

# Take5 for business

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## Tax corporate governance: Driving transparent and cooperative tax compliance



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# Increasing importance of tax corporate governance

Tax corporate governance (TCG) is becoming a critical component of corporate tax compliance and risk management, due to heightened scrutiny by tax authorities globally and within Malaysia on governance processes of taxpayers.

On 7 April 2025, the Inland Revenue Board of Malaysia (IRBM) issued updated versions (as at 13 March 2025) of the following:

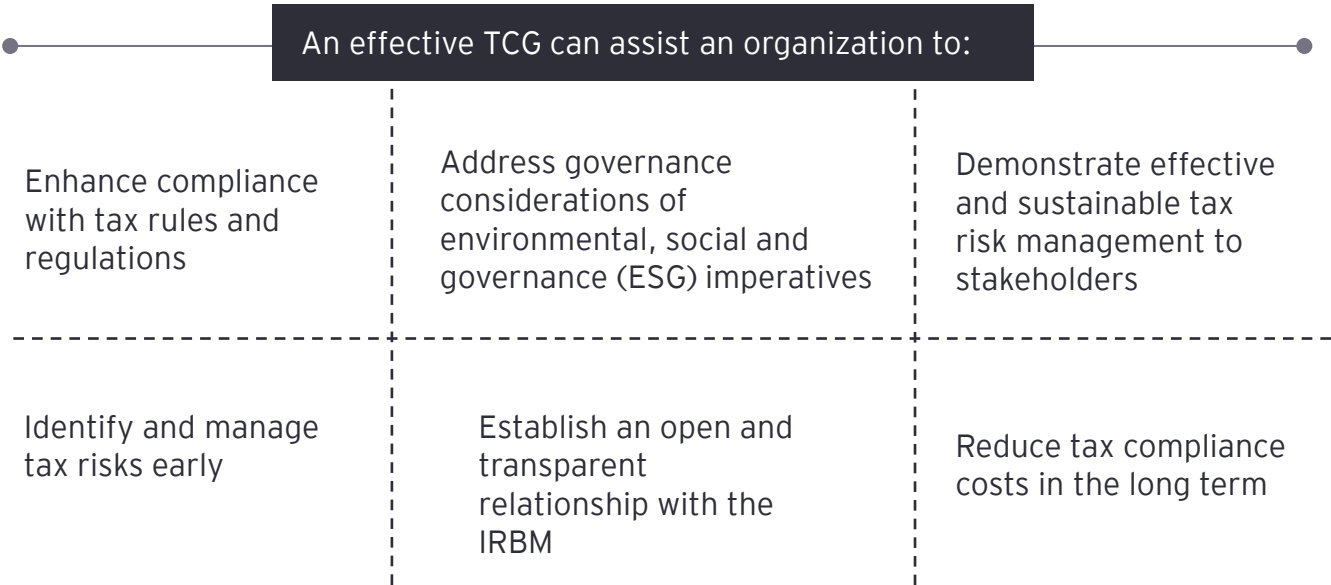
- Tax Corporate Governance Framework (TCGF)
- Guidelines on TCGF
- Frequently Asked Questions (FAQs) on TCGF and Guidelines

The IRBM encourages companies to participate in its TCG program, reinforcing the importance of TCG in driving transparent and cooperative tax compliance in Malaysia.

“Forward-thinking companies are transforming tax into a strategic growth driver. Today, embedding tax governance into overall corporate and risk management strategies allows companies to thrive better in navigating the application of taxation in delivering business decisions.



**Farah Rosley**  
Malaysia Tax Managing Partner,  
Ernst & Young Tax Consultants Sdn. Bhd.



# TCG and the future of cooperative compliance

## Can tax be a tool in risk mitigation?

- Tax is no longer confined to tax compliance and reporting.
- Established organizations are seeing the tax department as a strategic business partner in identifying, managing and mitigating financial, regulatory and reputational risks.
- To mitigate tax risks and achieve tax efficiency, organizations should proactively consider tax implications when making business decisions. There should be close monitoring to ensure that relevant documentation is maintained to support the tax positions adopted and necessary tax filings and disclosures are made.

