



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

**MICPA**  
MALAYSIA

# Tax Governance Guide

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# 1.0 FOREWORD



The objective of this document is to provide guidance to the directors of listed issuers in reporting the management of tax matters affecting the corporations in their annual reports. This guidance aims to enhance the tax transparency of the listed issuers. Greater transparency in taxation is becoming the norm as stakeholders are looking for insights into the tax policy, tax strategy and other tax matters affecting an organisation. Reporting on tax matters, such as tax strategy, tax risk management and tax management promotes trust and credibility in the tax practices of organisations which enable investors and stakeholders to make informed decisions taking into consideration a corporation's tax position and various other related aspects. Now is the time for an organisation to place taxation within the context of the purpose, value and sustainable business strategy.



# 2.0 APPLICABILITY



Listed issuers are not a homogeneous group. As such, it is necessary to provide flexibility in the application of certain best practices. The disclosures in respect of the proposed tax information in this document are applicable to 'Large Companies' only.



'Large Companies' are defined as:

- Companies on the FTSE Bursa Malaysia Top 100 Index; or
- Companies with market capitalisation of RM2 billion and above, at the start of the companies' financial year.

*(Source: Malaysian Code on Corporate Governance)*

Once a listed issuer falls within the category of 'Large Companies', it will remain as one for the entire financial year regardless of the change in its status during the financial year. These listed issuers should continue applying the practices even if they fall out of the FTSE Bursa Malaysia Top 100 Index or their market capitalisation decreases below the prescribed threshold.

Other listed issuers may consider adopting these practices identified for 'Large Companies' if they aspire to achieve greater excellence in tax governance. While this guidance is targeted at large listed issuers, non-listed entities including state-owned enterprises, public companies, small and medium enterprises 'SMEs' and capital market intermediaries are encouraged to embrace this guidance. Non-listed entities should consider applying these practices to enhance their accountability, transparency and sustainability.

# 3.0 INTRODUCTION

The environmental, social and governance (ESG) agenda has been brought to the fore by investors across the globe who wish to see these practices being subsumed into the investment decision-making process. The same extends to the board of an organisation. The growing conviction in boardrooms that the ESG agenda is becoming core to brand marketability and investability is apparent thus leading to regulatory impetus for change. Consumer behaviour also has created the push for the ESG agenda due to the greater emphasis on sustainability practices.

Traditionally, the 'G' in the ESG refers to governance related to internal control and risk management of an organisation. In recent years, 'G' has been expanded to cover tax governance including tax internal control and tax risk management. Organisations are increasingly paying focus in implementing an appropriate tax governance framework to ensure that tax controls are in place, tax risks are managed and escalated, where necessary, to the board for consideration. A wide range of issues relating to tax governance are also of interest to investors and hence tax transparency is in the spotlight today.

Indeed, the United Nations (UN) recognised that taxes play an important role in achieving the Sustainable Development Goals (SDGs). In the UN Resolution '*Transforming Our World: The 2030 Agenda for Sustainable Development 2015*', the target is to strengthen domestic resource mobilisation including through international support to developing countries to improve domestic capacity for tax and other revenue collection initiatives. Corporate tax directly impacts a government's ability to fund public services. Therefore, organisations contribute to the economies and societies where they operate through the taxes they pay. On the other hand, the collection of corporate tax from an organisation implies that the organisation is making profit from its business activities. Such financial profitability of the organisation is generated depending on many external factors. In addition to adherence with tax legislation, the organisation has a responsibility to meet the expectations of their investors and other stakeholders in term of good tax practices. This results in a growing interest among investors and other stakeholders to understand how organisations manage and approach tax-related issues. Integration of sustainability in the organisational tax approach is gaining more attention, as it supports sustainable integration in society and long-term organisational growth.

Today, investors and other stakeholders are calling for greater transparency to assess and evaluate an organisations' tax performance and exposure to tax risks. Tax transparency is the new norm which is supported by both governmental and non-governmental international institutions like the Organization for Economic Co-operation and Development (OECD), the UN, the European Union, the Global Reporting Initiative (GRI) and other organisations.

Given the compelling interest for investors and the inclusion of such discussions in the boardroom, the listed issuers at Bursa Malaysia are encouraged to follow suit to meet the needs of investors and other stakeholders by increasing the transparency of their tax matters, making information available in the public domain. Such tax transparency requires the listed issuers to consider the following:

- Does tax governance exist in the organisation?
- Are tax controls in place to ensure that the tax function operates as intended?
- Are tax issues included in the boardroom discussion and escalated to the board?

