



TaXavvy

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The tax corporate governance
journey to date



Cooperative compliance fosters open lines of communication between the taxpayer and Inland Revenue Board, based on trust and transparency. The shift in mindset and approach to these discussions have been a journey for all parties involved. The collaboration has enabled practical considerations that have been reflected in the updates to the Guidelines on Tax Corporate Governance Framework.

A journey of a 1,000 miles
begins with a single step
– Lao Tzu



The tax corporate governance journey to date

The Inland Revenue Board (IRB) has on 7 April 2025 issued updated versions of the following:

- Tax Corporate Governance Framework (TCGF)
- Guidelines on Tax Corporate Governance Framework (“TCG guidelines”)
- FAQ on Tax Corporate Governance Framework and Guidelines (FAQ)

The above are available on IRB’s website www.hasil.gov.my (Legislation > Framework > Tax Corporate Governance Framework)

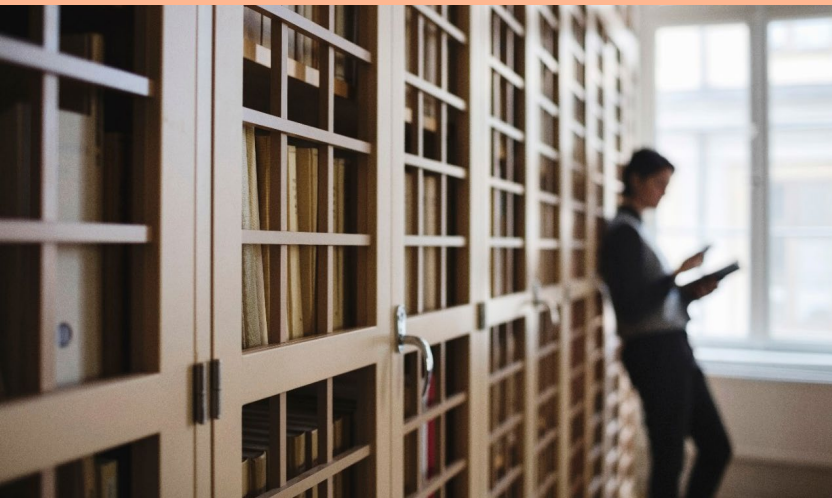
*The information in the abovementioned documents are updated as at 13 March 2025.

The key updates in the latest revision of the TCG guidelines include clarity on the following:

- Definitions and documents required, e.g. independent assessor, updates to Appendix 1 regarding tax strategy
- Maturity assessments carried out during the “adequacy” and “effectiveness” testing
- What the taxpayer can expect during review, monitoring and renewal phases

The Tax Corporate Governance (TCG) Programme

Before we delve into the updates made, let us revisit the TCG programme and how the IRB’s six key TCG principles apply to organisations which wish to be part of this programme. This is illustrated in the following page.



What is the TCG?



Tax transparency : TCGF outlines guidance to promote and establish a transparent relationship between the IRB and taxpayers.

Tax Control Framework (TCF): Taxpayers should outline their approach to management of tax matters in a TCF to provide assurance to stakeholders.



TCGF coverage : Direct taxes including income tax, petroleum income tax, real property gains tax, transfer pricing, withholding tax, stamp duty

Participation: Voluntary basis, implemented as a pilot project (June 2022 to June 2024), where selected organisations will receive an invitation from the IRB to participate. Phase 2 was launched on 1 July 2024 for interested taxpayers to contact the IRB to communicate their interest in this programme.



Self- review assessment: The taxpayer will need to submit the completed self-review assessment and the independent reviewer's report to the IRB (within six months from approval of participation). Those that do not meet the required levels of maturity will be given up to 12 months to close the gaps (new).

Who does it impact?



Organisations that are:

- Large companies / public listed companies (with turnover of RM100 million and above).
- Companies which have won the Best Taxpayer Award.
- Government-linked companies / State-owned enterprises.
- Compliant taxpayers (return form submission and tax payment).
- Does not include dormant companies or investment holding companies (new)



Other organisations encouraged to participate include, those that:

- Have medium to complex structures and business models.
- Engage in voluminous transactions.
- Place emphasis on tax risk management as part of their corporate governance.
- Rely on extensive in-built controls in their systems and processes, to generate timely and accurate data for financial and tax reporting.
- Cultivate transparency and openness in engaging with the IRB.

