



GUIDELINES

TAX CORPORATE GOVERNANCE FRAMEWORK

INLAND REVENUE BOARD OF MALAYSIA

Note:

This guideline should be read together with the Tax Corporate Governance Framework issued by the IRBM

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LIST OF ABBREVIATION

TCGF	Tax Corporate Governance Framework
CC	Cooperative Compliance
OECD	Organisation for Economic Co-operation and Development
IRBM	Inland Revenue Board of Malaysia
LSE	Large and Special Enterprises
SME	Small and Medium Enterprises
ITRF	Income Tax Return Form
TCF	Tax Control Framework
ICF	Internal Control Framework
ERM	Enterprise Risk Management

GUIDELINES TO TAX CORPORATE GOVERNANCE FRAMEWORK

1. INTRODUCTION

Tax Corporate Governance encompasses the rules, relationships, systems, and processes under which authority is exercised and controlled within an organisation. It comprises the mechanisms by which businesses, officeholders, and those in control are held to account responsible.

The approach aims to move away from traditionally confrontational interactions to foster a mutually beneficial relationship and build an environment of trust and transparency.

OECD publications emphasize the importance of creating a “win-win situation” for both tax administrations and taxpayers. Therefore, the Tax Corporate Governance Framework (TCGF) should be based on three main pillars – (i) mutual trust, (ii) understanding, (iii) openness and transparency, and are rooted in the overall compliance strategy of the tax authority. However, they differ in terms of, for instance, threshold/eligibility criteria, their legal basis, and taxpayers interactions to ensure that high levels of compliance are achieved and maintained. In this regard, the Guidelines may be reviewed from time to time.

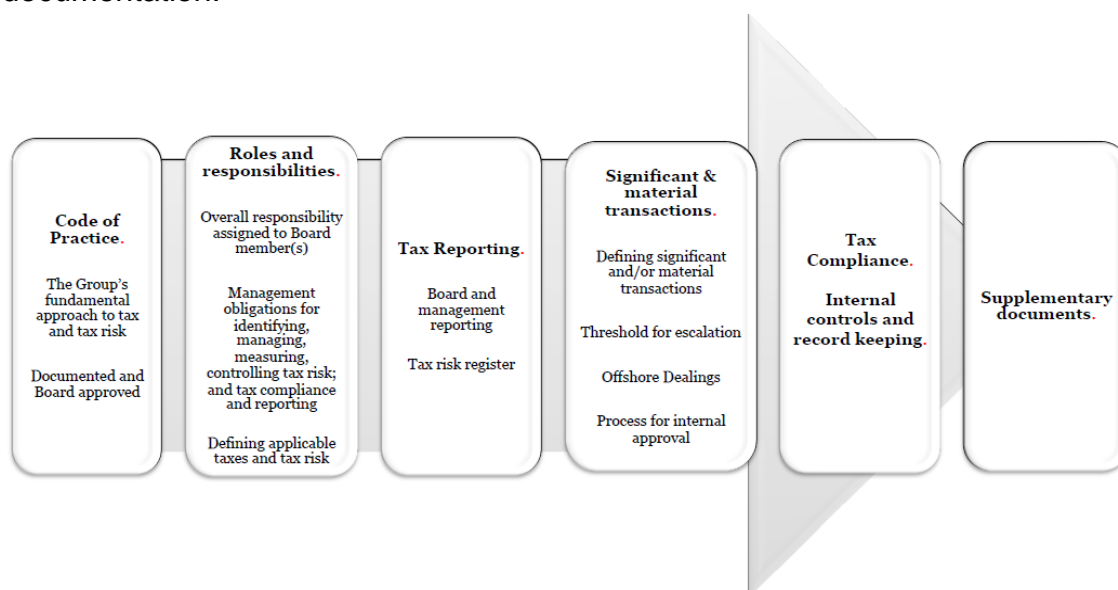
Tax Risk Management should be part of any good corporate governance practice. Thus, the framework should be designed to identify, manage and monitor material taxation risk to an organisation. An effective Tax Corporate Governance should cover both the strategic and operational levels.

