



## Dbriefs

Why tax is essential to the climate and sustainability journey

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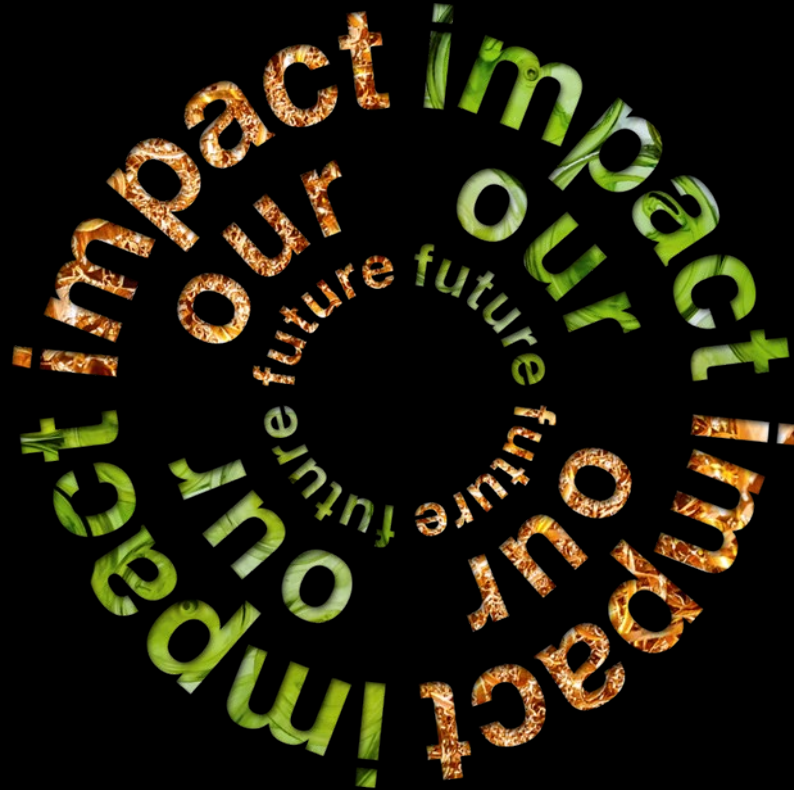
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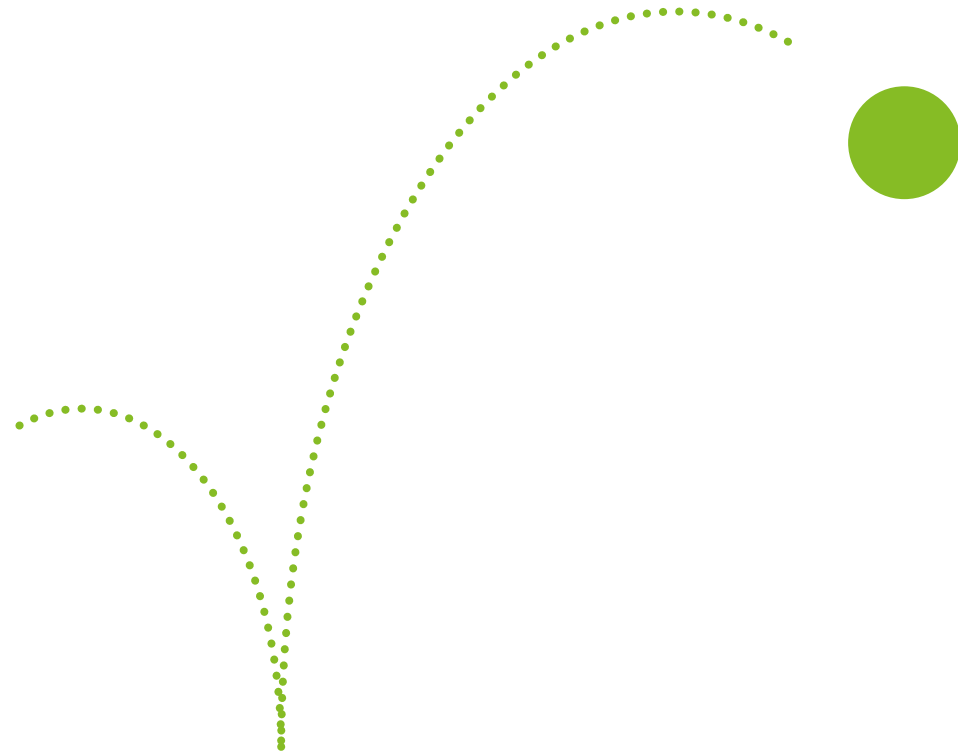