## What does cooperative compliance mean?

- Cooperative compliance refers to the transparent and collaborative relationship between taxpayers and tax authorities. It creates mutual benefits for both parties and can reduce costly and time-consuming tax audits and disputes.
- Taxpayers have strong tax governance and controls, and engage in early dialogue and consultation with the tax authorities on complex and uncertain tax matters.
- In practice, this involves taxpayers proactively discussing and seeking rulings on tax positions from the tax authorities.

## What is the future of the tax function?

- The tax function is evolving due to rapid regulatory and technological changes.
- Tax professionals with strong tax technical knowledge, business understanding and digital capabilities are important to building an effective, future-ready tax function.
- Expect the tax function of the future to be technology-enabled and data-driven as organizations continue to navigate the increasingly complex tax rules.

## Does cooperative compliance fit the ESG imperative?

- Organizations are proactively integrating ESG considerations into their business strategies and decisions.
- TCG is a key subset of governance within the ESG framework.
- Investors, consumers, employees and other stakeholders are increasingly expecting transparent and responsible tax behavior from organizations.
- Tax avoidance or aggressive tax planning may create regulatory and reputational risks.

## How does adoption of technology underpin TCG?

- Tax technology and analytics tools are important enablers for efficient and accurate tax compliance and reporting.
- Automated tax processes and controls will help to improve efficiency, minimize errors and enhance data quality for tax reporting and business decisions.

# Six principles of TCGF

A company's TCGF should integrate and be aligned with the company's broader corporate governance and risk management framework. The IRBM expects a company to adopt the following six TCGF principles that are aligned with the Organisation for Economic Co-operation and Development's (OECD's) cooperative tax compliance model:

## Six principles of TCGF

### 1 Tax strategy established

The company's tax governance strategy and policy should be approved by the Board of Directors (Board) or senior management.

### 2 Applied comprehensively

TCGF should apply across all business activities of the company and be embedded in the day-to-day management of business operations.

### 3 Responsibility assigned

Clear assignment and segregation of duties and responsibilities in relation to tax matters, across the organization.

### 4 Governance documented

Tax governance strategy and policy as well as tax controls and processes should be clearly documented and updated regularly.

### 5 Testing performed

Compliance with tax policies and processes should be subject to regular monitoring and testing by internal audit or independent reviewer.

### 6 Assurance provided

TCGF should provide assurance to all internal and external stakeholders (including IRBM) that tax risks are subject to proper controls and tax reporting is reliable.

# TCG program: Participation criteria and benefits

Following the successful pilot phase (June 2022 to June 2024), the IRBM has launched Phase 2 of the TCG program on 1 July 2024. Participation remains voluntary and open to interested and eligible organizations\*.

## Participation criteria

- Annual revenue of **RM100m** and above
- Timely tax filing and payment track record for the **last three years of assessment** prior to the application to participate in the TCG program
- Have an established Tax Control Framework (TCF)

## Duration

- IRBM's review process timeframe: **8-12 months**
- Validity of IRBM's Confirmation Letter of Participation: **Three consecutive years of assessment** and renewable

## Benefits of participation in the TCG program



Reduced scrutiny from the IRBM - no or lesser tax audits will be conducted by the IRBM



Assignment of a dedicated IRBM tax officer



Faster tax refund processing



Eligible to be granted priority consideration with no penalty imposed for compliant participants

\*Organizations such as large companies, public listed companies, Government-Linked Companies or State-Owned Enterprise, but excluding investment holding companies and dormant companies.

Source: *Guidelines on Tax Corporate Governance Framework*, IRBM, 13 March 2025

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In Malaysia, the IRBM's TCG program presents an opportunity for companies to shift toward a more structured and risk-based approach to managing tax, where accurate and timely tax compliance will support business certainty and sustainable growth.