Strategic Level	Operational Level
<ul style="list-style-type: none">• Board and Management informed and involved in Tax and Tax Risk Management• Developed, documented, and approved Tax Control Framework (policies, procedures, systems, and controls)• Set clear process to evaluate and manage tax risks arising on material transactions	<ul style="list-style-type: none">• Clearly defined and understood roles and responsibilities around Tax Governance• Process to identify, report and manage tax risks• Accurate and reliable tax reporting• Adequately resourced tax function• Monitoring and implementation of changes in tax law and practices.

Strategic Level	Operational Level
<ul style="list-style-type: none"> • Known and understood tax risk appetite, approved by the Board • Embedded into the broader governance framework and business culture • Adequate provisioning for potential tax liabilities 	<ul style="list-style-type: none"> • Timely compliance with all reporting and compliance obligations

1.1 An Overview of Tax Corporate Governance Framework

Tax Corporate Governance shall comprise a clear guide and disclosure on organisation code of practice, overall roles and responsibilities, tax reporting, significant and material transactions, tax compliance, and supplementary documentation.



1.2 Disclaimer

This guideline is provided only as a guide to assist in the dissemination and awareness of Tax Corporate Governance. It is a supplement to the taxpayer's corporate compliance reference materials. Each taxpayer must determine how a specific requirement applied to its particular circumstances and any other areas that need to be addressed.

*Kindly note that the guideline is not intended to capture all regulatory governance on an exhaustive basis.

2. OBJECTIVES

The objective of this guideline is to guide the organisation in designing and operating its Tax Corporate Governance Framework. It is intended to support the framework issued by IRBM through a more in-depth explanation of the items and processes in TCG practice.

TCG can benefit both the Taxpayers and Tax Authority in terms of:

I. Provide Greater Certainty

With the implementation of TCGF, the tax-related issues can be identified earlier and mitigation action can be taken properly. A well-functioned TCGF will provide greater certainty to the Tax Authority in terms of tax risk management and reporting by the business entity. It supports the idea that sufficient action has been taken to ensure tax compliance.

II. Earlier Resolution Of Tax Issues

With better certainty, the tax authority can make a better judgement and this implies earlier resolution of tax issues.

III. Better Transparency

Transparency can be achieved primarily through tax returns and information disclosure. Companies can develop tax transparency as a parameter they need to take into account, which requires them to adapt to be ready and prepared to be transparent. The need to understand a taxpayer's overall tax situation applies to all taxpayers (natural persons and companies). However, more transparency is needed in the case of businesses operating in several jurisdictions.

Owners or managers should be able to form the view that the financial records of the business, including tax reporting, reflect a true and fair view of that business. In the end, effective tax governance is demonstrated by meeting obligations including lodgment and payment obligations in full and on time.

3. TAX CORPORATE GOVERNANCE PRINCIPLES

The framework outlines the IRBM's expectation on the application of the principles of Tax Corporate Governance within an organisational setting. The OECD identifies the following six principles in creating a good TCGF in its report on Co-operative Tax Compliance:

(a) Tax Strategy Established

The tax strategy should be documented and owned by the Board of Directors (BOD) / senior management of the enterprise. The IRBM do not set the

reporting format on how the strategy needs to be documented. However, the establishment of the tax strategy needs to be formalized through approval by the BOD / senior management.

(b) **Applied Comprehensively**

All transactions entered into by an enterprise are capable of affecting its position in one way or another, which means that the TCGF needs to be able to govern the full range of the enterprise's activities and ideally should be embedded in the day-to-day management of business operations. This indicates how the activities are being reported by the taxpayers. If the transaction gives a significant impact on the organisation, it should be clearly stated in the organisation's report.

