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TAX FLASH

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Tax Corporate Governance Framework

The term “Corporate Governance” should not be new to business entities, especially to companies listed in Bursa Malaysia as Corporate Governance is part of the listing requirements. However, “Tax Corporate Governance” might be something new to most businesses in Malaysia and it has been the talk in the tax industry since the launch of the Tax Corporate Governance Framework [“TCGF”] Programme by the Inland Revenue Board [“IRB”] on 1st March 2022. But how does this concern your business?

Tax Corporate Governance is a subset of Corporate Governance which in short, the internal control and risk management of tax related affairs, contributes to achieving greater tax transparency, accountability and trust with stakeholders. TCGF or Tax Control Framework [“TCF”] is the part of the internal control system that assures the accuracy and completeness of the tax returns and disclosures made by an entity. This is not a new agenda at the international level, which can be seen through the following scenes:-

- The emergence of Environmental, Social and Governance [“ESG”] agenda and reporting
 - Tax Corporate Governance is covered under the pillar “G” of ESG i.e. “Governance”. “Tax Transparency” is one of the measures to evaluate the quality of an organisation’s management of ESG issues under the FTSE Russell’s ESG Ratings.

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- Tax is a powerful tool for mobilisation and effective use of domestic resources for sustainable development. It plays an important role in achieving the United Nations' Sustainable Development Goals. Effective Tax Corporate Governance assures that an entity pays its fair share of taxes which would contribute to sustainable development.
- Adoption of the tax-related impact reporting standard - GRI 207:Tax 2019 issued by the Global Sustainability Standards Board which includes tax governance, control and risk management.
- Organisation for Economic Co-operation and Development ["OECD"]'s recommendations and initiatives
 - The OECD Guidelines for Multinational Enterprises recommend multinational enterprises to treat tax governance and compliance as important elements of their oversight and broader risk management systems.
 - Promotion of Co-operative Tax Compliance concept with the aim to establish a relationship based on co-operation and trust between businesses and revenue bodies on a voluntary basis. TCF plays a central role in this concept. The idea is that when an effective TCF is in place and the business provides tax transparency to the revenue body, the revenue body could reduce the extent of reviews and audits of the returns submitted to it by the business and trust that uncertain or problematic tax positions taken in those returns will be brought to its attention by the business.

In Malaysia's context, ESG has also garnered much attention in the past one year. Bursa Malaysia has on 12th October 2021, made available in its official website under "Bursa Sustain", a Tax Governance Guide published by Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants to provide guidance to directors of listed issuers in reporting the management of tax matters affecting the corporations in their annual reports.

Tapping into the global trend and in support of Co-operative Tax Compliance, the IRB has also been actively creating awareness among taxpayers on the importance of tax corporate governance i.e. to have in place an effective TCGF applicable to all businesses, not limited to public listed / large / multinational companies. On top of that, the IRB has introduced the TCGF Programme as an encouragement to taxpayers by providing the following benefits to qualified participants who implement an adequate and effective TCGF:-

- Reduced scrutinisation of compliance activities;
- Expedite tax refunds;
- Appointment of a dedicated tax officer; and
- Priority consideration on waiver of penalty.

The TCGF Programme is now in the pilot phase where invitations to participate have been sent by the IRB to selected organisations. However, interested parties may still apply to the IRB to participate in the pilot phase. The pilot phase is expected to be completed in June 2024 and thereafter, the Programme will be opened for participation by all organisations on voluntary basis. For more information on the TCGF Programme, please refer to the following documents published by the IRB:-

1. [Tax Corporate Governance Framework \(as at 11th April 2022\)](#);
2. [Guidelines : Tax Corporate Governance Framework \(as at 27th July 2022\)](#); and
3. [Frequently Asked Questions - Tax Corporate Governance Framework and Guidelines \(dated 27th July 2022\)](#).

Tax compliance in Malaysia is getting more complex and costly in recent years. Further, there has been more in-depth and frequent scrutiny by the IRB on taxpayers through tax audits and investigations. Not to mention the hefty tax penalties imposable on non-compliant taxpayers. Tax compliance is no longer effective / sufficient without good tax governance. Further, appearing as a non-compliant taxpayer will now gain more limelight than ever before leading to adverse impact on the business due to increased awareness and weight put on ESG in decision making by the stakeholders.

A good tax governance is so much more than merely taking a passive role and appointing tax agents to perform limited tax compliance work. It is high time for businesses to revisit their tax risk management and control to be sustainable.

Whether you are interested to participate in the TCGF Programme or otherwise, we strongly encourage you to start implementing a TCGF or review the adequacy and effectiveness of your existing TCGF to better manage your business' tax risks. We have a dedicated team comprises of both tax and corporate governance personnel to assist our clients in this area. We would be pleased and ready to assist and support you in this journey. Feel free to reach out to us and start the long overdue conversation.

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