# Agenda

- 1** Introduction and Deloitte's momentum
- 2** Climate and sustainability landscape
- 3** Task Force on Climate-related Financial Disclosures (TCFD)
- 4** Credits, incentives, and global legislative drivers
- 5** Tax governance and transparency
- 6** Closing



# What are we talking about?



## The evolving landscape

Stakeholder sentiment, investor pressure, and consumer activism in the past few years set the stage for a significant ramp-up in ESG initiatives, investments, and financing.



Sustainability initiatives evolve beyond target setting and low-hanging fruit



Financing sustainability – ESG-dedicated capital builds, ready for deployment

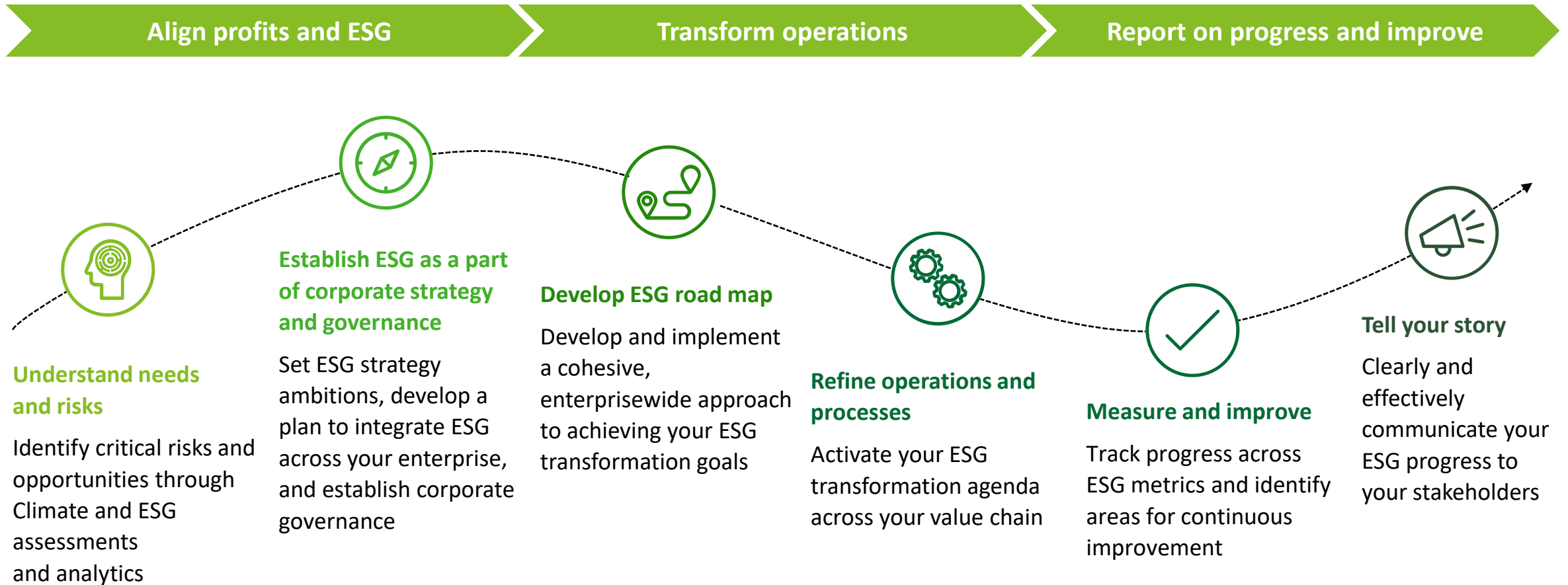


Disclosure – Will transparency shift from barrier to enabler of ESG capital flows?

Source: Mark Segal, "[ESG Today year in review: 2021 sets the stage for ESG acceleration](#)," *ESG Today*, December 30, 2021.