Why consider the TCG?



Reduced scrutinisation of compliance activities: No / lesser tax audits will be conducted. Higher materiality and reduced sample sizes.



Accelerated tax refund: This is provided that no anomalies are noted and it is subject to approval.



Efficiency: Appointment of a dedicated tax officer to expedite any ongoing dialogue on tax technical matters.



Eligible to be granted priority consideration: This could be in respect of tax penalty rates and step down of compliance activities.



Eligible for tax deduction: Up to RM50,000 for preparing TCGF report has been announced.

Let's get back to basics

The IRB’s six key TCG principles, which are also linked to the four pillars under the Global Reporting Initiative (GRI) 207 for tax, are aligned with the OECD 2016 report. The components under each principle are crucial for understanding the updates and evolution of the TCG guidelines and FAQs. TCG leverages robust tax controls, risk identification, and escalation points to manage tax risk and compliance.

IRB's clarifications enable organisations to understand what is required in terms of documents and the basis of the maturity assessments during the “adequacy” and “effectiveness” testing. For instance, under the first principle, a robust business strategy would include an integrated tax strategy to facilitate better levels of awareness, data accuracy and controls within the business process. This would require the Board of Directors’ endorsement in the design and adoption of the relevant controls within the integrated strategy and clarity of roles and responsibilities of parties involved. Whilst certain levels of maturity are expected by the IRB, they have also indicated in the revised guidelines that if applicants do not meet them, there will be a period of 12 months to consider the suggestions made to close the gaps.

