



Crowe Horwath™



Managing Your Tax Risks

Managing Your Tax Risks

By SM. Thanneermalai
Managing Director, Tax

As the current uncertain economic climate continues both internationally and domestically, companies need to brace themselves for challenging times ahead. External pressures coupled with increasing government debt to GDP ratio means the Malaysian tax authorities will continue to tighten the noose to ensure that companies are complying with their tax obligations. Under such circumstances, it becomes increasingly important for businesses to actively manage and minimise their tax risk.

Tax is a real cost to business. In a way, the government is a “de facto” shareholder of your company as they are entitled to 25% of your profits through taxation. Managing your tax and the associated risks allows your business to undertake transactions at the minimum tax cost or zero tax (through lower tax rates or using tax incentives) as well as to minimise the risk of tax adjustments and penalties.

Managing tax risks is not about avoiding the responsibility to pay taxes, or evading or implementing tax schemes with the intention of avoiding taxes. It is about ensuring that your company’s tax concerns will not affect the business objectives and have no adverse impact on shareholders’ value.

Tax risks can take several forms and can be broadly categorised into the following:

Operational Risk

This arises when there are recurring transactions such as sales, purchases of goods, services and intangibles. An example is when you fail to recognise there is a need to deduct withholding tax on a payment made to a non-resident or accounting for GST under the wrong classification.

Transaction Risk

When transactions are of a non-routine nature such as business reorganisations, mergers and acquisitions and sale of business, there will be areas of tax uncertainties in the interpretation and application of the law. These may range from application and interpretation of legislation pertaining to stamp duty to real property gains, withholding tax, transfer pricing, income tax and GST.

Compliance Risk

This covers the area of preparing and submitting tax returns. In the preparation of tax computation, it is important to note that if the underlying accounting records do not produce the tax related information accurately, the output in the tax computation will be wrong. So the application of the law and practice is, again, important here.

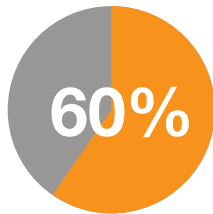
Reputational Risk

Reputational risk may arise from adverse publicity your company receives if tax authorities initiate a tax probe such as a tax investigation on your business or if there is a significant tax adjustment involving large penalties. The knock-on effect of perception of customers, suppliers and employees can be detrimental to the company.

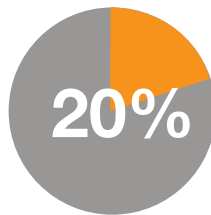
Tax Risk

Tax risk can impact every aspect of an organisation either directly or indirectly. Regardless of the size and location of an organisation, tax risk is a real and concrete issue.

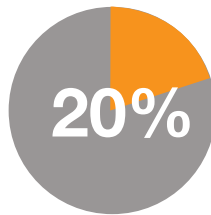
Does your organisation have a formal tax risk management strategy?



No

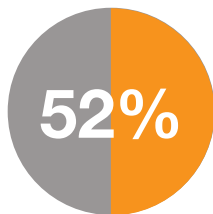


Yes

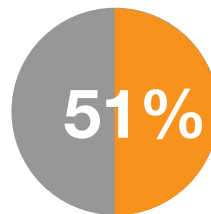


Not Certain

Who are and should be in charge of tax risk management in an organisation?



CFOs should be responsible for communicating tax risks to the stakeholders of the organisation



The organisation's Tax Department should be responsible for communicating tax risks to the organisation's stakeholders

Managing your tax risks will ensure that you will not suffer a tax cost together with the accompanying penalties. As the tax authorities continue to become more sophisticated in identifying where tax risks are and scrutinising transactions and taxpayers, businesses can no longer afford to take the "wait till they catch us" attitude.

It is important to ensure that your company has personnel within the organisation with appropriate tax knowledge as well as engage tax specialists to seek professional advice to help manage and mitigate your tax risks and liabilities. At Crowe Horwath, we constantly engage with the relevant authorities to keep up-to-date on the practical applications of tax laws that you may not be aware of that may affect your business.

Whether it is corporate tax compliance, transfer pricing, GST, tax consultancy, personal tax or international tax planning, we have specialists catering to each of those areas that can help you manage your tax risks and mitigate any future problems with the tax authorities.

Source: This infographic was presented by ERMA, Enterprise Risk Management Academy based on a research/ survey conducted.