(c) **Responsibility Assigned**

The board of an enterprise is accountable for the design, implementation, and effectiveness of the tax control framework of that enterprise. The role of the enterprise's tax department and its responsibility for the implementation of the TCGF should be recognized and properly resourced. The tax control framework not only involves the enterprise's tax departments but the whole entity in the organisation's tax ecosystem. Therefore, the responsibility in each process must be properly assigned. (refer paragraph no.7)

(d) **Governance Documented**

There needs to be a system of rules and reporting that ensures transactions and events are compared with the expected norms and potential risks of non-compliance identified and managed. This governance process should be explicitly documented and sufficient resources deployed to implement the TCGF and review its effectiveness periodically.

(e) **Testing Performed**

Compliance with the policies and processes embodied in the TCGF should be the subject of regular monitoring, testing, and maintenance. The testing procedures can be performed by an independent person such as an organisation internal audit or professional bodies appointed by the organisation from time to time (at least once a year). For documentation purposes, it is advised that the testing result should be reported properly and made available upon request by the IRBM.

(f) **Assurance Provided**

The TCGF should be capable of providing assurance to stakeholders, including external stakeholders such as a tax administration, that tax risks are

subject to proper control and that outputs such as tax returns can be relied upon. This is accomplished by establishing the entity's "risk appetite" and then by ensuring that their Risk Management Framework is capable of identifying departures from that with mechanisms for mitigating/eliminating the additional risk.

NOTE: IRBM recommends that organisations consider adopting a TCGF that is suited to their circumstances and the needs of the relevant local corporate rules and legislation.

4. TERMS FOR APPLICATION OF TAX CORPORATE GOVERNANCE FRAMEWORK

Tax Corporate Governance Framework is suitable for all sizes and types of businesses that give priorities and resources to corporate governance matters. However, it is recommended for large corporations to have their tax strategy published and tax control framework within the organisation, as well as Board and/or top management endorsement of the above-mentioned tax documents.

4.1 Our Criteria

For this guideline, we are looking for companies that meet the following criteria for TCG application:

- (a) Large Companies / Public listed (with turnover 100mil and above)
- (b) Companies which have won the best IRBM Taxpayer Award
- (c) Government-Linked Companies /State-Owned Enterprise
- (d) Compliant taxpayers (return form submission and tax payment)

4.2 Application of Tax Corporate Governance

The application of the Tax Corporate Governance Framework is based voluntarily.

Taxpayers who are interested and satisfy the pre-requisites of TCGF can submit the application form to IRBM to officially participate in the programme.

An Authentication Letter (surat pengesahan) will be given to taxpayers once the IRBM is satisfied with the internal control after performing the preliminary review and assessment process.

4.3 TCGF Programme Timeframe

The proposed time frame from the date of acceptance of the participant by the IRBM to the award of participation status: 8 - 12 months, with a potential extension of time application subject to IRBM's approval.

Other consideration:

Since the TCGF are subjected to steady and consistent reporting. A renewal process is necessary from time to time to ensure that the oorganisation'sTCGF continues to meet the standards for the programme.

The validity of the IRBM's Authentication Letter is subjected to the above process.

5. RETURN FORM SUBMISSION

5.1 Return Form (RF) submission as per requirement stated in the ITA 1967.

5.2 The taxpayer has the right to submit an Amended Return Form (ARF) if there is any amendment after submitting the RF pursuant to Section 77B of the ITA 1967.

5.3 Voluntary Disclosure

Voluntary Disclosure can be done by the taxpayer after the submission of the Return Form as set out in the Tax Audit Framework (TAF).

6. REQUIREMENT FOR IMPLEMENTATION OF TAX CORPORATE GOVERNANCE FRAMEWORK

6.1 A well-functioned Tax Control Framework (TCF) is an internal control instrument that focuses specifically on a business's tax processes. These are not necessarily restricted to the tax department. A TCF forms an integral part of a organisation's Business or Internal Control Framework (ICF). Process owner(s) from business and departmental functions should maintain a standard operating procedure (SOP) to demonstrate that key controls under the ICF are carried-out.