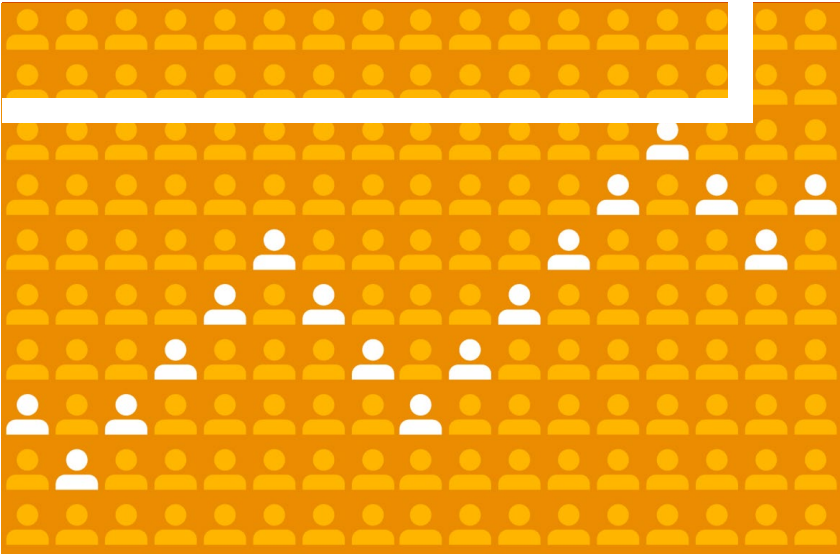


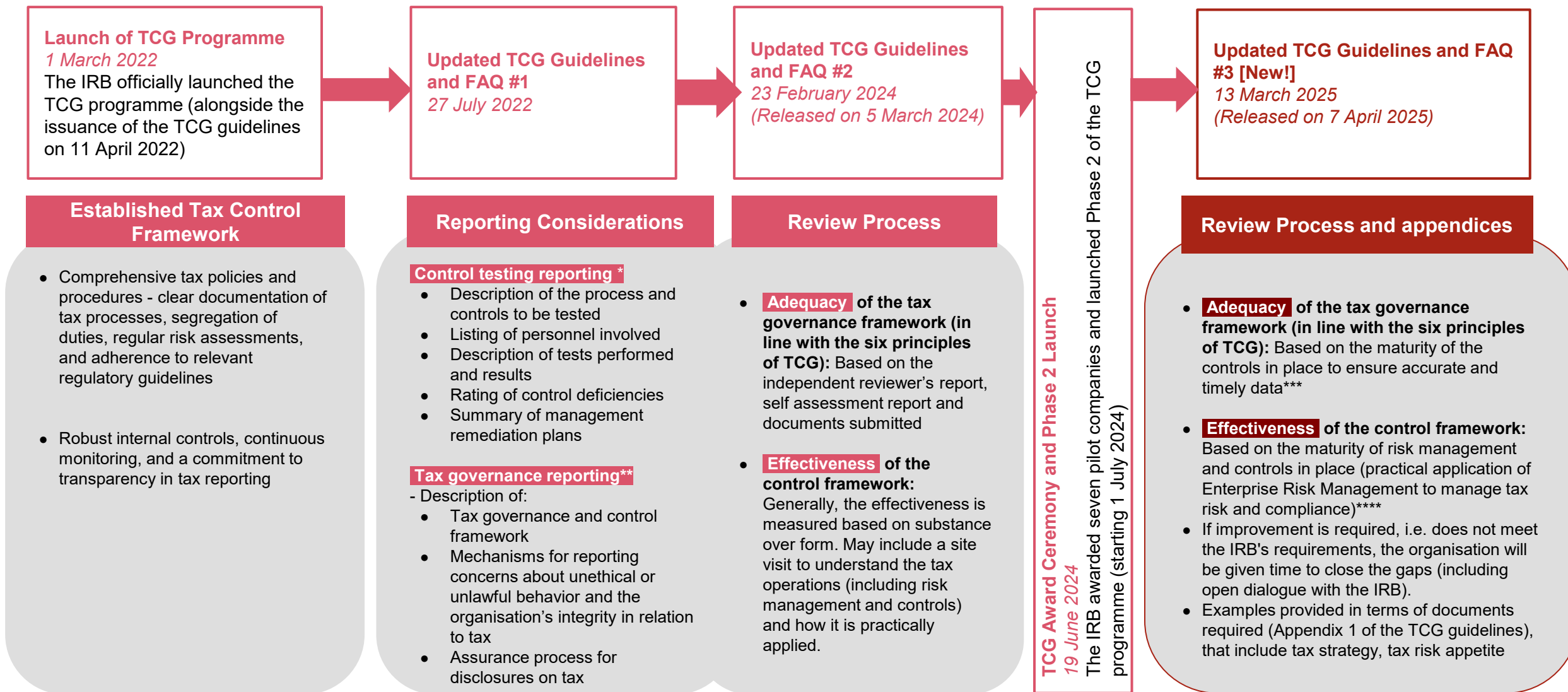
The evolution of the TCG guidelines and programme

After the successful pilot period, which saw seven companies being awarded TCG status, further revisions have been made to provide clarity on the requirements of this programme. Each revision to the TCG guidelines have been based on observations made managing TCG applications and engagement with interested parties in the programme. The salient updates under each milestone are illustrated in the following page.

We will delve into the key updates to the “adequacy” and “effectiveness” testing.

Without continual growth
and progress, such words
as improvement,
achievement, and
success have no
meaning
– Benjamin Franklin





* As required by COSO: Committee of Sponsoring Organizations of the Treadway Commission

** As required by GRI: Global Reporting Initiative

*** As outlined in OECD 2016, Technologies for Better Administration

**** As outlined in OECD 2021, Enterprise Risk Management maturity model

“Adequacy” and “effectiveness” testing: What’s the focus of the maturity assessments?