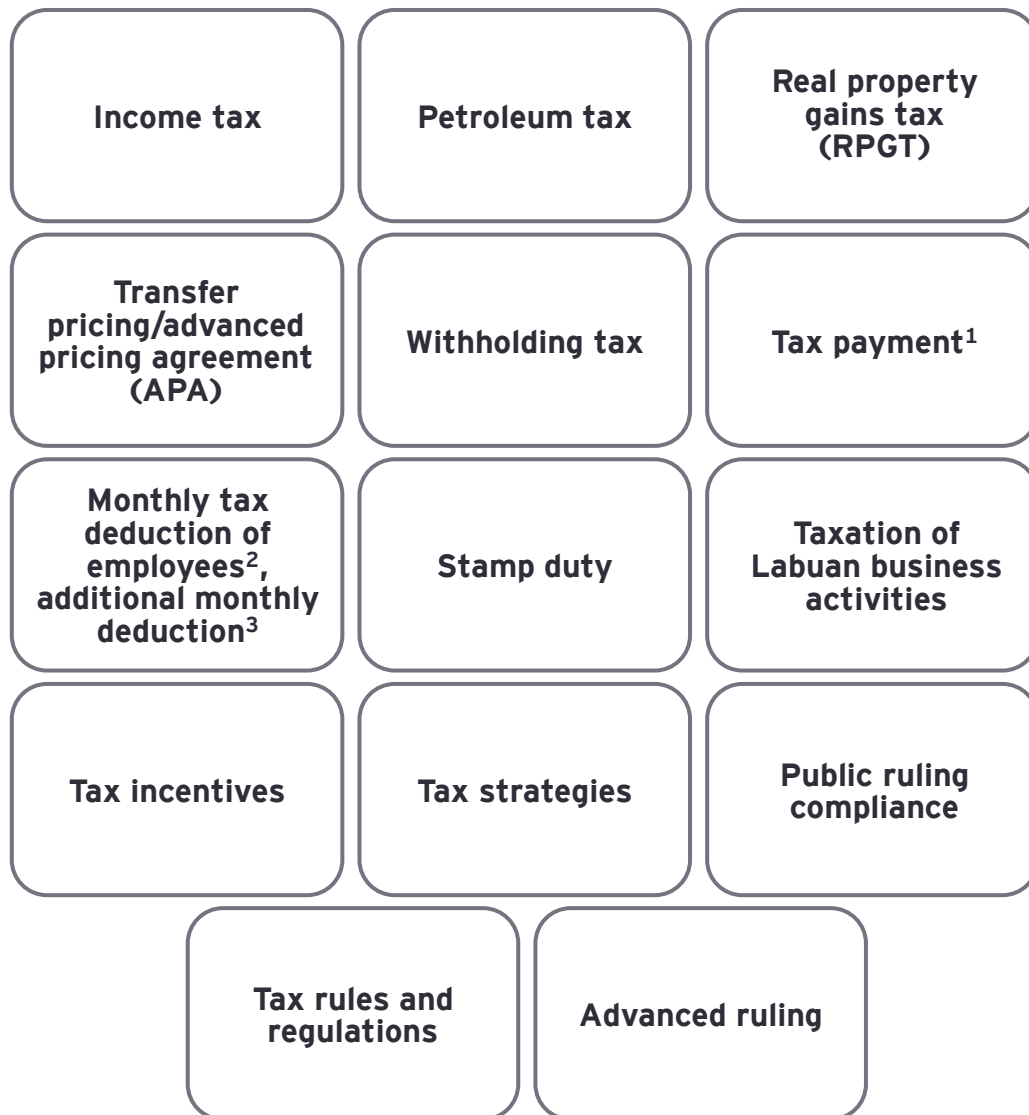
**Elias Mohammad**

Partner, Global Compliance and Reporting  
Ernst & Young Tax Consultants Sdn. Bhd.



# Scope of the TCGF

Organizations are encouraged to develop their TCGF covering:



Note:

<sup>1</sup>e-CP204, CP250, e-CP204A, CP250A, installments, RPGT and withholding tax

<sup>2</sup>e-CP39

<sup>3</sup>CP38

# TCG program: Participation process

The TCG program is an arrangement between the IRBM and the participant to work together to improve an organization's overall tax compliance and governance. Set out below are guided steps to participate in the TCG program:

## 1 Getting ready

- Satisfy participation criteria (*refer to page 4 of this Take 5*)
- Conduct preliminary self-assessment by completing IRBM checklists:
  - a) TCG - TCF principles checklist; and
  - b) Elements of TCF checklist.