There are many more questions to be asked and considered by listed issuers. Hence, this disclosure guide is formatted to help listed issuers achieve greater tax transparency.

This guide provides an illustration, see Appendix, in respect of a tax strategy statement that could be issued by listed issuers.



# 4.0 MALAYSIAN TAX LANDSCAPE



In Malaysia, the official assessment income tax system for companies was changed to the self-assessment system (SAS) effective from 2001. Under the SAS, taxpayers are expected to compute their tax liability based on tax laws, guidelines and public rulings issued by the Inland Revenue Board (IRB). The objective of SAS is to inculcate voluntary compliance by taxpayers.

With the implementation of SAS, the enforcement activities carried out by the IRB in the form of tax audits have been heightened to focus on high tax risk areas which would result in potential significant loss in tax revenue.

The COVID-19 pandemic poses its own challenges to the nation's economy. The low tax revenue collection during this period and the multi-billion ringgit economic stimulus packages to assist businesses in the country deeply affected the coffers of the Government. As the Ministry of Finance has recently announced that it is not the right time now to introduce any new taxes, it is only logical that the IRB is expected to carry out its responsibilities more aggressively to ensure that the right amount of taxes are being reported and collected on a timely basis.

With a better structured organisation and a more robust digitally connected system, the IRB is now able to track taxpayers' non-compliance with the tax laws in an expeditious manner. Such non-compliance includes non-declaration of taxable income, not meeting submission due dates, non-payment of taxes (including withholding taxes), non-adherence to the IRB's public rulings and practice directives, non-maintenance of records and proper documentation or even to the point of committing wilful evasion pursuant to Section 114 of

the Income Tax Act 1967. Such non-compliance will result in substantial penalties being imposed on the tax undercharged by the IRB. Besides this, the IRB may take civil action against the company directors for unpaid taxes and under certain circumstances, the Director General of the IRB may even issue a stoppage order to bar any person from leaving the country. There are also instances where serious offences are publicised in the media or offences/transgressions could even become headline news which would tarnish an organisation's brand name and reputation. The impact would be most felt by listed companies as shareholders would be concerned and at times, the share price may be impacted and this could lead to other consequences.

In addition, this is also relevant for indirect taxes administered by the Royal Malaysian Customs Department. In the same way as income taxes, the indirect tax legislation also have various penalties that can be imposed for non-compliance with such legislative provisions.

Listed issuers, therefore, need to ensure that there is no reputational impact on them due to weaknesses in managing their tax responsibilities. The current 24% corporate tax rate imposed on the taxable profits of a corporation is a substantial outflow and as such, governance over tax matters must be clearly demonstrated.

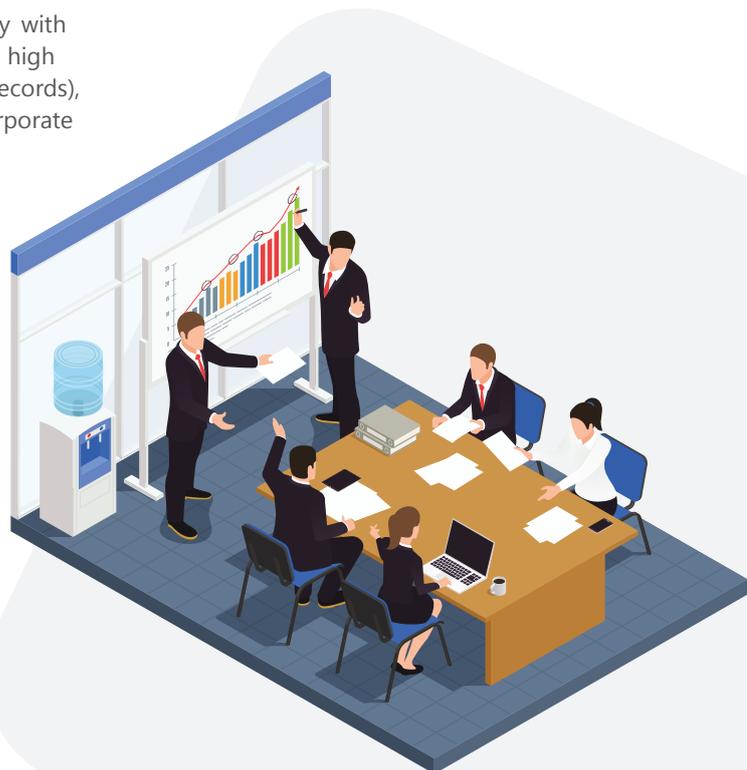
With the many types of tax risks not being considered adequately and the repercussion arising from possible non-compliance with tax laws and regulations, it is therefore useful and timely for an organisation to elevate its tax function so as to be able to mitigate any potential financial implications that would arise from additional tax assessments and penalties imposed by the tax authorities. The requirement for an organisation to have strong tax controls in place is essential.