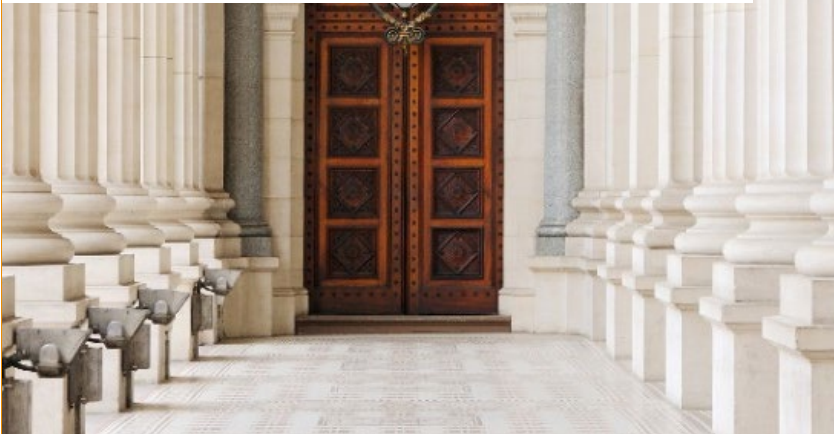
The OECD 2016 and 2021 reports, provide guiding principles to assess the maturity of an organisation in relation to:

- **Data governance** to ensure accuracy and timeliness to facilitate tax compliance and reporting, i.e. payment of the fair amount of tax, and
- **Enterprise Risk Management (ERM)** that provides guidance to tax risk appetite, clarity of roles and responsibilities.

Both maturity models provide a perspective on how “tax friendly” the ecosystem is to support management of tax risk with adequate controls in place to ensure tax compliance and reporting.

Why should robust tax risk management be integrated within ERM?	<ul style="list-style-type: none">• Organisations should integrate robust tax risk management within ERM frameworks to align tax strategies with business goals, enhancing governance, transparency, and accountability, as endorsed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and Malaysia's TCG.• Tax risk appetite (aligned to ERM) enables stakeholders to have a clearer perspective when assessing and deciding on actionable steps to take to manage risk events.• Tax controls can be embedded in business processes which enables better data accuracy for tax compliance and reporting.
How can an organisation's maturity be assessed?	<p>Assessment of tax risk and controls on the following should take place:</p> <ul style="list-style-type: none">• Business and tax environment, i.e. strategy, organisations values, level of tax awareness.• Tax operations (all taxes), alignment with tax strategy, management and controls in place to ensure tax compliance.• Internal monitoring activity to periodically assess the design and operating effectiveness of existing tax controls and implementing change as required.• Tax risk management and assurance.

It is not enough to do
your best; you must know
what to do and then do
your best
– W. Edwards Deming



How we can help

- Our Tax Maturity Management model (T3M) methodology, grounded in COSO and OECD principles, serves as an internationally recognised tool for assessing the maturity and quality of an organisation's tax function, including its control framework and risk management.
- Aligned with the IRB's six key tax control framework principles, T3M evaluates tax control through five maturity levels, reflecting the organisation's current and aspirational tax management standards. Understanding these levels helps organisations align their tax controls with strategic objectives, ensuring effective governance and compliance.
- Our structured approach promotes transparency and enhances trust within the tax ecosystem. This involves defining a clear vision and strategy for the tax function, assessing the current state, and identifying improvements across key areas: organisation, people, process, and data.
- Please get in touch and / or read our [blog](#) for more details on T3M.

The five T3M levels of maturity

- T3M dimensions provide a structured approach to tax risk management, incorporating risk escalation matrices, defined roles and responsibilities, and detailed process management steps.
- Organisations must assess their current maturity level and strategic objectives to determine their desired state within the five levels of T3M maturity.

<i>Maturity level</i>	<i>Description</i>
<i>Level 1: Initial</i>	There is no formal framework for tax. The tax function is reactive to incidents with basic software to assist in tax compliance.
<i>Level 2: Informal</i>	There is a simple, unstructured approach to managing tax, with basic software (slightly more sophisticated than level 1) to assist in tax compliance.
<i>Level 3: Standardised</i>	There are uniform processes and policies in place (executed based on personal experience), with basic software and simple integrated enterprise resource planning (ERP) to assist tax compliance and manage tax data.
<i>Level 4: Managed</i>	There is a structured approach, using predictive analytics / tools and an integrated ERP to manage tax compliance and risk in a proactive manner.
<i>Level 5: Optimised</i>	There are formal policies and frameworks in place, with tools that enable real time prescriptive analytics to support strategic decision making.

