IRAS unveils new corporate income tax compliance initiatives

On 18 March 2022, the Inland Revenue Authority of Singapore ("**IRAS**") introduced two new voluntary corporate income tax ("**CIT**") compliance initiatives, namely, the Tax Governance Framework ("**TGF**") and the Tax Risk Management and Control Framework for Corporate Income Tax ("**CTRM**"), to strengthen corporate governance among businesses through the adoption of sound tax governance principles and practices. The TGF and CTRM are intended to complement the existing goods and services tax ("**GST**") Assisted Tax Compliance Assurance Programme ("**ACAP**").

Depending on organisational needs and readiness, a business may either choose to implement the TGF and CTRM initiatives separately or adopt them together to manage the business's corporate income tax compliance risks. The TGF and CTRM are designed to deal with CIT compliance at board and operational levels:

Tax governance	At the board level, the TGF seeks to elevate tax governance and tax risk management issues to the board of directors' level by integrating tax compliance considerations and priorities with corporate governance policy. The TGF is intended to draw the attention of the board of directors to the business' tax governance policy and its material tax matters and, consequently, help to inform strategic decision-making and set organisational tone and culture with respect to managing CIT risks.
Tax risk management and control	At the operational level, the CTRM is designed to provide a roadmap for businesses to implement internal controls and risk management processes with the aim of identifying, monitoring and mitigating key CIT risks on an ongoing basis. Additionally, the CTRM aims to incorporate ongoing review processes into a business' internal tax compliance architecture in order to ensure the continued robustness and effectiveness of existing tax risk management and control mechanisms, and where necessary, facilitate adjustments to established systems.

The Tax Governance Framework

The TGF provides a business with a set of principles and practices (applicable to both CIT and GST) that can be incorporated into its tax governance policy.

Elements	Principles	Practices
Compliance with tax laws	The business commits to complying with the relevant tax laws, regulations and administrative	▪ Aligns the business' policies, procedures and activities with the relevant tax laws, regulations and administrative requirements. For example, the business commits to adhering to guidelines for transfer pricing and country-by-country reporting, where applicable.

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	requirements, and respects the intent of the same.	▪ Updates the business' policies and procedures to reflect changes in relevant tax laws, regulations and administrative requirements, where necessary. ▪ Undertakes activities driven by *bona fide* commercial reason(s).
Governance structure for managing tax risks	The business keeps its board of directors appraised of its governance structure and policy for managing tax risks.	▪ Formalises the governance structure (which includes the roles and responsibilities of key personnel and functions within the business) for managing tax risks. ▪ Maintains a system of controls and processes (including engaging employees with the relevant knowledge and skill set) to prepare and submit accurate and complete tax returns to the IRAS. ▪ Engages qualified advisers for its tax affairs as part of risk management (particularly, when dealing with complex or novel tax issues), where necessary. ▪ Adopts a tax governance policy which outlines: (a) the business' commitment to comply with tax laws, regulations and administrative requirements; (b) its view on taxation, including tax risk culture and appetite; (c) its governance structure for managing tax risks; and (d) its approach to tax risk management. ▪ Appraises the board of directors of the business' tax governance policy. The tax governance policy is also communicated within the organisation. ▪ Updates the board of directors of the business' key tax risks (i.e., tax issues that may give rise to substantial tax exposure or may affect the business' reputation), where necessary. ▪ Reviews its tax governance policy periodically.
Relationship with the IRAS	The business supports a collaborative and transparent working relationship with the IRAS.	▪ Engages proactively with the IRAS to surface and resolve tax issues. ▪ Regularly performs reviews of its tax filings and voluntarily discloses and rectifies tax errors in a timely manner. ▪ Provides accurate and full disclosure of material facts when responding to the IRAS' queries or seeking tax rulings from the IRAS.

Benefits of adopting the TGF

A business that successfully applies for TGF status will enjoy the following benefits:

<table>
<tr><th>CIT</th><th>Withholding tax (“WHT”)</th><th>GST</th></tr>
<tr><td>▪ A one-time extended grace period of 2 years for voluntary disclosure of CIT errors made within 2 years from the date of approval of the business’ TGF status.</td><td>▪ A one-time extended grace period of 2 years for voluntary disclosure of WHT errors made within 2 years from the date of approval of the business’ TGF status.</td><td rowspan="2">▪ For a GST-registered business that is accorded ACAP status, a one-time extended grace period of 3 years for voluntary disclosure of GST errors made within 2 years from the date of approval of the business’ TGF status. The voluntary disclosure of GST errors can be made under Post ACAP Review, ACAP Renewal or pursuant to the business’ own GST review.
▪ For a GST-registered business that has not been accorded ACAP status, a one-time extended grace period of 2 years for voluntary disclosure of GST errors made within 2 years from the date of approval of the business’ TGF status.</td></tr>
<tr><td colspan="2">▪ Note that such errors will not include fraudulent errors and errors discovered under the IRAS’ audit or investigation.</td></tr>
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To utilise the one-time extended grace period for voluntary disclosure of tax errors, the business must complete the “Form to Utilise Benefits Granted under TGF” and submit it with the business’ voluntary disclosure.