Having a tax policy which addresses the various tax risks would be a good start in addressing tax governance. Tax risks means any threat of an event or action that adversely affects the organisation's ability to maximise shareholder value and to achieve its tax or business objectives. A tax risk arises not only from threats or errors but also from the inability to grasp positive opportunities. The tax risks that an organisation should consider addressing in its tax policy includes but are not limited to:

- Compliance risks to ensure tax deadlines such as filing of returns or payment due dates are met
- Technical risks to minimise erroneous tax positions in tax returns which could arise due to lack of people with adequate tax knowledge, access to professional advice or lack of a regular review of internal tax policies
- Operational risks arising from non-familiarity with corporate compliance requirements (due to high turnover rate), poor internal controls (lost records), inadequate documentation and/or weak corporate governance.

Such risks when left unattended, can cause severe financial and reputational repercussions to the organisation as mentioned earlier.

As all countries rely on tax revenue, governance in taxation is therefore very crucial. To mitigate unnecessary penalties from being imposed, adverse impact on operating cash flows which will affect day to day operations, and all other avoidable repercussions, it is timely that listed issuers manage their tax function well over which the Board Audit Committee should have adequate oversight.



# 5.0 INTERNATIONAL TAX GOVERNANCE DEVELOPMENTS



The following developments over the last 5 years as outlined below appear to be particularly pertinent in driving the need for tax transparency:

## **UNITED KINGDOM (UK) | FINANCE ACT 2016**

The UK Act requires companies which operate in the UK with a turnover above £200 million or a balance sheet above £2 billion to publish a tax strategy statement which must cover the following areas:

- (a) the company's approach to risk management and governance arrangements in relation to UK taxation;
- (b) the company's attitude towards tax planning (so far as affecting UK taxation);
- (c) the level of risk in relation to UK taxation that the company is prepared to accept;
- (d) the company's approach towards its dealings with the UK tax authorities;

A company meeting the turnover or balance sheet thresholds which fails to comply with the disclosure of the above-mentioned information may be fined.

## **UNITED STATES (US) | REGULATION S-X**

Regulation S-X is a US Securities and Exchange Commission (SEC) rule that covers annual reports from companies. These annual reports, which are required to be filed by companies under the Securities Act 1933 and the Securities Exchange Act 1934, represent audited documents required by the SEC. This Regulation requires a public company to submit its annual report, together with financial statements and a statutory annual form, namely Form 10-K which requires disclosure of the treatment of tax and reporting of tax risks.

## **AUSTRALIA | VOLUNTARY TAX TRANSPARENCY CODE**

The Voluntary Tax Transparency Code (TTC) is a set of principles and minimum standards to guide medium and large businesses on public disclosure of tax information. The TTC was developed by the Board of Taxation and endorsed by the Australian Government in the federal Budget 2016 - 2017. Pursuant to the TTC, the minimum standard of information for large businesses includes approach to tax strategy and governance; tax contribution summary for corporate taxes paid; and Information about international related party dealings.

## **GLOBAL REPORTING INITIATIVE (GRI) | GRI 207: TAX (2019)**

With the support from global investors, civil society groups, labour organisations and other stakeholders, GRI released a new reporting standard on tax, i.e. GRI 207. It is the first global reporting standard for tax transparency which enables entities to better understand and communicate information about their tax practices publicly. The new reporting standard on tax came into effect on 1 January 2021. The GRI tax standard includes disclosures on tax strategy, governance and risk management that meet different stakeholder expectations on reporting. It introduces public country-by-country reporting of business activities, revenues, profit and tax and promotes disclosure of the reasons for difference between corporate income tax accrued and the tax due if the statutory tax rate is applied to profit/loss before tax. The GRI tax standard is voluntary and its use is dependent on whether or not tax is a material matter for the organisation.

### ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) | GUIDELINES FOR MULTINATIONAL ENTERPRISES (2011 EDITION)

The guidelines aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide. Amongst others, it emphasises that enterprises should treat tax governance and tax compliance as important elements of their oversight and broader risk management systems. In particular, corporate boards should adopt tax risk management strategies to ensure that the financial, regulatory and reputational risks associated with taxation are fully identified and evaluated.

### PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) | ADVANCING TAX TRANSPARENCY: OUTCOMES FROM THE PRI COLLABORATIVE ENGAGEMENT 2017 – 2019

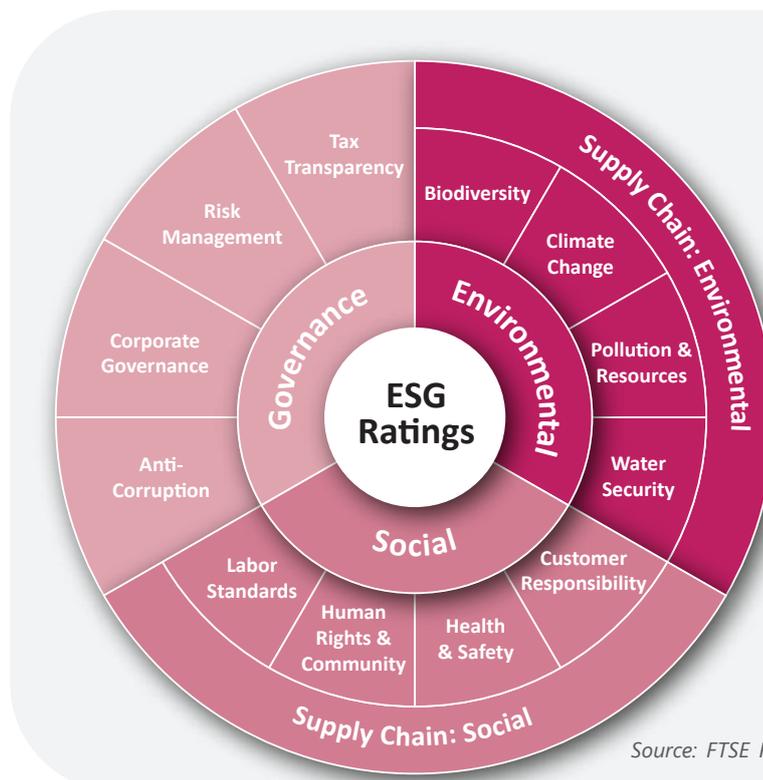
The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI explored the issue relating to tax with global investors and produced a set of disclosure recommendations to strengthen corporate income tax disclosure across tax policy, governance and risk management areas.

### WORLD ECONOMIC FORUM (WEF) | 'TOWARD COMMON METRICS AND CONSISTENT REPORTING OF SUSTAINABLE VALUE CREATION'

This report incorporates well established metrics and disclosures for the express purpose of building upon the extensive and rigorous work that has already been done by those who have developed the existing standards. The objective is to amplify those standards and more fully harness their synergies rather than create a new standard altogether. Tax reporting is also part of the proposed core set of metrics using the GRI tax standard. The report mentioned that the efforts to improve transparency around tax strategy demonstrate a shift from reporting compliance towards articulating why an approach is appropriate.

### FTSE RUSSELL | ESG RATINGS

Investors are increasingly incorporating ESG considerations into core benchmarks and passive investments. FTSE Russell brings nearly two decades of ESG experience and provides data analytics, ratings and indexes covering thousands of companies worldwide. The ESG Ratings are comprised of an overall Rating that breaks down into underlying Pillar and Thematic Exposures and Scores. One of the themes under the pillar 'governance' is tax transparency, which is one of the measures to evaluate the quality of an organisation's management of the ESG issues. The 'tax transparency' factor can be seen in the diagram below:



Source: FTSE Russell ESG Ratings

# 6.0 TAX GOVERNANCE BUILDING BLOCKS



This section discusses the building blocks of tax governance:



## Tax Strategy

Tax strategy is at the heart of tax governance. It is the first building block of tax governance. It articulates the organisational approach to tax which significantly influences the other four building blocks, including the design and implementation of the other four building blocks. A good tax strategy may be built on many elements including purpose, values, business strategy, tax model, sustainability commitments and SDG's, stakeholders, applicable laws and regulations.