6.2 Transparency, trust, and mutual understanding between taxpayers and tax authorities in relation to organisation activities, transactions, regulations, and tax laws.

6.3 Preparation, storage of records and documents of business transactions must be complete and orderly. Process owner(s) from business and departmental functions should maintain SOP to demonstrate that the above requirements are enforced.

6.4 Preparation and submission of special accounts (if any).

7. TAX CONTROL FRAMEWORK

7.1 The Tax Control Framework (TCF) is a system for identifying, overcoming, controlling, and reporting tax risks. This framework forms part of a business control framework that is different for each organisation. The objective of this framework is to form tax functions within an effective, efficient, and transparent organisation.

7.2 Elements of Tax Control Framework

- 1) Strategic tax control / risk identification evaluation:
 - Tax strategy
 - (The tax strategy should be endorsed by the Board or top management of the organisation and published on an annual basis, by reference to the period covered by the business's annual report or accounts)
 - “*tax risk appetite*”
 - principles of governance
 - responsibility structure
- 2) Tax management control / control activities framework:
 - Business planning cycle and control processes including monitoring.
 - Tax management information
- 3) Tax operation control
 - Taxation and control processes.
 - Information technology (IT) processes related to taxation and control.
- 4) Reporting and continuous monitoring

7.3 In developing the TCF, there are no specific formats to follow because each business has different levels of need. However, we proposed that the formed TCF should have the key component for better effectiveness.

IRBM has outlined the key component (building blocks) of the Tax Control Framework. The Control Framework should cover:

1) Tax Organisation

Taxpayers are required to understand the taxation process in each subsidiary organisation, business, and division besides knowing the duties and responsibilities of the employees involved.

2) **Tax Planning**

Control over the effects of taxation for each business activity. Tax planning should be in accordance with the organisation's risk appetite. Taxpayers are advised to obtain consultancy services from suitably qualified professionals and where necessary seek an advance ruling from IRBM.

3) **Tax Risk Management**

Identify the risks of each situation/activity that may have a tax effect. Assess risks and make comparisons with the organisation's risk appetite then implement controls.

4) **Communication**

Communicate taxation strategies to all related personnel.

5) **Information Strategy**

Automates control in the organisation's system.

6) **Monitoring**

Ensure that the control plan is implemented best. This includes monitoring in terms of tax file registration, submission of Income Tax Return Forms (ITRF), tax reporting, tax payments, and other applicable reporting.

7) **Tax Accounting**

The tax component must be identified in the financial statements (income statement, balance sheet, cash flow statement).

Example:

- Deferred income tax liabilities can be included in the long-term liabilities section of the balance sheet.
- Sales tax are usually listed on the balance sheet as current liabilities

8) **Tax Compliance**

Tax compliance shall cover four areas of compliance which are tax registration, tax filing, tax reporting and tax payment.

7.4 Control Testing

Testing of TCF should combine the monitoring process with the maintenance of the framework.

The monitoring component should contain feedback tools and solutions to detect and correct errors and improve the TCF so that any errors are not repeated.

Maintenance should take place regularly and follow any fundamental changes to the business, such as changes in business strategy, in the board, in the tax department, in tax legislation, in the business structure or model, in the supply chain, and following major acquisition or disposal.

Monitoring the TCF is the **responsibility of the organisation** however the revenue body shall conduct real-time testing to assure itself that the TCF is functioning and producing the expected outcome.

Processes exist to regularly test the effectiveness of the organisation's internal controls and rules to manage and report on business risks.

What we look for:

- develop audit plans for testing systems and controls relating to tax functions.
- document process for retaining working papers, reconciliation processes, and error exception processes.
- Set audit committee reviews of the effectiveness of controls and procedures in place.