## 2 Submission of participation documents

- Participation form
- TCG - TCF principles checklist
- Elements of TCF checklist

IRBM will respond within 14 days from the date of receipt of application on the eligibility status or to recommend areas for improvement.

## 3 Independent review

- Prepare full TCGF and a Self-Review Report (SRR).
- Appoint an independent reviewer to assess the TCGF.
- Submit the TCGF, SRR and independent reviewer's report to the IRBM within six months from the approval of participation.

The independent reviewer should be an approved tax agent or qualified internal auditor or qualified independent person.

## 4 Review by IRBM

Review process will be conducted in two phases:

- Adequacy review
- Effectiveness review

Organizations that do not meet requirements will be advised to improve on areas identified by IRBM.

Improvement process to be completed within 12 months from the date of the IRBM's notification letter.

## 5 Conclusion of assessment by IRBM

The IRBM will issue a Confirmation Letter of Participation to the participant once the agency is satisfied with the participant's TCGF.

Valid for three years of assessment and renewable.

# TCG program: Review by the IRBM

The IRBM will conduct a review of the participant's TCGF in two phases:

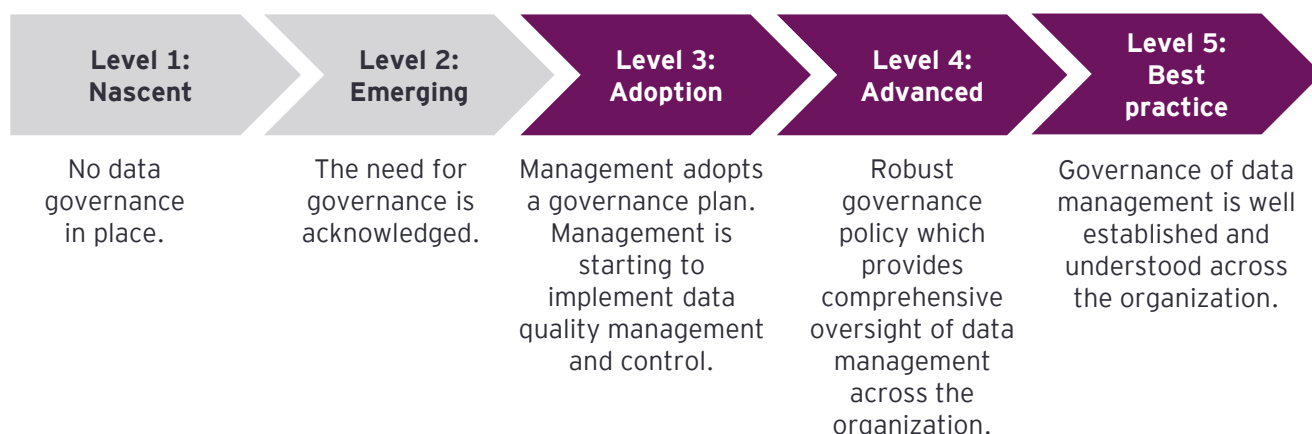
- Adequacy review
- Effectiveness review

Adequacy review assesses whether an organization's TCGF is adequately designed and documented according to established principles, whereas the effectiveness review evaluates the practical implementation and functionality of the TCGF, ensuring it meets defined responsibilities and compliance standards.

Participants are required to achieve at least **Maturity Level 3 for adequacy review** and **Maturity Level 4 for effectiveness review**.