A key step in the development of a strategy, including tax strategy, of an organisation is to engage both internal and external stakeholders, including employees, investors, regulators and others operating in the context within which an organisation carries out its business activities. Tax can leverage on the general stakeholder engagement that already exists on a variety of topics in the organisation. Through such stakeholder engagement, the organisation is cognisant of the needs and expectations of investors and stakeholders. The organisation can then integrate these appropriately in the tax strategy. It is important to know that, whatever elements the organisation decides to include in its tax strategy, these elements also need to be implemented as well as truly integrated in organisational behaviour.



## Tax Roles and Responsibilities

Roles and responsibilities rank after tax strategy. It is the second building block of tax governance. This can be categorised into two levels:

**Strategic Level:** the Board plays a role to oversee the tax matters. It is common that this is included as part of corporate governance in tandem with the international requirements. In this level, an organisation determines how internal and external parties work together within the organisation in relation to tax matters, such as a decision on the use of a central or a decentralised model, decision on the use of shared service centres, decision on the use of tax service providers through outsourcing or managing it internally, etc.

**Operational Level:** communication and/or training should be provided to employees who manage and execute the tasks, aimed at helping them understand their roles and responsibilities at the operational level.



### Tax Risk Management

The third building block is tax risk management. The existing risk management framework is required to be extended to cover the tax aspects. This is often referred to as the tax risk management framework, including controls relating to tax matters. The Board is required to be cognisant of the tax matters and ensures that controls in respect of all processes and transactions, including tax processes and transactions are appropriately in place. In this circumstance, identification of tax risk is important for the implementation of controls. The tax strategy of an organisation under the first building block is important to describe and design the controls in place for tax matters. In other words, the tax control framework should safeguard what the organisation has 'promised' to its stakeholders, is executed and delivered accordingly and reported in its annual report.



### Tax Reporting (Tax Transparency)

The fourth building block of tax governance is tax reporting. Tax reporting includes internal reporting by the management of an organisation and external reporting, often by the external auditor of the organisation. Information can include both financial and non-financial tax matters. In today's world, investors demand for non-financial information to help them make informed investment decisions. Such tax reporting can be regulatory-driven. In addition, organisations can also voluntarily report on their tax affairs to meet the needs and expectations of investors. In this circumstance, it is important for the Board to exercise its judgement as to what tax information is appropriate to be provided in the public domain.



### Tax Assurance

A professional independent view on the tax information provides further credibility of the information. The last building block of tax governance is tax assurance. The value of such reporting increases significantly if assurance is provided on its content.

# 7.0 DISCLOSURE GUIDE



## A. APPROACH TO TAX

The relevant corporate organisation could report the following information:

A description of the approach to tax, including:

- i. Whether the organisation has a tax strategy and, if so, a link to this strategy if publicly available;
- ii. The governance body (Board Audit committee), or executive-level position within the organisation (whether a tax director, tax manager, Finance General Manager or the Chief Financial Officer, as the case may be) that formally reviews and approves the tax strategy, and the frequency of this review;
- iii. The approach to regulatory compliance (which refers to complying with the law on filing of tax returns, payment of withholding taxes, payment of taxes/custom duties whether these be to the Inland Revenue Board or the Royal Malaysian Customs Department, filing of appeals, payments to the EPF, SOCSO, HRD Corporation as well as updates on any audits being conducted by the relevant government agencies);
- iv. How the approach to tax is linked to the business and sustainable development strategies of the organisation.

An organisation's approach to tax defines how the organisation balances tax compliance with business activities and ethical, societal, and sustainable development-related expectations. It can include the organisation's tax principles, its attitude to tax planning, the degree of risk the organisation is willing to accept, and the organisation's approach to engaging with tax authorities.

An organisation's approach to tax is often described in a tax strategy, but could also be described in equivalent documents, such as policies, standards, principles, or codes of conduct.

The reporting organisation can illustrate its approach to tax by providing examples drawn from its tax practices. For example, the organisation can provide an overview of its use of tax havens, the types of tax incentive it uses, or its approach to transfer pricing. These examples help demonstrate the organisation's risk appetite and the tax practices deemed acceptable and unacceptable by the organisation and its board.

If the organisation has a tax strategy but the strategy is not publicly available, the organisation can provide an abstract or summary of the strategy.

In addition to the overall strategy, if the organisation has tax strategies that apply to individual entities or tax jurisdictions, the organisation can explain any relevant differences between these strategies.