8. TAX CORPORATE GOVERNANCE EVALUATION

8.1 Upon TCG review, the effectiveness of tax corporate governance will be evaluated.

8.2 Evaluation will be based on how the following functions influence organisation tax compliance:

- 1) Engagement and guidance of top management,
- 2) Organisation and functions of accounting and audit divisions,
- 3) Tax and accounting procedures with internal checks and balances,
- 4) Dissemination of information and recurrence prevention measures, and
- 5) Measures to control inappropriate acts.

- 8.3 The IRBM may conduct a review of the organisation's TCGF from time to time. As per paragraph 4.2, the Authentication Letter (surat pengesahan) or statement issued on the organisation on TCGF based on the review shall not indicate IRBM evaluation on the effectiveness of the organisation TCGF. In this regard, taxpayers should perform a self-assessment or self-certification on the effectiveness of the ICF.

9. TCG REVIEW

- 9.1 IRBM will conduct a TCG review for the organisations that participated in the program.

- 9.2 Taxpayers who fulfil the requirement and criteria listed by IRBM will be deemed to be qualified for the benefits of the program and shall not be subjected to audit and investigation.

9.3 Access to Taxpayer's TCG Review Report

The internally reviewed reports on tax matters should be made available when the organisations is approached for a review by IRBM.

The report is contemporaneously recorded to show the commitment of the organisation on tax matters. IRBM can use this document to review their tax position and consider no penalty to be imposed on any tax issue arise.

- 9.4 In the implementation of the Cooperative Compliance, the tax administrator will set meetings/discussions with taxpayers to discuss the submission of return forms of income tax, risks identified through TCF, the risks identified by tax administrators, and other related matters.

10. SUBMISSION OF ESTIMATE OF TAX PAYABLE

- 10.1 Companies, co-operatives societies, trust bodies, and limited liability partnerships (LLPs) in operation must submit e-CP204/CP250 not later than 30 days before the commencement of the basis period for a year of assessment.

- 10.2 Companies, co-operatives societies, trust bodies, and LLPs that have just commenced operations and have a first basis period for a year of assessment of not less than six (6) months, e-CP204/CP250 must be submitted within three (3) months from the date of commencement of operations.

- 10.3 Form CP204/CP250 for a year of assessment can be amended in the 6th or 9th month or both in the basis period for a year of assessment.

11. TAX PAYMENT

11.1 Advance payment

- CP 204/ CP250 - All companies, co-operative societies, trust bodies, and LLPs are required to pay their monthly instalment by the fifteenth day of a calendar month beginning from the second month of the basis period for the year of assessment in respect of which that estimate has been furnished.
- Monthly tax deduction - Employer shall pay to the Director-General, not later than the fifteen day of every calendar month, the total amount of tax deducted or should have been deducted by him from the remuneration of employees during the preceding calendar month.

11.2 Payment of Balance of Tax

- Tax amount or the balance due, after deducting advance payments, (or the full amount, if no advance payments have been made) shall be paid within the stipulated time or in accordance with such other terms as may be mutually agreed.
- Once the actual tax for any year of assessment is determined (Deemed assessment), the balance of tax i.e. the actual tax after deducting the instalment amount (if any), must be paid within the allowable period.
- For a formal assessment, the balance of tax must be paid within 30 days from the assessment notice served.

11.3 Withholding Tax

- A person (referred herein as "payer") is liable to make payment (other than the income of non-resident public entertainers) to a non-resident person (NR payee), shall deduct withholding tax at the prescribed rate from such payment and (whether such tax has been deducted or not) pay that tax to the Director General of Inland Revenue within one month after such payment has been paid or credited to the NR payee.

11.4 Taxation on Labuan Business Activities

A Labuan entity must make full payment to:

- a) tax charged for a year of assessment; or
- b) tax charged for a year of assessment after deduction of tax rebate under section 8A of the Labuan Business Activity Tax Act 1990 (LBATA) (if any) while filing profit statements and statutory declaration under section 5 of the LBATA.