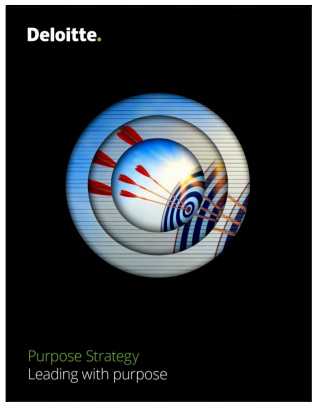
# ESG strategy and transformation capabilities along the ESG journey

ESG services can be deployed at a companywide level or for specific topics and focus areas that need to be addressed



# Deloitte's ESG point of views

## Purpose Strategy: Leading with purpose



“A company’s purpose is the role it serves in society connected to long-term value, including the differentiated needs it addresses for all its stakeholders. While profit is a strong indication that a company is creating value in the world, it says little about whether that value is created in a way that is socially responsible...”

## A new business paradigm to address climate change



“...tremendous new opportunities to create and capture value will likely materialize as well. The shift to renewable energy, the electrification of transport, changes to agricultural practices, and the transition to low-emission and higher-efficiency industrial processes are already powering a range of new business models.”



## Establishing science-based emissions reduction targets for insight, innovation, risk management, and competitiveness

“Companies are accelerating their climate change agendas because **companies are recognizing that such action offers myriad opportunities to realize tangible business benefits** such as cost savings, risk resilience, employee recruitment and retention, customer or customer attraction, and more.”

# Task Force on Climate-related Financial Disclosures (TCFD)

What is the TCFD Framework and why is it used?

## 1 What is the TCFD and the framework?

- A **private sector-led, policy-neutral task force** established by the Financial Stability Board.
- Provides guidance on **voluntary, consistent, comparable, and reliable climate-related disclosures** to provide decision-useful information to stakeholders.
- A framework for organizations to embed and report on the financial impacts of climate-related risks and opportunities.

The TCFD has four themes for disclosures:



**Governance**  
**Strategy**  
**Risk Management**  
**Metrics and Targets**

## 2 Who is the TCFD framework for and who are the stakeholders?

- Can be implemented by **all industries** to communicate climate-related financial impacts.
- Additional focus is given to **industries most constrained by reliance on:**
  -  Greenhouse gas emissions
  -  Energy
  -  Water
  -  Biodiversity and land use
- An open, rather than prescriptive, framework
- Disclosures are at the discretion of the company based on relevance to their sector and organization
- **2,700+ organizations** across **all sectors** have aligned with the TCFD

Source: [Task Force on Climate-related Financial Disclosures](#)

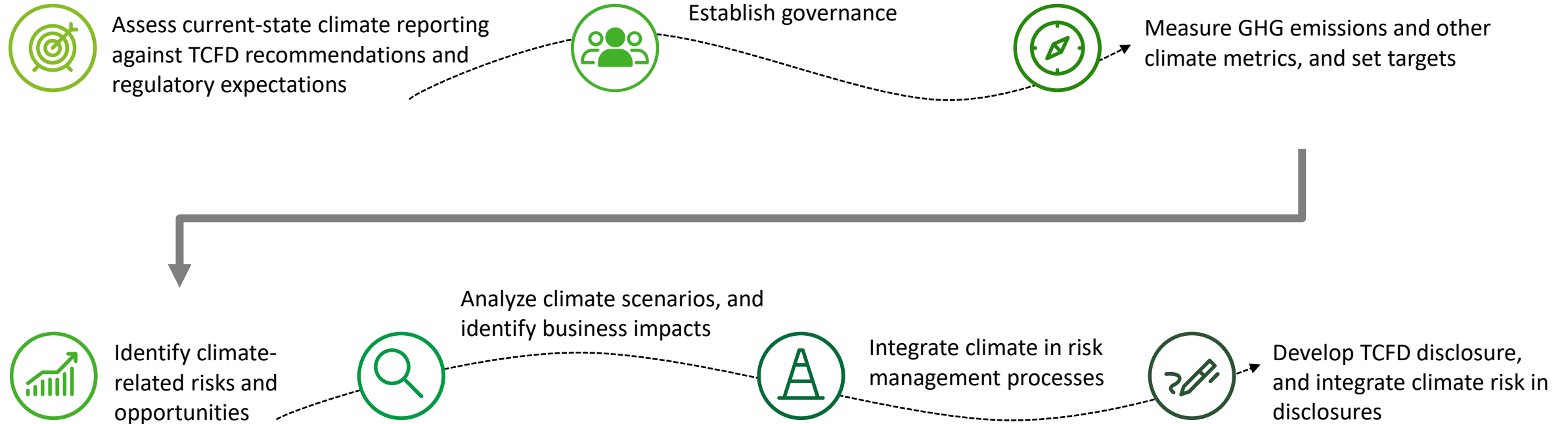
## 3 Why is TCFD framework relevant and used?