When describing its approach to regulatory compliance, the organisation can describe any statements in its tax strategy or equivalent documents regarding its intention with respect to the tax laws in the jurisdiction in which it operates. For example, the organisation can describe whether it seeks to comply with the letter and the spirit of the law. That is, whether the organisation takes reasonable steps to determine and follow the intention of the legislature.

In the Malaysian context, it would be appropriate for a quarterly update to the Board Audit Committee on various tax matters including regulatory compliance matters.

When describing how its approach to tax is linked to its business strategy, the organisation can explain how its tax planning is aligned with its commercial activities. The description can include any relevant statements from its tax strategy or equivalent documents.

When describing how its approach to tax is linked to its sustainable development strategy, the organisation can explain the following:

- Whether it considered the economic and social impact of its approach to tax when developing its tax strategy.
- Any organisational commitments to sustainable development in the jurisdictions in which it operates and whether its approach to tax is aligned with these commitments.

## **B. TAX GOVERNANCE, CONTROL, AND RISK MANAGEMENT**

**The relevant corporate organisation could report the following information:**

**a. A description of the tax governance and control framework, including:**

- The governance body (Board committee) or executive-level position within the organisation accountable for compliance with the tax strategy;**
- How the approach to tax is embedded within the organisation;**
- The approach to tax risks, including how risks are identified, managed, and monitored;**
- How compliance with the tax governance and control framework is evaluated.**

**b. A description of the mechanisms for reporting concerns about unethical or unlawful behaviour and the organisation's integrity in relation to tax.**

Having robust governance, control, and risk management systems in place for tax can be an indication that the reported approach to tax and tax strategy are well embedded in an organisation and that the organisation is effectively monitoring its compliance obligations. Reporting this information reassures stakeholders that the organisation's practices reflect the statements it has made about its approach to tax in its tax strategy or equivalent documents.

When describing the tax governance and control framework, the reporting organisation can provide examples of effective implementation of its tax governance, control, and risk management systems.

If the highest governance body in an organisation is accountable for compliance with the tax strategy, the organisation can specify the degree to which the highest governance body has oversight of compliance. The organisation can also specify any accountability for compliance delegated to executive-level positions within the organisation.

When reporting how the approach to tax is embedded within the organisation, the organisation can describe processes, projects, programs, and initiatives that support adherence to the approach to tax and tax strategy.

Examples of such initiatives can include:

- training and guidance provided to relevant employees on the link between tax strategy, business strategy, and sustainable development;
- remuneration or incentive schemes for the person(s) responsible for implementing the tax strategy;
- succession-planning for positions within the organisation that are responsible for tax;
- participation in tax transparency initiatives or trade associations/professional bodies that seek to develop best practice around disclosures on tax or educate stakeholders on tax-related issues.

Tax risks are risks associated with the organisation's tax practices that might lead to a negative effect on the goals of the organisation, or to financial or reputational damage. These include compliance risks or risks such as those related to uncertain tax positions, changes in legislation, or a perception of aggressive tax practices.

When reporting on the approach to tax risks, the organisation can describe its risk appetite and tolerance and provide examples of tax practices it has avoided because they are misaligned with its approach to tax and tax strategy. Risk appetite and tolerance indicate the degree of risk the organisation is willing to accept in determining its tax positions.

## 7.0 DISCLOSURE GUIDE

When reporting how tax risks are identified, managed, and monitored, the organisation can:

- Describe the role of the highest governance body in the tax risk management process;
- Describe how the tax risk management process is communicated and embedded across the organisation;
- Refer to any internal control frameworks or generally accepted risk management principles that are applied to tax.

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. An example of this is giving an internal auditor accountability for undertaking annual reviews of the tax department's compliance with the tax governance and control framework.

The organisation can also specify the degree to which the highest governance body has oversight of the design, implementation, and effectiveness of the tax governance and control framework.

One example of a mechanism for stakeholders to report concerns about unethical or unlawful behaviour, or about activities that compromise the organisation's integrity in relation to tax, is whistleblowing.

### C. STAKEHOLDER ENGAGEMENT AND MANAGEMENT OF CONCERNS RELATED TO TAX

**The relevant corporate organisation could report and describe the approach to stakeholder engagement and management of stakeholder concerns related to tax, including:**

- i. **The approach to engagement with tax authorities;**
- ii. **The approach to public policy advocacy on tax.**

An organisations' tax practices are of interest to various stakeholders. The approach an organisation takes to engaging with stakeholders has the potential to influence its reputation and position of trust. This includes how the organisation engages with tax authorities in the development of tax systems, legislation, and administration.

