Singapore forges ahead on good governance in tax

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After many years of calls for more "tax in the boardroom," the historical approach to business tax compliance – and the relationship between taxpayer and tax authority it is founded on – is evolving.

Singapore is one of a growing cohort of revenue bodies that encourage companies to increase and then demonstrate their governance of tax. In 2021, Singapore adopted the Organisation for Economic Co-operation and Development's International Compliance Assurance Programme, providing a first glimpse of this new direction; the simultaneous launch of two new tax governance programs in February 2022 targeted at corporate income tax (CIT), the Tax Governance Framework (TGF) and the Tax Risk Management and Control Framework for Corporate Income Tax (CTRM) cement it.

The Inland Revenue Authority of Singapore (IRAS) is the latest among a series of tax authorities adopting new approaches to tax compliance that test not only the numbers a business includes in its tax return, but greater detail – and usually assurance – of the policies, processes and controls by which they reached the numbers. Or in other words, their tax governance.

It is typically put forth that if a tax authority believes that the policies, procedures and practices an organization has in place to enable it to identify, escalate and manage tax risks are both robust and adhered to, it is less likely that the organization will be non-compliant, or, as the Australian Taxation Office first termed it, it is more likely that "Justified Trust" can exist.

Where justified trust does exist, scarce tax authority resources can instead be more efficiently and effectively targeted at taxpayers posing potentially higher compliance risks. Compliant taxpayers achieve tax certainty and can go about their business unfettered; non-compliant businesses instead feel the full force (penalties, interest, surcharges, even criminal sanctions) the tax authority can muster.

Most (but certainly not all) of these programs are voluntary in nature, and in turn for openness and transparency, participating taxpayers are typically rewarded with benefits that recognize their efforts, including reduced compliance interventions (i.e., audits), expedited tax refunds, extended access to voluntary disclosure programs or reduced penalties for minor infractions. Some benefits may have a set duration and are usually only accessible while the taxpayer is in the program.

Not all programs deliver such specific benefits, though, and few are legally guaranteed. More often, the only reward is the unwritten suggestions that there will be decreased audit activity. Singapore has made special efforts in this regard, creating an attractive array of benefits for those who act transparently and share their processes.

Singapore's new programs

Targeted at large companies, the TGF and CTRM are designed to promote and expedite the adoption of good tax governance principles and practices by large companies. Both TGF and CTRM are designed to operate as independent, voluntary compliance initiatives. Companies may choose to participate in one or both initiatives, depending on their readiness and appetite.

Past experiences

This is not Singapore's first experience with such a concept; in 2011, the IRAS launched the Goods and Services Tax (GST) Assisted Compliance Assurance Programme (GST ACAP). GST ACAP is a compliance initiative for businesses who develop and adhere to a robust GST Control Framework as part of their overall tax governance efforts. Within the program, which is voluntary, businesses conduct a holistic risk-based review to assess the effectiveness of their GST controls.

By doing so, the business may reduce the risk of non-compliance with Singapore's GST law, allowing the business to reap productivity gains and to receive a number of benefits, including:

- A step- down of IRAS' GST compliance intervention activities
- Expeditious GST refunds
- A dedicated team to handle the company's GST rulings and to resolve GST issues expeditious
- The auto-renewal of GST schemes such as the Major Exporter Scheme (if applicable)

Furthermore, the IRAS may also offer GST ACAP participants a one-time waiver of penalties for voluntary disclosure of any past non-fraudulent GST errors.

Moving from GST to CIT

Broadly speaking, TGF and CTRM share broadly similar objectives to GST ACAP.

TGF, for its part, aims to guide corporate entities in establishing good tax governance for CIT and GST. TGF is a principles-based framework, centered around three essential building blocks of good tax governance:

1. Level of compliance with tax laws
2. The governance structure for managing tax risks
3. The nature and quality of the relationship with tax authorities

Companies voluntarily participating in TGF are required to publish their board-endorsed tax governance policy on their corporate website or in their annual report, both of which must be publicly accessible. The tax governance policy must include details of how the company manages tax risks under the three building blocks mentioned above. The company is also required to complete and submit the *Declaration Form for Tax Governance Framework* to the IRAS, which may then confirm that the company has adhered to the guiding principles and key practices outlined in the TGF program. Importantly, TGF, unlike other similar programs employed by some other tax authorities, does not include the review and assurance of one or several years of tax returns as part of the program.

