Tax Risk Management & Governance

Tax Regulators set their expectations

Recently, the Tax Executive Institute (TEI) of Singapore and PwC jointly hosted a forum in Singapore titled "How tax functions are evolving to meet the challenges of today and tomorrow". The key themes underpinning the event were the:

01

elevation of tax as a key business risk with financial and reputational/brand consequences

02

pressures on tax functions to evolve to better manage tax risks **AND** at the same time meet key internal/external stakeholders expectations and embrace the opportunities presented by process transformation and technology.

Thoughts from the Regulators on tax risk and governance

A particular highlight of the forum was a session involving an interview by **PwC Corporate Tax Partner Florence Loh,** of **Assistant Commissioners from the Australian Taxation Office (ATO), Belinda Darling** and **the Inland Revenue Authority of Singapore (IRAS) Chow Wai Yee**. Both senior representatives have leadership roles in setting the tax risk and governance frameworks that are expected from taxpayers in their respective jurisdictions. Their valuable insights included the following:

The adoption of robust tax governance is seen by both Tax Authorities as critical to having confidence that taxpayers are paying the right amount of tax

From an ATO viewpoint, their "Justified Trust" regime requires evidence of the existence of a tax control framework, the design of the framework is fit for purpose and is operational in practice. The upside of meeting these requirements is a reduction in the intensity of ongoing enquiries that the ATO would seek of a taxpayer;

From an IRAS standpoint, their governance framework for Income Tax is evolving in consultation with taxpayers and has a planned pilot launch of 2020. Unlike the ATO, the approach has been modelled upon the very successful ACAP program for Goods and Services Tax. IRAS are looking at ways to encourage taxpayers to adopt the programme on a voluntary basis.

Both Revenue Authorities affirmed that compliance with any Regulator established risk and governance framework would necessarily involve an upfront investment but would be rewarded by less intensity in future compliance activities and hence reduced compliance costs for taxpayers over the longer term. The ATO representative did acknowledge that clarity around the upside of compliance with their Justified Trust regime was work in progress but foreshadowed that more of the upside would be revealed in the next 12 months; and

Both regulators affirmed the close collaboration that all Revenue Authorities have on issues like tax risk governance measures through exchanges at various forums including the OECD.

Practical implications for taxpayers

Regulators scrutiny of tax risk and governance is only going to increase and widen across APAC given their ability to leverage the existing frameworks of jurisdictions such as Australia and the UK, and the close collaboration and sharing that is already occurring between Revenue Authorities.

How then do taxpayers come to grips with increasing expectations from taxpayers around benchmark tax risk and governance frameworks in circumstances where there is a tsunami of compliance and limited capacity in their annual budgets?

Be strategic

The review of tax risk and governance framework does not need to be a “one-off” grandiose exercise necessitating dedicating substantial resources – both internal and external. Be strategic. Against published guidelines by Authorities around benchmark risk and governance frameworks, identify where there are gaps in your existing framework and what remedial action might be necessary. Remedial action could include a fresh look at technology to automate processes that are inefficient.

What is the cost benefit?

Treat any review as you would undertaking a cost benefit exercise. What is the upside of, for example, being compliant with the ATO’s Justified Trust regime or a first mover in shaping IRAS’s risk and governance benchmark framework? Reduced compliance activity, greater process efficiencies, greater commitment of tax resources to working with business on value added activities.

Accessing budget from corporate wide initiatives

In our experience it’s absolutely critical for Heads of Tax to recognize the tax risk and governance linkages with other corporate wide initiatives such as finance function transformation, ERP to Cloud initiatives eg; S/4Hana and even merger and acquisition transactions requiring consolidation of tax functions. These all provide opportunities to access external budget to align and enhance tax risk and governance with corporate wide risk and governance frameworks.

How can PwC help?

Your PwC team can assist you in setting a strategy to enhance your tax risk and governance framework including access to our diagnostic and automated tools.

01 Assess the effectiveness of your tax control framework

- Key obligations
- Roles and responsibilities
- Levels of opinion
- Communication and relationships
- Board/ Committee reporting

02 Conduct an operational risk assessment across all taxes

- Direct tax
- Indirect tax
- Employment tax
- Other taxes

03 Implement changes that will mitigate risk and add value

- Policies
- Process and controls
- People
- Data
- Technology

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