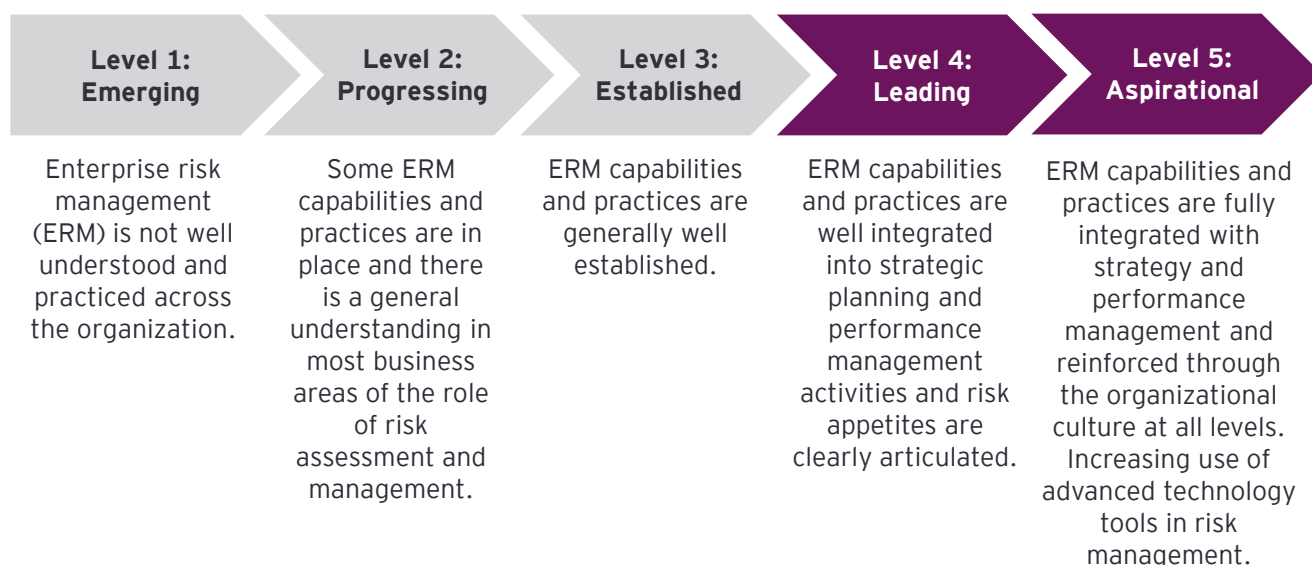
## Adequacy review

The IRBM will assess the adequacy of the participant's TCGF based on the framework's six principles and categorize the TCGF based on the following maturity levels:



## Effectiveness review

The IRBM will adopt an evidence-based approach in assessing the effectiveness of the participant's TCF and categorize it based on the following maturity levels:





# TCG leading practices and implementation approaches

Companies that are interested in participating in the IRBM's TCG program may consider the following TCG leading practices and implementation approaches/options:

Leading practices	Implementation approaches/options
<b>Transparent tax governance strategy and policy</b> <ul style="list-style-type: none"> <li>▪ Approved by the Board</li> <li>▪ Aligned with overall corporate governance, strategy and culture</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop a new set of tax governance strategy and policy.</li> <li>▪ Alternatively, customize and localize the global/group's tax governance strategy and policy.</li> </ul>
<b>Board oversight and accountability</b> <ul style="list-style-type: none"> <li>▪ Board has oversight of TCG</li> <li>▪ Procedures for escalation of significant tax risks to senior management and Board for decisions</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Board sets up a sub-committee (e.g., Tax Governance Committee) to oversee tax governance matters.</li> <li>▪ Alternatively, expand the scope of the audit committee to include tax governance matters.</li> <li>▪ Board agenda will include deliberation of significant tax matters.</li> </ul>
<b>Established tax function</b> <ul style="list-style-type: none"> <li>▪ Qualified tax professionals</li> <li>▪ Adequately resourced</li> <li>▪ Continuous tax training for tax team and other stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>▪ Structured tax function with diverse expertise to manage different taxes and areas.</li> <li>▪ Alternatively, adopt a phased approach - starting with a relatively smaller tax function with a clear road map for scaling up the tax operations and upskilling the tax team.</li> </ul>
<b>Robust tax controls and processes</b> <ul style="list-style-type: none"> <li>▪ Segregation of duties</li> <li>▪ Integrated with broader internal controls and processes</li> <li>▪ Procedures for identification, assessment, monitoring and mitigation of tax risks</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tax team and business units (BUs) will co-develop the new set of tax processes and controls.</li> <li>▪ Alternatively, customize and localize the global/group's tax processes and controls.</li> </ul>