11.5 Real Property Gains Tax (RPGT)

- The acquirer must retain all the consideration or 3% of the total value of the consideration (whichever is lower) and the payment must be paid to the Director General of Inland Revenue (DGIR) within 60 days after the date of disposal of the asset.
- For disposal of assets involving non-citizen and non-permanent resident disposal, the acquirer must retain all consideration or 7% of the total value of the consideration (whichever is lower) and the payment must be paid to DGIR within 60 days after the date of disposal of assets.
- Where the disposer is a company incorporated in Malaysia or a trustee of a trust or a body of persons registered under any written law in Malaysia and the chargeable asset is disposed within 3 years of its acquisition date, the acquirer shall retain 5% of the value of the consideration and pay this to the DGIR within 60 days of the disposal.
- RPGT payment must be paid by the disposer within 30 days from the date the Notice of Assessment is served whether there is an appeal or not against the assessment.

12. TAX CORPORATE GOVERNANCE PROCESS

TCG will require more structured, well-documented policies and procedures and an independent controls testing programme. To be effective, a TCGF should provide a real, practical tool for managing risk. The process characteristics can differ from one organisation to another.

An approach to implementing tax governance procedures is described in the following process.

STEP 1: GETTING READY

➤ Satisfy pre-requisites

To establish or strengthen your tax governance and tax risk management framework and policies to manage tax risks. These are the suggested pre-requisites needed.

Tax Policy	<ul style="list-style-type: none">• Review Tax Strategy• Develop or Update Tax Policy
Tax Risk and Controls	<ul style="list-style-type: none">• Review current tax risks• Determine key Tax Procedures and Controls
Document Procedures and Test Controls	<ul style="list-style-type: none">• Document Key Tax Procedures• Develop a Testing Program

➤ Preliminary self-assessment using **SELF-REVIEW ASSESSMENT TEMPLATE (APPENDIX 1)**

- The template is intended to be a risk-assessing tool for organisations.

Examples of Items to be included in the self-review assessment template are:

A. Tax Strategy

B. Tax risk management controls

1. Control environment
2. Systems and controls
3. Tax risk management
4. Change management
5. Information
6. Review assessment

C. Transactions

1. Tax classification of transactions
2. Provision movement
3. Capital allowances
4. Payment to non-residents
5. Transfer pricing
6. Record keeping

D. Tax Reporting

1. Information extraction
2. Checks and approvals
3. Submission of returns

➤ Submission of participation form

STEP 2: REVIEW BY INDEPENDENT REVIEWER

- Appointment of the independent reviewer by the participants to perform a review assessment on the TCGF.
- The independent reviewer is the management and internal audit (for large corporates), or professional firms engaged by entities to perform agreed-upon procedures review of tax risk management and governance framework.

STEP 3: SUBMISSION OF SELF-REVIEW ASSESSMENT REPORT AND REPORT FINDINGS PREPARED BY THE INDEPENDENT REVIEWER TO THE IRBM

- Taxpayers are required to submit the Self-Review Assessment Report upon request by the IRBM.
- The internally reviewed reports on tax matters should be made available when the organisation is selected for a compliance check.
- The Self-Review Assessment Report and report findings prepared by the independent reviewer shall be approved by the board.

STEP 4: EVALUATION BY IRBM

- Review documents submitted including the supplementary documents.
- Meetings with IRBM.
- IRBM to conduct an assessment based on the information received.

STEP 5: CONCLUSION OF ASSESSMENT BY IRBM

- Status of the TCGF Programmeme

*The flowchart is presented in **APPENDIX 2**.

13. SIGNIFICANT AND MATERIAL TRANSACTION APPROVAL PROCESS

For businesses that need an (unqualified) opinion on the financial statements (annual accounts), the materiality observed by the Tax Administration will generally be lower than the materiality observed by an external account when auditing the annual accounts. A lower degree of materiality means that more substantive procedures must be performed. Depending on the findings on the quality of the internal control and checking systems and the quality of the audit work already carried out, one determines whether such work focusing on actual data should be done.