Preparing a TCFD-aligned disclosure is a **foundational and complementary step** to:

1. Increase awareness and understanding of climate-related risks and opportunities within the company
2. Proactively address investors' demand for climate-related information
3. Strengthen sustainability leadership
4. Capture market opportunities; easier/better access to capital
5. Engage with stakeholders
6. Address potential regulatory requirements

# TCFD

## Key steps to addressing the recommendations of the TCFD framework





# The role of tax in the ESG journey

Organizations are engaging in sustainability/ESG strategies focused in four key areas



## Tax considerations

As organizations engage in the sustainability transformation, tax departments play a critical role in delivering value for the organization in the following key areas:

Government grants, credits and incentives	Indirect tax	Global income tax and value chain planning	Tax governance and transparency	Rewards and mobility workforce implications
<p>Developing credits and incentives strategies to contribute to funding the sustainability journey focused on:</p> <ul style="list-style-type: none"> <li>• Tax equity financing</li> <li>• Alternative fuels</li> <li>• Batteries</li> <li>• Carbon capture</li> <li>• Carbon “sinks”</li> <li>• Electric and autonomous vehicles</li> <li>• Energy efficiency</li> <li>• Food – agriculture and production</li> <li>• Green technology solutions</li> <li>• Pollution control</li> <li>• Water</li> </ul>	<p>Planning for sales and use tax, VAT, property tax, fuel excise taxes, and other taxes related to the business transformation:</p> <ul style="list-style-type: none"> <li>• Advising on the impact of business transformation on the indirect tax profile.</li> <li>• Reverse audits – Analyze sustainability expenditures to identify areas of indirect tax overpayments.</li> <li>• Excise tax – Identify planning and risk issues related to business changes.</li> <li>• Property tax – Advise on property tax implication of green initiatives.</li> </ul>	<p>Tax planning related to business transformation resulting in changes in global tax footprint.</p> <ul style="list-style-type: none"> <li>• M&amp;A, joint ventures, and investment planning</li> <li>• Planning related to carbon market participation</li> <li>• Transforming your supply chain, including:               <ul style="list-style-type: none"> <li>– Intellectual property planning</li> <li>– Global supply chain planning</li> <li>– Global trade advisory</li> </ul> </li> </ul>	<p>Readiness and implementation work to improve governance, access global data, and deliver a robust tax transparency response.</p> <ul style="list-style-type: none"> <li>• Understanding the tax aspects of all emerging ESG standards whether voluntary or compulsory.</li> <li>• Agreeing on a strategy and plan with key stakeholders.</li> <li>• Implementing the plan, including improvements to governance, and effectively extracting and analyzing data on global tax footprint.</li> <li>• Reporting your tax narrative and data with confidence according to any set plan.</li> </ul>	<p>Transforming your workforce to embrace climate and sustainability initiatives.</p> <ul style="list-style-type: none"> <li>• Embedding climate metrics and targets in executive incentive plans, aligning remuneration policies and incentive packages and benefits with your ESG priorities.</li> <li>• Workforce engagement, sustainable flex benefits, travel policies, and alternative resourcing models that reduce your climate footprint.</li> </ul>

# US & global climate and sustainability landscape

Significant increase in new and emerging sustainability incentive policies and regulations globally

## Types of Incentives for Sustainability

### US Sustainability Incentives

- *US IRC 45Q Carbon Credits*
- *US IRC 48 Investment Tax Credit*
- *Federal and State Energy Grants*
- *Alternative Fuel Credits and Exemptions*
- Sales and Property Tax Exemptions
- Infrastructure Assistance and Utility Rate and Tax Reductions