Stakeholder engagement can enable the organisation to understand evolving expectations related to tax. It can give the organisation insight into potential future regulatory changes and enable the organisation to better manage its risks and impacts.

The approach to engagement with tax authorities can include participating in cooperative compliance agreements, seeking active real-time audits, seeking clearance for all significant transactions, engaging on tax risks, and seeking advance pricing agreements.

When reporting the approach to public policy advocacy on tax, the reporting organisation can describe:

- Its stance on significant issues related to tax that it addresses in its public policy advocacy, and any differences between its advocacy positions and its stated policies, goals, or other public positions;
- Whether it is a member of, or contributes to, any trade associations/professional bodies or committees that participate in public policy advocacy on tax, including:
  - The nature of this contribution;
  - Any differences between the organisation's stated policies, goals, or other public positions on significant issues related to tax, and the positions of the trade associations/professional bodies or committees.

*The above broad disclosure guide is drawn primarily from the GRI 207 Standard on Tax and is modified to fit into the context relevant to Malaysia.*

# 8.0 ADDITIONAL DISCLOSURES



Additional disclosures can be considered by organisations. The following recommended disclosures are extracted from the engagements with investors by PRI:



## Policy

**Disclosure of a tax policy signed by a board-level representative outlining the company's approach to taxation and how this approach is aligned with its business and sustainability strategy.**

A comprehensive tax policy would:

- outline the organisation and board view on taxes, referring to its impact on the overall profitability of the company, as well as its broader economic impact;
- discuss how the company's tax policy protects stakeholders' trust, enhances the company's license to operate and aligns with its corporate values/code of conduct;
- state the company's risk appetite in relation to tax activities, including examples of acceptable and unacceptable practices and a narrative on major tax risks;



## Governance And Risk Management

**Information on tax governance and management of the tax policy and related risks.**

Good disclosure would provide evidence that:

- tax governance is part of the risk oversight mandate of the board, including the setting of clear responsibilities and mechanisms to maintain compliance with the firm's tax policy;
- the board discusses the ramifications of the company's approach to tax on its brand and reputation, including assessing potential stakeholders' perceptions regarding the "spirit" of tax laws;
- the tax policy and strategy are reviewed at least annually by the full board, in addition to any board committees tasked with assessing tax matters;



## Performance

**Transparency on tax strategies, tax-related risks and country-by-country activities.**

Detailed reporting would provide an overview of:

- the primary drivers of the gap between the effective tax rate and the weighted average statutory rate based on the firm's geographic sales mix, with particular emphasis on the key tax strategies employed (including the role, if any, of intellectual property and transfer pricing) and potential regulatory changes related to those strategies;
- the new tax strategies being employed by the company that are leading to increases in the company's unrecognised tax benefit balances;
- the firm's intra-company debt balances, including the countries where the debt is held and the average interest rate paid by the firm's subsidiaries on that debt;

## 8.0 ADDITIONAL DISCLOSURES



### Policy

- provide an overview of the firm's general tax structure and strategies, including the link between where profits are booked and the factors that indicate genuine commercial activity in those locations (e.g. how transfer prices are set within the group and how international offshore financial centres are used, if applicable);
- describe the company's current relationships with tax authorities and other stakeholders (i.e. consumers and civil society organisations) and explain if engagement with stakeholders has impacted the tax policy;
- describe the process to interpret the law and deal with ambiguity;
- discuss advocacy and lobbying activities on tax including membership in trade associations active on tax policy;
- include any reference to third party standards and guidelines covering tax-related issues;
- commit to ongoing and transparent tax-related reporting.



### Governance And Risk Management

- the company provides regular training and guidance for all relevant staff (including those not directly involved in the execution of the tax strategy) on the links between tax and overall corporate strategy;
- the company provides whistleblowing channels to report tax-related activities or decisions that are not aligned with the company's tax strategy.



### Performance

- the most financially-material tax incentives (e.g. tax holidays) provided by various jurisdictions, including information on the expiration date of each incentive, the investment requirements of each incentive, and commentary regarding the likelihood that such incentives will not be renewed;
- country-by-country reporting details, including a list of all subsidiaries and their business nature [as required by the appropriate templates issued by the OECD as part of the Base Erosion and Profit Shifting (BEPS) initiative];
- current disputes with tax authorities, if any.