Available benefits

Upon approval by the IRAS, the participating company will enjoy a one-time extended grace period of two years for voluntary disclosures of CIT, GST and withholding tax (WHT) errors made within two years from the date of the IRAS' approval of the TGF application. Companies that are GST-registered and accorded with ACAP status will be granted a one-time extended grace period of three years for voluntary disclosure of GST errors made within two years from the date of the IRAS' approval of the TGF application. The grace period benefits do not cover fraudulent errors or errors discovered under an IRAS audit or investigation for either program.

CTRM

Targeted at large companies, and particularly publicly listed companies and multinational corporations, the CTRM framework is designed to help organizations better and more accurately manage their CIT compliance risks. It allows eligible companies to perform a self-review of their current tax risk management and control framework for CIT, according to a set of leading practices suggested by the IRAS.

The IRAS' e-Tax Guide on CTRM[1] provides guidance on the review of a company's internal risk management and control system for CIT compliance, and the requirements that a company must meet in order to attain CTRM status.

Participating companies are required to conduct a self-assessment of their existing CIT controls by completing an IRAS-provided CTRM checklist, which is then reviewed by the entity's appointed CTRM Reviewer. The CTRM Reviewer could be a public accounting entity (or its tax affiliate) and/or independent in-house Internal Audit team, subject to meeting certain requirements. The CTRM checklist comprises practice-oriented tax control features that demonstrates sound tax risk controls and covers three levels:

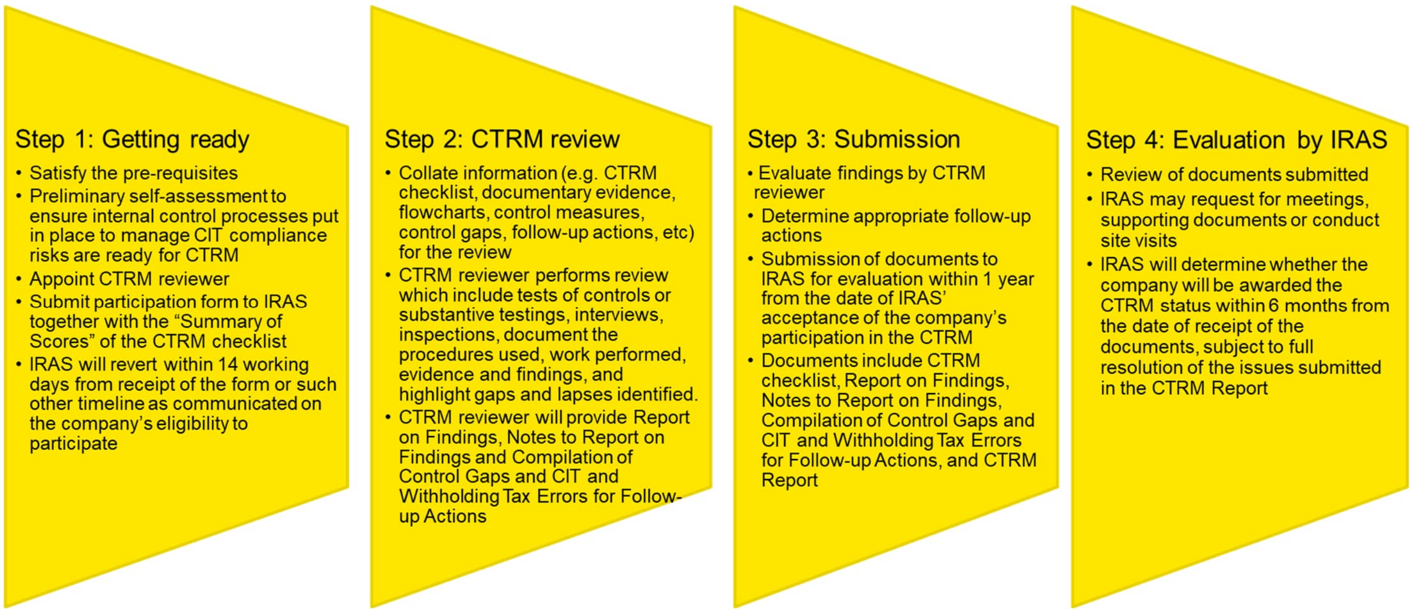
1. The organization's governance structure as it relates to tax
2. Entity-level controls
3. Tax reporting controls