13.1 Escalation Threshold (i.e. summary of an acceptable level of tax risk for day-to-day and what requires escalation)

- Materiality (RM)
- Approval limits
- Objective level of tax risk
- Key sensitive area – Offshore expansion/setup, related party transactions, legal/accounting/tax differentials, and financial products.

13.2 Internal Approval Process

- Roles and responsibilities
- Timing
- Review by Tax Function – approval guidelines
- Decision points
- Chain of reporting
- Requirement for external advice

13.3 Qualitative Materiality

Refers to the significance of an identified misstatement and, in particular, the nature of misstatement to lead to an adjustment of a tax return, even when the financial consequences are relatively small.

13.4 Legislative Change Impact

The report shall cover any legislative changes that may have an impact on the accuracy and reliability of the organisation's tax reporting.

14. SUPPLEMENTARY DOCUMENTS

Supplementary document means a document, information memorandum, policy statement, circular, questionnaire, and instruments mentioned herein amending and/or supplementing and/or novating and/or substituting the terms and conditions of this Agreement, either mentioned in this Agreement (e.g. Client Categorization, General Risk Disclosure, Investor Compensation Fund, Order Execution Policy, Conflict of Interest Policy, Contract Specifications, relevant fees, and costs), or otherwise indicated as such by the organisation;

Example of Supplementary Documents:

- Memorandum, policy statement, circular.
- Tax compliance manual – explains the flow of accounting information, preparation procedures, and workflow, analytical reviews, and tax disclosure processes
- Tax accounting manual
- Transfer pricing documents
- Related party transaction
- Tax incentive
 - Application documents
 - Approval/rejection letter
 - Appeal for revision
- Significant / material or subsequent event

15. SCOPE / APPLICATION

Applies to the following types of taxes/tax risks:

- Income tax
- Petroleum tax
- Real Property Gains tax
- Transfer pricing
- Withholding tax
- Tax payment
- Monthly tax deduction of employees (CP39, CP39A), additional monthly deduction (CP38)
- Stamp duty
- Taxation on Labuan Business Activities
- Tax incentives
- Tax strategies
- Public Ruling compliance
- Tax rules and regulations
- Advanced Ruling.

16. DISCLOSURE GUIDE

When reporting how compliance with the tax governance and control framework is evaluated, the organisation can describe the process through which the tax governance and control framework is monitored, tested, and maintained. The organisation may refer to any tax governance, internal control frameworks, or generally accepted risk management principles that are applied to tax.

17. CONCLUSION

The implementation of the TCG is in addition to the existing tax compliance strategy. It enables IRBM to implement a more effective and efficient tax compliance strategy towards increasing tax compliance among taxpayers under the LSE segment.

18. ENQUIRIES

Any enquiries regarding these guidelines can be directed to:

Jabatan Pematuhan Cukai,
Aras 14, Menara Hasil,
Persiaran Rimba Permai,
Cyber 8,
63000 Cyberjaya,
Selangor.

Phone : 03-8313 8888

**TAX CONTROL FRAMEWORK
SELF-REVIEW ASSESSMENT CHECKLIST**

NO.	ITEMS	YES	NO	N/A	REMARK
A	TAX STRATEGY				
1.	Strategy #1				
2.	Strategy #2				
B	TAX RISK MANAGEMENT CONTROLS				
1.	Control environment				
2.	Systems and controls				
3.	Tax risk management				
4.	Change management				
5.	Information				
6.	Review assessment				
C	TRANSACTIONS				
1.	Tax classification of transactions				
2.	Provision movement				
3.	Capital allowances				
4.	Payment to non-residents				
5.	Transfer pricing				
6.	Record keeping				
D	TAX REPORTING				
1.	Information extraction				
2.	Checks and approvals				
3.	Submission of returns				
E	MONITORING				
1.	Tax Registration				
2.	Tax Filing				
3.	Tax Reporting				
4.	Tax Payment				

*** This checklist template only serves as a guide and is not strictly enforced.**

TAX CORPORATE GOVERNANCE PROCESS FLOWCHART