[Source: Principles for Investment Evaluating and Engaging on Corporate Tax Transparency: An Investor Guide (2018)]

# Z Group Bhd Group Tax Strategy Statement

This is a modified extract from an actual Group Tax Strategy Statement prepared by a listed issuer based in Malaysia (referred to herein as Z Group Bhd).

This document, approved by Z Group Bhd's Board Audit Committee sets out the Company's (including subsidiaries and overseas branches) tax policy and approach in conducting its tax affairs and dealing with tax compliance risk for the financial year ended December 31, 20XX.

The document is reviewed periodically by the Group Tax Department (Group Tax) and any amendments will be submitted for approval by the Audit Committee of the Board subsequently.

## 1. KEY PRINCIPLES

Z Group Bhd is committed to conduct its tax affairs based on the following principles:

- (a) Timely compliance with all applicable tax laws and regulations of the countries in which it operates;
- (b) Ensure that business transactions are driven by business purpose or commercial purpose taking into account Z Group Bhd's Core Values;
- (c) Apply due diligence and professional care, including seeking written opinion from third party advisors and rulings/confirmations from the tax authorities, where necessary, to ensure that the position taken is supportable and defensible in a tax audit; and
- (d) Adopt open and collaborative professional relationships with the relevant tax authorities.

## 2. TAX GOVERNANCE

The Finance team in each entity are responsible in ensuring timely tax compliance. Z Group Bhd's Group Tax will work together with the Group's business and finance departments to provide advice and guidance to ensure compliance with the tax regulations and that business decision making is commercially justified.

The Business and Finance Departments would seek input from Z Group Bhd's Group Tax on:

- (a) Business proposals to ensure a clear understanding of the tax consequences;
- (b) Assessment and management of tax risks to ensure compliance with local and overseas tax regulations in respect of Z Group Bhd's cross border related party transactions;
- (c) Tax technical position to ensure that a position taken is supported by documentation, legal interpretation and the practice adopted by the tax authorities. Where required, external tax advice would be sought in consultation with Group Tax; and
- (d) Audits and enquiries from tax/regulatory authorities.

In addition, Group Tax must be involved in the planning, implementation and documentation of any business or share acquisitions and disposals, changes in corporate structure, significant business transactions, new cross-border intra-group trading arrangements and selection of tax advisors.

## Z Group Bhd - Group Tax Strategy Statement

### 3. ATTITUDE TO TAX PLANNING

Z Group Bhd will utilise tax incentives and reliefs to minimise the tax costs of conducting its business provided that they are aligned with intended policy objectives of the Governments which introduced the incentives, supported with genuine commercial activity and consistent with the business and/or operational objectives of Z Group Bhd.

### 4. MANAGEMENT OF TAX RISKS

Written advice will be obtained from external advisors to support the decision making process where there is uncertainty on the application/ interpretation of tax law; and /or the transaction carries substantial reputational, monetary or regulatory risk.

Any changes in relevant tax laws and practices are monitored through regular updates from external tax advisors, discussions/dialogues with the professional bodies and relevant tax authorities and participation in seminars/conferences.

Group Tax has the right and responsibility to determine the technical position to be taken by Z Group Bhd in relation to tax matters.

From time to time, our position may differ from those of the tax authorities with regards to the appropriate tax treatment. Where such circumstances arise, Z Group Bhd will work constructively and proactively with the tax authorities with a view to achieving an early resolution to any matters arising.

Depending on the degree of risk and/or nature of the transactions involved, tax action/ decisions will be referred to the Board of Directors and the Board Audit Committee for approval and guidance.

The subjective nature in the interpretation of tax laws and various tax rules makes it impossible to fully mitigate all tax risks. Therefore, we endeavour to keep tax risks to a minimum and do not set a limit on acceptable risks.

We seek to manage our affairs consistent with our tax strategy principles and will refer to the Board of Directors and Board Audit Committee for guidance, where required.

### 5. RELATIONSHIPS WITH TAX AUTHORITIES

Z Group Bhd seeks to:

- (a) Deal with tax authorities and other relevant bodies in a collaborative, courteous and timely manner;
- (b) Engage in open dialogue to discuss tax planning, strategy, risks and significant transactions;
- (c) Make fair, accurate and timely disclosure in correspondences and returns; and
- (d) Provide response to queries and information requests on a timely basis and seek to resolve issues with the tax authorities to aim for early agreement on disputed matters and to obtain a ruling/confirmation on technical positions, where possible.



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