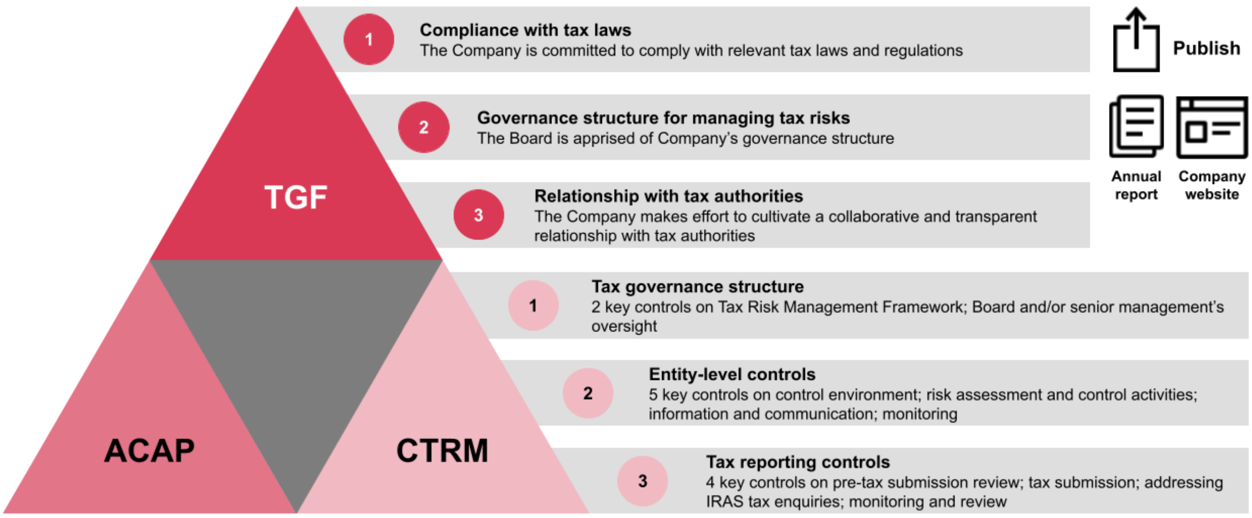
Tax Governance and Tax Risk Management Initiatives

March 2022

In brief

On 17 February 2022, the Inland Revenue Authority of Singapore (IRAS) launched two new voluntary compliance initiatives: the Tax Governance Framework (TGF) and Tax Risk Management and Control Framework for Corporate Income Tax (CTRM). These are initiatives to promote the adoption of good tax governance principles and for the organisation to demonstrate that it has established a robust tax governance framework. The initiatives have been modelled upon the successful implementation of Goods and Services Tax Assisted Compliance Assurance Programme (GST ACAP) and other tax governance initiatives implemented by tax authorities around the world, e.g., Australian Taxation Office, HM Revenue & Customs and the Netherlands Tax and Customs Administration.

The TGF and CTRM complement the existing GST ACAP. An e-tax guide on the CTRM Programme was also published. These programmes operate independently, and a company may choose to adopt one or both initiatives according to its readiness and business objectives.



In detail

	TGF	CTRM
Overview	A principle-based framework featuring a set of broad principles and key practices that a company should incorporate in its tax governance policy for effective management of corporate income tax (CIT) and GST risks.	A programme to help companies attest the robustness and effectiveness of the internal control processes with the purpose to identify, mitigate, and monitor key CIT risks.
Pre-requisites to participate	The Company must meet the requirements of IRAS' Guiding Principles and Key Practices for Tax Governance Framework and must publish its Tax Governance Policy statement on its corporate website or annual report.	The Company must meet the following criteria before submitting a CTRM application to IRAS: • Has the key controls for all 3 levels listed in the CTRM Checklist that ensure continual CIT compliance covering the CTRM period[1]. • Attained minimum benchmark of 60% of the control features of each key control listed in the CTRM Checklist. • Unqualified statutory auditor's opinion for last 3 years' financial statements. • Not under any CIT audit for tax avoidance or investigation by IRAS. • Good compliance records for CIT, GST & Property Tax (last 3 years). • Appoint an eligible CTRM Reviewer[2] to conduct the review.
Applying for TGF and/or CTRM Status	The Company can apply for TGF status by undertaking the following steps: 1. Publish its tax governance policy on the Company's website or an annual report which is publicly accessible. 2. Submit a declaration form signed by Chief Executive Officer or Chief Financial Officer confirming adherence to the guiding principles and key practices. 3. Submit the application form via FormSG, after which IRAS will evaluate.	The Company must submit an application form, after which IRAS will advise the Company's eligibility to participate. The Company will then need to appoint a CTRM reviewer. Both the Company and CTRM reviewer need to submit prescribed reports to the IRAS for evaluation within 1 year. IRAS will evaluate the submission and may request meetings, site visits and interviews. IRAS's evaluation process will take approximately 6 months from the date of receipt of the documents.
Benefits for adopting TGF or CTRM	A one-time extended grace period of **2 years** for voluntary disclosure of errors made within 2 years from the date of award of TGF Status. For companies with ACAP status, there will be extended grace period of 3 years for voluntary disclosure of GST errors.	A **one-time waiver of penalties** for voluntary disclosure of prior years' CIT and/or withholding Tax (WHT) errors made within 3 years from the date IRAS awards the CTRM Status. There will also be a **step-down CIT compliance audit**.

