Tax Governance And Risk Management

Understanding Voluntary Compliance Programmes In Singapore

10 July 2024, Wednesday

Facilitated by:
Inland Revenue Authority of Singapore

KEY TAKEAWAYS

- IRAS has introduced two major voluntary compliance initiatives (TGF and CTRM) to promote good tax governance and sound risk management and controls. These are in addition to the existing compliance initiative for GST – ACAP.
- TGF status, once awarded, will remain valid as long as the tax governance policy remains published online and the company continues to adhere to the framework.
- Companies awarded the CTRM status will receive one-time waivers of penalties for voluntary disclosure of prior years' CIT and withholding tax errors, as well as enjoy a step-down on CIT compliance audit.

Amid an increasingly complex tax landscape, tax authorities globally are focusing on tax governance and risk management to bring tax compliance upstream, foster trust and enable open communications with businesses on their tax affairs. Businesses can leverage on these initiatives to instil confidence among stakeholders and the general public that there are proper tax controls and systems put in place to facilitate and ensure voluntary tax compliance. A company with good tax governance and tax risk management can enjoy lower compliance costs in the long run.

Voluntary Compliance Initiatives in Singapore

Over the years, the Inland Revenue Authority of Singapore (IRAS) has implemented three major voluntary compliance initiatives to promote good tax governance and sound risk management and controls:

(a) Tax Governance Framework (TGF): A principles-based framework to guide companies in establishing good tax governance for both corporate income tax (CIT) and goods and services tax (GST)

(b) GST-Assisted Compliance Assurance Programme (ACAP): A holistic risk-based review of the robustness and effectiveness of the internal control framework that impacts GST compliance

(c) Tax Risk Management and Control Framework for Corporate Income Tax (CTRM): A review of the internal control framework for managing CIT risks

TGF and CTRM were launched in 2022 to complement ACAP, which was launched earlier in 2011. As the three initiatives operate independently, companies can adopt any or all three initiatives depending on their respective readiness and business needs.

(a) TGF

AN OVERVIEW

TGF was introduced to help companies achieve high standards of tax governance by bringing tax governance policies and material tax issues to the Board's attention.

The principles and key practices set out in TGF centre around three building blocks:

(i) Compliance with tax laws

This first building block focuses on the company's commitment to comply with relevant tax laws, regulations and requirements, and to respect the intent of these laws and regulations.

(ii) Governance structure for managing tax risks

The second building block ensures the Board is aware of the company's tax governance structure and tax risk management policies.

(iii) Relationship with tax authorities

The final building block emphasises the company's commitment to fostering a collaborative and transparent relationship with tax authorities, based on mutual trust and respect.

TGF is suitable for companies with complex structures and business models, recognise the importance of tax accountability and transparency, and are willing to commit to good tax governance practices.

TGF STATUS AND ITS BENEFITS

Once approved by IRAS, the TGF status is valid for as long as the tax governance policy remains published on the company's website or annual report, provided that the company continues to adhere to the three building blocks of TGF.

Companies that have adopted TGF will be granted the following benefits upon approval by IRAS:

- One-time extended grace period of two years for voluntary disclosure of CIT and withholding tax errors
- One-time extended grace period of two years of GST-registered business without ACAP status or three years for GST-registered business accorded the ACAP status for voluntary disclosure of GST errors

(b) ACAP

AN OVERVIEW

ACAP is a compliance initiative for businesses to voluntarily undertake a holistic risk-based review on the effectiveness of their GST control framework. Going beyond the immediate focus of GST compliance, ACAP involves the evaluation of controls at three different levels:

(i) Entity level: Ensures senior management incorporates GST risk management into the company's corporate governance framework and maintains an oversight of critical GST matters

(ii) Transaction level: Ensures transactions are properly tax classified and accurately captured

(iii) GST-reporting level: Ensures data extracted and compiled for filing of GST returns is accurate and complete

ACAP is suitable for large businesses with voluminous transactions and complex business models or medium-sized businesses with an established GST control framework.

ACAP STATUS AND ITS BENEFITS

Businesses that have demonstrated that their GST controls, established at the three levels (Entity, Transaction and GST Reporting), are overall effective would be accorded either the "ACAP Premium" or "ACAP Merit" status by IRAS.

Businesses with the ACAP status will enjoy the following benefits:

- One-time waiver of penalties for voluntary disclosure of non-fraudulent GST errors under the first conduct of ACAP
- Expeditious GST refunds (if no anomalies have been noted)
- Expeditious handling of GST rulings and GST issues
- Auto-renewal of GST schemes (such as the Major Exporter Scheme), if applicable

(c) CTRM

AN OVERVIEW

CTRM is a framework designed to guide large companies in establishing robust internal controls and systematic risk management processes to identify, mitigate, and monitor key CIT risks. It comprises a self-review checklist featuring processes and measures that would enable a company to demonstrate that effective controls are in place to manage CIT compliance risks.

CTRM covers three levels of control to ensure continual CIT compliance:

(i) ***Tax governance structure*****:** Sets the tone at the top and regards tax risk management as an integral part of the company's corporate governance

(ii) ***Entity-level controls:*** Enables senior management to maintain effective oversight of CIT compliance matters

(iii) ***Tax reporting controls:*** Ensures tax data extracted and compiled for CIT returns is complete and accurate

A company is considered to have an effective CTRM if it has implemented 60% or more of the control features for each key control listed in the self-review checklist across the three levels of control. Where a key control is not supported by at least 60% of the control features, other compensating control features may be considered in determining whether the company has an effective CTRM.

IMPLEMENTING CTRM

The implementation of CTRM may require considerable time and efforts for certain companies. It involves examining key CIT risks specific to the company, reviewing and improving documentation of existing processes and controls and, where necessary, implementing and monitoring new processes and controls.

For CTRM implementation, companies may consider taking a phased approach to balance their resource constraints, or engage experienced accredited tax professionals to assist with the implementation.

"Effective communication and detailed documentation are critical to the success of CTRM implementation. All implemented controls and processes should be clearly communicated and thoroughly documented, ensuring that all stakeholders fully understand their roles and responsibilities," highlighted officers from the IRAS, at a webinar organised by the Singapore Chartered Tax Professionals.

CTRM STATUS AND ITS BENEFITS

Several prerequisites must be met before a company is eligible to apply for participation in CTRM. Among other things, the company must have implemented the key controls listed in the self-review checklist for all three levels covering the CTRM period, obtained an unqualified auditor's opinion for the last three years, maintained good compliance records for CIT, GST, and Property Tax for the last three years.

The CTRM status will be valid for three years from the date of award. Companies awarded the CTRM status will be granted a one-time waiver of penalties, for voluntary disclosure of prior years' CIT errors and withholding tax errors, if the conditions of the voluntary disclosure programme are met.

The waiver does not apply to any non-compliance involving deliberate tax evasion or serious tax avoidance.

In addition, companies awarded the CTRM status will also enjoy a step-down on CIT compliance audit on tax risk areas where internal controls and processes are assessed to be adequate and effective. This does not apply to new CIT issues which emerged due to exceptional circumstances.

Conclusion

Adopting cooperative compliance programmes like TGF, ACAP, and CTRM enhances companies' tax governance and risk management. These initiatives not only ensure compliance with tax laws but also promote transparency and accountability.

By integrating these frameworks, companies can build stronger relationships with IRAS, mitigate tax risks, and achieve long-term success in an increasingly complex tax landscape. It is thus imperative for businesses to evaluate their readiness and take the necessary steps to integrate these programmes into their operations, ensuring robust tax governance and effective risk management.

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