Global Process Approach” is being used worldwide and areas of application mostly include Record-to-Report processes as tax declaration processes for all kinds of taxes. However, the approach can also be used for Purchase-to-Pay and Order-to-Cash processes and the same goes for indirect taxes or Transfer Pricing.

Deloitte’s Tax Governance Services

We assist and advise clients in the following areas:

- **Tax Governance Policy Framework/ Tax Risk Management and Control Framework**

- Quick review for identification of gaps and tax process risks.
- Preparation of Tax Methodology, Risk Control Matrix, and Standard Operating Procedures (SOPs).
- Process analysis and recommendations to mitigate weaknesses.
- Tax technical analysis/ health checks.

- **Tax Governance Technology/ Target Operating Model**

- Development of Target Operating Model for Tax.
- Operationalisation of Tax Governance with IT-Solutions.

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