Practical considerations

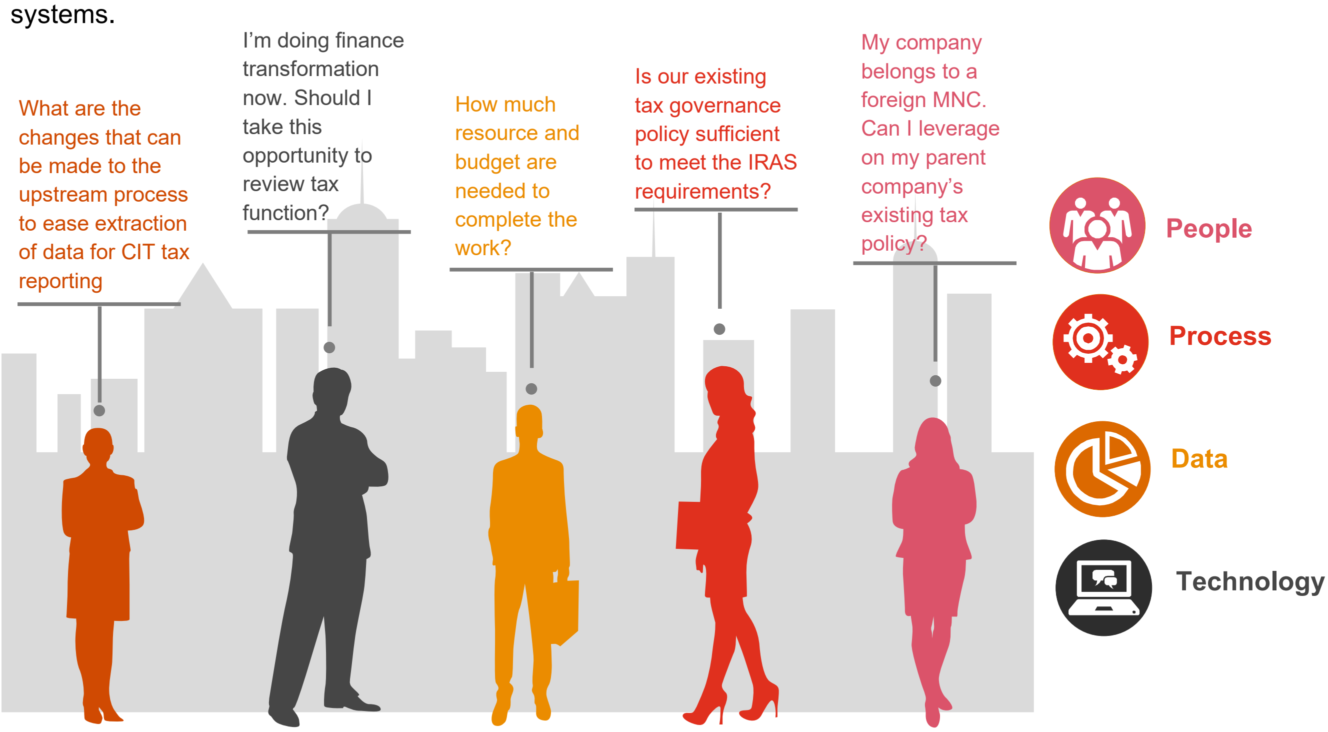
The tax regulatory landscape is significantly more complex than ever. The increasing demand for transparency on environmental, social and governance (ESG) strategies and media attention have led to heightening requirements on the posture that global companies manage their tax risks.

Consensus has been reached that "Tax" as a key business risk which carries a fair level of financial and reputational/ brand consequences in the absence of good tax governance. Companies must now rethink, establish, operate, and evidence a fit-for-purpose tax governance and risk management framework in addition to just managing tax technical risk in its normal tax operations.

[1] CTRM Period is a 12-month period as follows: (a) The 12-month period immediately preceding the month in which IRAS approves the entity's participation in the CTRM; or (b) The 12-month period of the entity's latest financial year.
[2] A CTRM Review can be conducted by a public accounting entity (or its tax affiliate), in-house internal audit team or jointly.

Often, a modern tax function demonstrates its agility in a tax operating model that bears a balanced mix of people, process, data management, and technology deployment. The change management efforts required to achieve this modern tax function state can be significant.

Similar to the GST ACAP program, the TGF and CTRM programmes are designed to permeate widely within an organisation with process and operating touch points that cut across relevant business units, functions and systems.



Whilst considerable time and efforts may be required to achieve TGF and/or CTRM status for certain companies, the review of tax risk and governance framework does not need to be a "one-off" grandiose exercise that demands substantial resources. A bite-size phased approach can be considered in an environment where many organisations are balancing their resource and budget constraints.

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