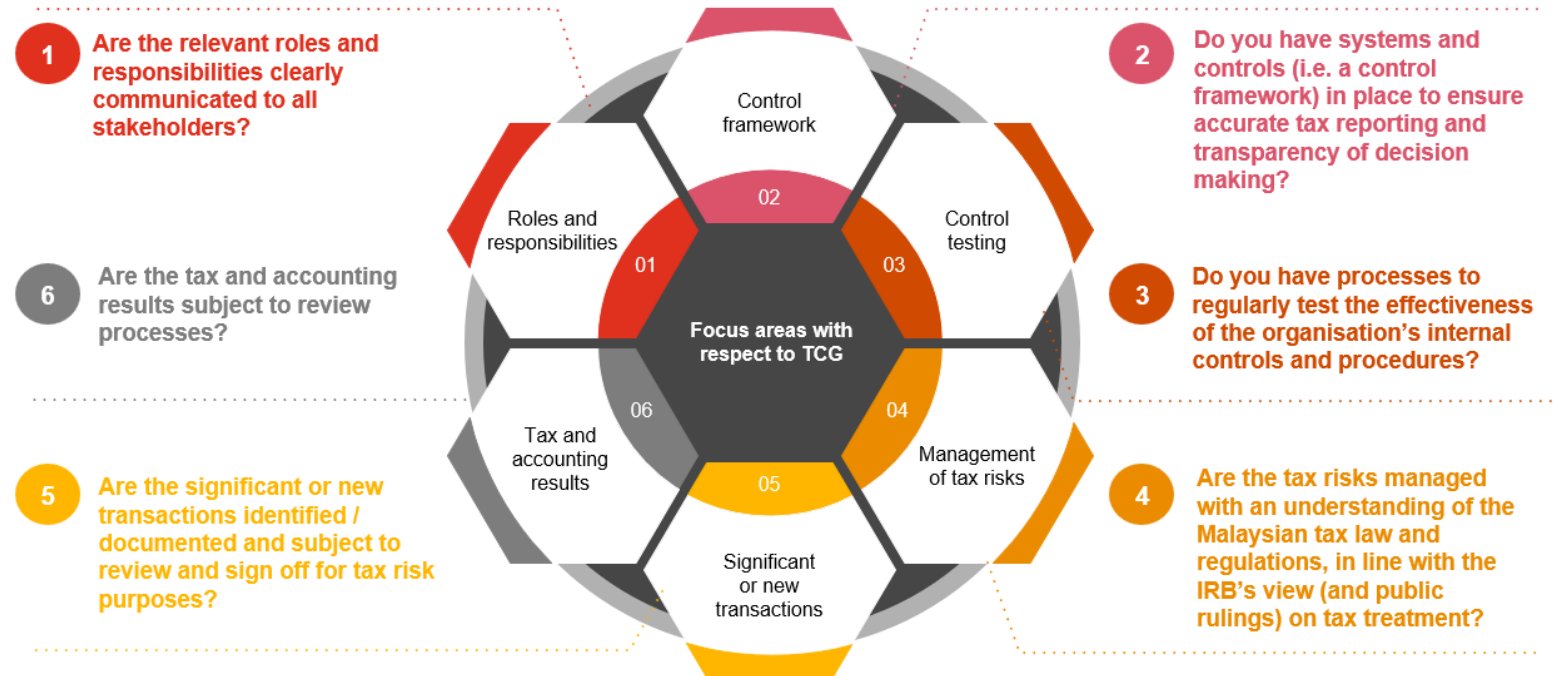
Take the first step

In order to assess your current state, consider the focus areas illustrated. Effectiveness and implementation of TCG is linked to the following six key principles:

1. Tax strategy established
2. Applied comprehensively
3. Responsibility assigned
4. Governance documented
5. Testing performed
6. Assurance provided

Get in touch for further insights on how to get started or if you have any questions on the revised guidelines and FAQs.

Below are some key focus areas with respect to the TCG:



The release of the updated guidelines underscores the IRB's commitment to advance cooperative compliance, with TCG identified as a key focus area for 2025, as announced during the IRB's recent 29th Hari HASiL.

You don't have to see the whole staircase, just take the first step
— Martin Luther King Jr.

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