### Global Sustainability Incentives

- Carbon Offset Credits (carbon taxes on the rise)
- European Union (“EU”), Regional and National Grants
- EU Directive Energy Tax Reductions
- Tax credits and allowances/deductions
- R&D / Innovation incentives for sustainability
- VAT / Custom Duty incentives

## Emerging Sustainability C&I Policy

### North America

- **US:** President Biden signed into law the Infrastructure Investment and Jobs Act with several programs to support green infrastructure. BBB Act still on the table.
- **Canada** announced \$15B CAD towards green / decarbonization initiatives
- **Mexico** offers national incentives for M&E for renewable generation and green incentives in select states

### LATAM

- Incentives for sustainability has been historically more limited with select policies at the national and/or state level, such as Colombia and Mexico

### EMEA

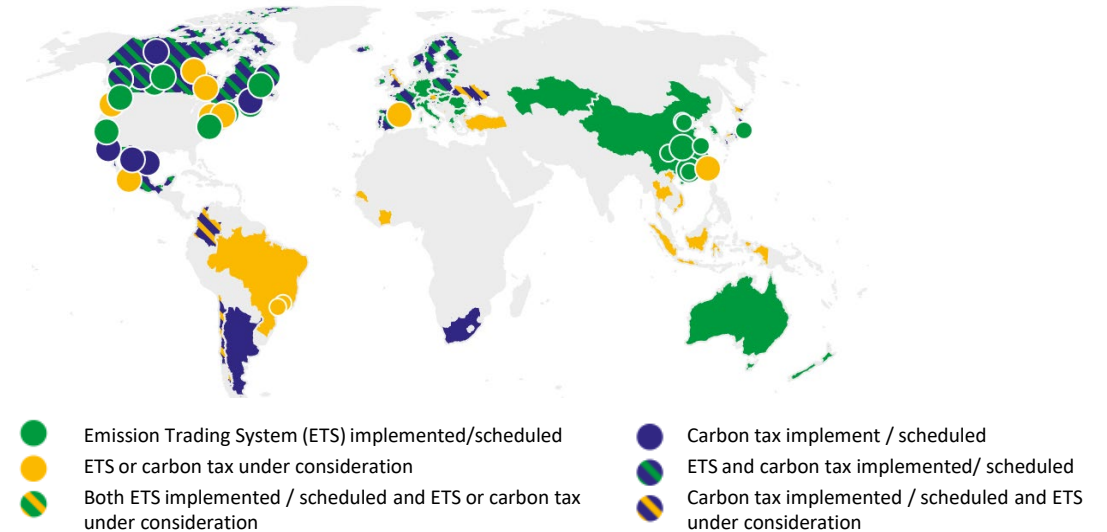
- **EU:** EU recently announced plans to cut emissions by 55% by 2035.
- In 2020, the EU Multinational Framework Agreement established a €1.8T budget including with a priority on innovation, sustainability, investment/jobs and next generation funds
- Numerous European countries offer grants tax credits, deductions and tax exemptions for energy efficiency investments, such as reducing energy usage and energy efficient M&E.

### APAC

- **APAC** has begun to focus on market solutions to sustainability concerns
- China recently launched world’s largest carbon credit market
- Australia announced \$1.9B AU for green technologies

## Carbon Taxes & Offsets

At least 46 countries have carbon taxes and/or carbon offset trading



Source: The World Bank. “Carbon Pricing Dashboard.” [https://carbonpricingdashboard.worldbank.org/map\\_data](https://carbonpricingdashboard.worldbank.org/map_data)

# Domestic trends | Key proposed tax credit and incentive provisions

**Extension of  
Renewable Energy  
Production/  
Investment  
Tax Credit**



**New Clean Energy  
Production/  
Investment  
Tax Credits**



**Extension of  
Carbon  
Sequestration  
Credit**



**Extension of  
Advanced Energy  
Project Credit**



**100% Direct Pay  
Election**



## Global trends | Environmental & energy taxes

Environmental and energy taxes are expected to become an increasingly important and prominent lever for governments, tax authorities, and legislators seeking to implement decarbonization plans.