Eligible companies wishing to participate in the CTRM must apply to the IRAS and meet certain prerequisites, including the implementation[2] of the key controls listed in the IRAS' CTRM checklist covering the CTRM period and the provision of an unqualified statutory auditor's opinion of the last three years' financial statements.

The CTRM process may take up to 18 months to complete and is comprised of a series of steps. Once successfully completed, the organization will be granted CTRM status with a three-year validity period. The steps are illustrated below:

[1] https://www.iras.gov.sg/quick-links/e-tax-guides?pg=1

[2] A key control is considered as implemented if 60% or more of the supporting control features of each key control or their equivalents are present.



In terms of benefits, companies achieving the CTRM status will be eligible for the following:

- A one-time waiver of CIT and WHT penalties that would have been applied had the company made a voluntary disclosure outside of CTRM status. This excludes any non-compliance involving deliberate tax evasion or serious tax avoidance and all other qualifying conditions of the voluntary disclosure program continue to apply.
- A step-down (i.e., reduction) of CIT compliance audit activity for the next three consecutive years of assessment.

Considerations before deciding to participate in the TGF and/or CTRM

With the introduction of TGF and CTRM, the IRAS has further reinforced its emphasis on both tax governance generally and the use of Tax Control Frameworks specifically as an integral part of its risk assessment protocols. As noted, this permits the targeting of limited resources more efficiently, effectively segmenting taxpayers into two groups – those who proactively demonstrate they have made their best efforts to govern taxes and secure compliance, and those who are willing to continue to follow the traditional compliance process.

The TGF and CTRM are both voluntary initiatives, and companies should expect the IRAS to mete out equitable treatment whether the company participates or not. But as with all risk assessment protocols, there will be several questions that companies should as themselves when considering potential participation. These include:

- Does the company have complex structures and business models?
- Does the company already have a tax governance policy and/or tax controls and processes in place, or would they need to be built?

- Are the TGF and CTRM frameworks aligned with the company's corporate governance policy or its environmental, social and governance (ESG) strategy?
- Is the company part of a multinational corporation that already has a formalized approach to tax governance, and will the level of customization required in order to qualify for the IRAS program(s) outweigh the available benefits?
- Is the company considering an initial public offering (IPO) and may therefore wish to adopt and "certify" tax governance as part of its overall corporate governance?

Moreover, companies that decide to participate in CTRM are expected to commit appropriate resources, including board-level support. They must also source and provide significant volumes of information and documentation, including CIT controls, flowcharts for the business or functional processes for tax risk management and the corresponding control measures put in place to mitigate such risks. It is therefore pertinent that the company evaluates its current CIT controls and fully understands the requirements and process of the CTRM prior to submitting its application with the IRAS.

Even if the company does not intend to participate in the CTRM, as a leading practice it may wish to consider adopting the controls in the CTRM checklist to implement and enhance internal controls in managing its CIT compliance risks.

Final thoughts

Tax authorities generally have two levers at their disposal to increase tax compliance and reduce behaviors they deem undesirable. They can either increase enforcement levels or they can encourage taxpayers to change their behaviors by offering some form of incentive. Tax authorities globally are doing both. They are increasing enforcement in a number of different ways, and are also encouraging the "right" behaviors with the introduction of programs to measure tax governance and the existence of tax risk management frameworks.

After the launch of the TGF and CTRM programs, the IRAS issued invitations to selected GST ACAP companies to consider participating in the TGF, and for some companies, both TGF and CTRM. Both programs will serve as a benchmark for invited companies and other large companies to assess whether their tax governance approach and CIT control frameworks are adequate and effective.