Participating in the TGF

A business may either apply for TGF status as a single company or, where applicable, as a corporate group or GST group. To do so, the business must:

a. publish its tax governance policy on its corporate website or its annual report (which must be publicly accessible). The tax governance policy should include details of how the business manages its tax risk in accordance with the TGF principles and practices outlined above;

b. complete the “Declaration Form for Tax Governance Framework” to confirm the business’ adherence to the TGF principles and practices outlined above. The declaration form should be endorsed by the business’ CEO or CFO; and

c. submit the completed “TGF Application Form” to the IRAS.

The TGF application will be subject to the IRAS’ approval. The IRAS will evaluate the application having regard to the business’ past compliance records and may request for additional information and/or documents in the course of reviewing the application.

The Tax Risk Management and Control Framework for Corporate Income Tax

The CTRM guides businesses in establishing robust internal controls and systematic risk management processes for the purposes of identifying, monitoring and mitigating key CIT risks.

Control Levels	Objectives	Control Features	Relevant Control Checks
Tax governance structure	For the board of directors to set the direction for the organisation by integrating tax risk management with the business' corporate governance policy.	To ascertain whether the board of directors and senior management have incorporated CIT risk management framework and policies as part of the business' CIT controls framework.	▪ To ensure that the board of directors and senior management recognise the importance of CIT compliance and maintain oversight in respect of the business' CIT matters – in particular, the matters that may have significant tax implications for the business.
Entity-level controls	For the senior management to maintain effective oversight in respect of CIT compliance matters.	To ascertain whether the senior management has adopted an effective risk management framework to identify, evaluate and manage CIT risks and compliance obligations.	▪ To ensure that the senior management designates a credible and capable individual or team with the necessary skills and experience to manage CIT matters effectively. ▪ To ensure that a process is put in place to identify, evaluate and manage CIT risks. ▪ To ensure that the relevant information is disseminated in a timely manner to the relevant process owners. ▪ To ensure that the adequacy and effectiveness of the CIT risk management processes are reviewed periodically.
Tax reporting controls	To ensure that the tax data extracted and compiled for CIT returns submission is complete and accurate.	To ascertain whether the tax values are compiled correctly for CIT reporting, and the tax treatment of CIT issues is applied appropriately and complies	▪ To ensure that the tax data and tax treatment are correctly captured in the CIT returns and submitted to the IRAS in a timely manner.

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		with the relevant tax laws and rules.	▪ To ensure that the responses to the IRAS' tax enquiries are timely, accurate and complete. ▪ To ensure that the adequacy and effectiveness of the CIT compliance processes are reviewed periodically.

Benefits of adopting the CTRM

A business that successfully applies for CTRM status will enjoy the following benefits:

CIT	WHT
▪ A one-time waiver of penalties for voluntary disclosure of prior years' CIT errors made within 3 years from the date of approval of the business' CTRM status.	▪ A one-time waiver of penalties for voluntary disclosure of prior years' WHT errors made within 3 years from the date of approval of the business' CTRM status.
▪ If voluntary disclosure is not made within 3 years from the date of approval of the business' CTRM status, the one-time waiver of penalties will continue to be applied to any non-compliance disclosed within a further 3-year period upon successful renewal of the business' CTRM status (if applicable). ▪ Note that the waiver will not apply to instances of non-compliance involving deliberate tax evasion or serious tax avoidance.	

Participating in the CTRM

To apply for the CTRM, a business must:

a. meet the pre-requisites to participate in the CTRM, which are as follow:
   i. the business must have implemented the CTRM key controls outlined above for all three levels. 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;
   ii. the statutory auditor's opinion of the business' financial statements for the most recent three years must be unqualified;
   iii. the business must not currently be under any CIT audit for tax avoidance or any IRAS investigation;
   iv. the business must have good compliance records for CIT (including WHT), GST and property tax for the last 3 years, and must not have any outstanding taxes owed to the IRAS as at the date of application to participate in the CTRM; and
   v. the business must commit to appointing a qualified, third-party CTRM Reviewer to conduct the CTRM review for the business;
b. submit the completed application form to the IRAS; and

c. upon receiving the IRAS' confirmation of the business' eligibility to participate in the CTRM, perform a self-review of the business' internal control processes by completing the "CTRM Checklist". The completed "CTRM Checklist" will be reviewed by a qualified, third-party CTRM Reviewer and, thereafter, will be submitted to the IRAS with other required documents.

If the IRAS determines that the business' internal processes for CIT compliance are adequate and effective and that the business has a low CIT compliance risk it may be awarded CTRM status for an initial 3-year period.

The business may elect to renew its CTRM status before the end of the first 3-year period by submitting all the relevant documents to the IRAS at least 3 months before the expiry of its CTRM status, for evaluation by the IRAS.

Our observations

As noted by the IRAS, the TGF and the CTRM are targeted at large businesses with complex structures or business models, including listed companies. With growing complexities in the international tax environment, the tax risks faced by large multinational enterprises are higher than before. Engaging with the IRAS through the TGF and the CTRM frameworks could assist large multinational enterprises to navigate through these complexities and reduce their tax risks in Singapore. Moreover, participation in voluntary programmes designed to improve tax compliance and transparency, such as the TGF and the CTRM, serves to reinforce investors' perception of a business' acceptance of Environmental, Social and Governance (ESG) factors as a business imperative. Of course, from a more practical standpoint, participation in the TGF and the CTRM also presents an opportunity for a business to review its past tax positions and, where necessary, take advantage of the extended grace period and one-time waiver of penalties for voluntary disclosure to pre-emptively resolve any tax issues or errors prior to any tax audit or investigation.

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