

Tax governance—Do you have the right processes?

Closer tax scrutiny on businesses?

As the global business environment becomes more complex, and due to a focus on tax base erosion in recent years which is exacerbated by the extraordinary spending by governments as a result of COVID-19, organisations are expected to come under intense scrutiny from government, regulatory and other significant stakeholders. This is marked by a dramatic increase in legal and regulatory compliance obligations, coupled with expanding reporting obligations across all business areas, from compliance through 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 COVID-19 is distorting companies' internal information flows and exchanges. As it is expected that remote working arrangements may become a permanent work approach going forward, 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, such as Finance Transformation projects which are often accompanied by complex Information Technology (IT) implementations and may have a significant impact on decades-old tax compliance life cycle.

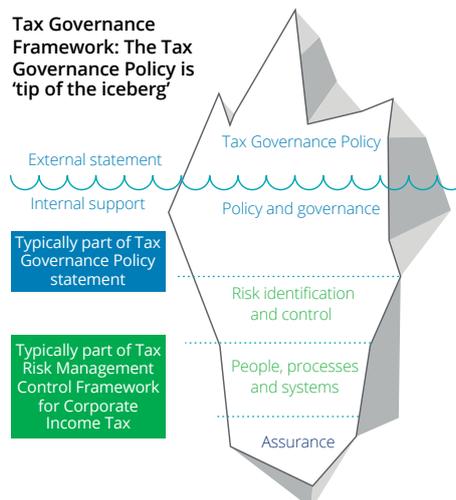
Singapore's new co-operative compliance programmes

The Inland Revenue Authority of Singapore (IRAS) has introduced two new voluntary compliance initiatives, namely Tax Governance Framework (TGF) and the Tax Risk Management Control Framework for Corporate Income Tax (CTRM). Such initiatives encourage companies to demonstrate good tax governance and sound internal controls. The main objective of TGF is to help companies maintain and improve their overarching tax governance and control framework, and bringing attention of it to the board level. IRAS would grant a one-time extended grace period of two years. for voluntary disclosure of Corporate Income Tax errors made within 2 years from the date IRAS approved the company's TGF application.

Meanwhile, the CTRM aims to allow companies to perform a complete review of their controls and tax risk management for corporate income tax matters. Whilst an initial CTRM project requires much more effort and resources than the TGF, IRAS will grant more benefits associated with a successful application such as penalty waivers and a step down of tax audit activities.

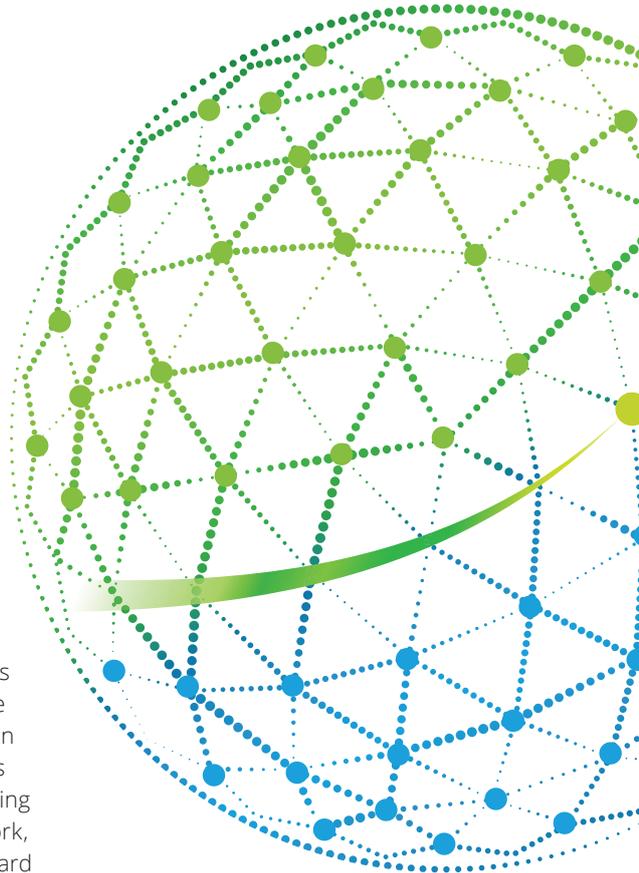
What does tax governance consists of?

Tax Governance Framework: The Tax Governance Policy is 'tip of the iceberg'



A TGF aligns the strategy and objectives of the finance respectively the tax function 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. A CTRM should for example include:

- Periodic assessment of tax risks facing the organisation, including compliance and processing risks;
- 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; 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 and all 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 is 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.

A form of tax governance in Singapore is the Assisted Compliance Assurance Programme (ACAP), which was launched in 2011 and provides a holistic framework for businesses to proactively manage their Goods and Services Tax (GST) risks across entity, supplies, purchases, and reporting. For those companies already participating in the ACAP, management may consider applying for the CTRM, too. Even though ACAP and CTRM are separate programs, there are certain common elements and companies could harness synergies in course of the CTRM implementation.

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, whereby standardised questions are assigned to each step. The as-is process is therefore

Deloitte’s tax governance services

We assist and advise clients in the following:

TGF/CTRM

- Quick review for identification of gaps and tax process risks
- Preparation of tax policy, Risk Control Matrix, and Standard Operating Procedures
- Process analysis and recommendations to mitigate weaknesses
- Tax technical analysis/health checks
- CTRM application and review

ACAP

- ACAP application and review
- Post ACAP review
- ACAP renewal application and review

Tax governance technology/target operating model

- Development of target operating model for tax
- Operationalisation of tax governance with IT-solutions

matched with the standard process, so that potential gaps can be identified immediately.



Picture 2—Deloitte’s “Global Process Approach” for tax processes

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 GST or transfer pricing.

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