# TCG leading practices and implementation approaches

Leading practice	Implementation approaches/options
<p><b>Regular monitoring and assurance</b></p> <ul style="list-style-type: none"> <li>▪ Regular internal audit of tax processes and controls</li> <li>▪ Independent reviewer on the effectiveness of tax processes and controls</li> </ul>	<ul style="list-style-type: none"> <li>▪ Internal audit will conduct regular audits so that the tax processes and controls are carried out in practice and remain effective..</li> <li>▪ Alternatively, this internal audit function may be outsourced e.g., due to resource constraints.</li> <li>▪ Clear key performance indicators are put in place to measure the effectiveness of the tax processes and controls.</li> <li>▪ The independent reviewer's report is required to be updated annually and during the monitoring phase. This report is required to be prepared at least six months after the financial year ends.</li> </ul>
<p><b>Established working relationship with tax authorities</b></p> <ul style="list-style-type: none"> <li>▪ Proactive, transparent and cooperative engagements with tax authorities on tax matters</li> <li>▪ Early engagement on ambiguous tax implications of complex transactions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Assign key contacts who manage interactions with the tax authorities.</li> <li>▪ Cultivate a cooperative tax compliance mindset.</li> <li>▪ Participate in cooperative tax compliance programs (e.g., TCG program, voluntary disclosure program).</li> </ul>
<p><b>Technology and data analytics</b></p> <ul style="list-style-type: none"> <li>▪ Utilize tax technology and analytics tools for efficient and accurate tax compliance and reporting</li> <li>▪ Integrated with enterprise resource planning (ERP) systems for greater efficiency and consistency</li> <li>▪ Scalable to facilitate implementation in phases</li> </ul>	<ul style="list-style-type: none"> <li>▪ Generally, companies adopt a phased approach, as implementation may involve substantial investment and resources.</li> <li>▪ Prioritize immediate needs - e.g., tax administration tools for work tracker, dashboard of work status, central depository of supporting documents.</li> <li>▪ Large and more established tax function which will invest in advanced tools, such as tax automation and data analytics.</li> </ul>



## What are the next steps?

Companies that are interested to participate in the IRBM's TCG program should consider, among others, the following actions prior to participation:

**1**

Prepare a business case to obtain the buy-in from the senior management or the Board to embark on the TCGF journey.

**2**

Conduct a review of existing tax policies, controls and processes to identify gaps based on the IRBM's six principles of TCGF.

**3**

Based on the gap assessment, plan and prepare the road map for implementation of TCGF and identify the resources required.

**4**

Set up a project working team and a steering committee to oversee the implementation of TCGF.

**5**

Develop the tax governance strategy and policy document as well as design the tax controls and processes to address the gaps identified.



# Contacts

**Farah Rosley**

Malaysia Tax Managing Partner,  
Ernst & Young Tax Consultants Sdn. Bhd.

[farah.rosley@my.ey.com](mailto:farah.rosley@my.ey.com)

**Bernard Yap**

Malaysia EY Private Tax Leader; and Partner,  
Ernst & Young Tax Consultants Sdn. Bhd.

[bernard.yap@my.ey.com](mailto:bernard.yap@my.ey.com)

**Elias Mohammad**

Partner, Global Compliance and Reporting,  
Ernst & Young Tax Consultants Sdn. Bhd.

[elias.mohammad@my.ey.com](mailto:elias.mohammad@my.ey.com)

**Sharon Yong**

Partner, International Tax and Transactions  
Services,  
Ernst & Young Tax Consultants Sdn. Bhd.

[sharon.yong@my.ey.com](mailto:sharon.yong@my.ey.com)

**Chua Siong Chee**

Associate Partner, Business Tax Services,  
Ernst & Young Tax Consultants Sdn. Bhd.

[siong.chee.chua@my.ey.com](mailto:siong.chee.chua@my.ey.com)

**Chan Vai Fong**

Associate Partner, Business Tax Services,  
Ernst & Young Tax Consultants Sdn. Bhd.

[vai-fong.chan@my.ey.com](mailto:vai-fong.chan@my.ey.com)

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