### Energy and emission taxes



### Waste taxes



### Resource exploitation taxes

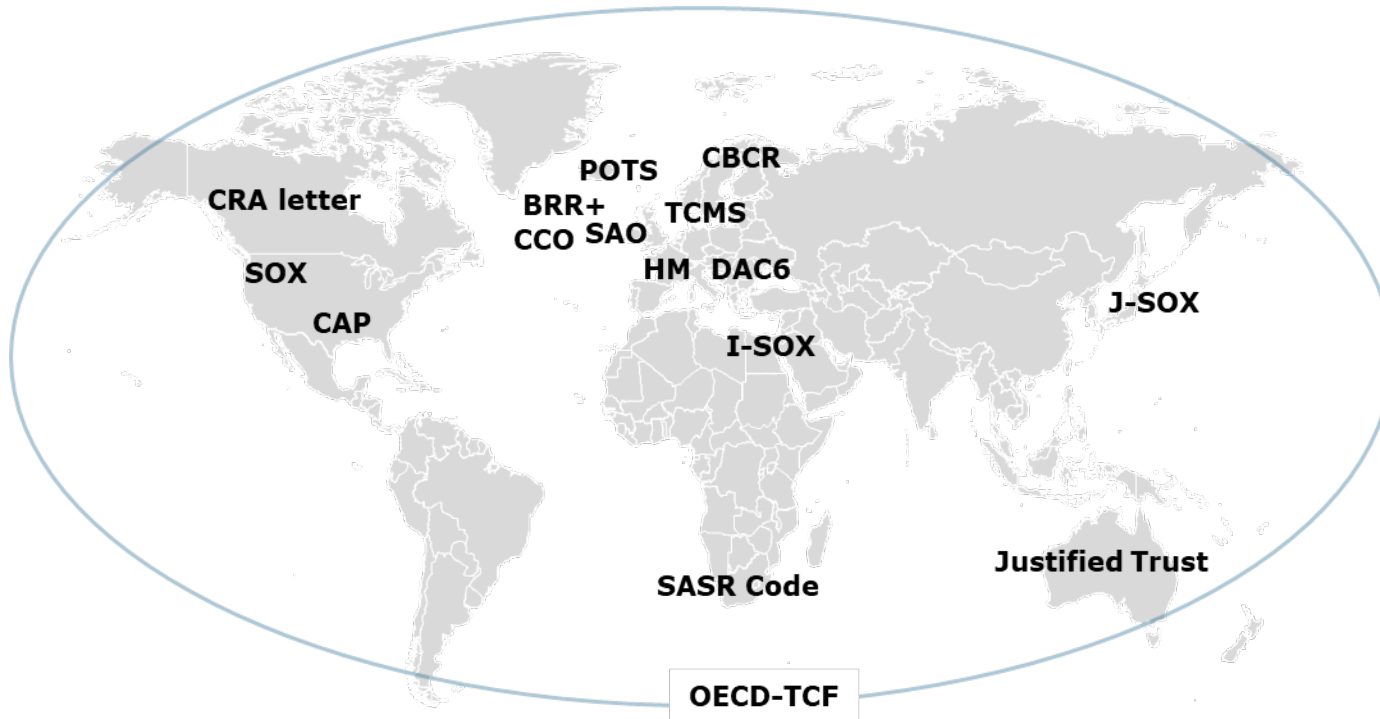


### Transport taxes



# Tax governance and transparency

Stronger tax governance and transparency is becoming a global imperative



Standards: GRI207, WEF ESG metrics

Raters: MSCI, Sustainalytics, ISS, DJSI, RepRisk

Interest Groups: UN PRI, B Team, Fair Tax Mark, EITI

*World map of tax governance and transparency regimes*



Tax is emerging as the **latest ESG indicator**, with expansion of metrics to cover tax governance and transparency. This is leading to **opportunities and risks to brand** and reputation for tax that leaders are now examining in more detail.

# Tax transparency

## GRI207 and WEF

There are many “standards” emerging, but the past year saw the launch of two key measures that will likely have significant influence going forward: GRI207 and the WEF core tax metric.

### GRI 207 – Taxation

#### 1. Approach to tax

- Tax strategy publication
- Accountability
- Regulatory compliance
- Linking tax to broader sustainability reporting

#### 2. Tax governance, control, and risk management

- Tax governance and control framework narrative
- Assurance provided

#### 3. Tax stakeholders

- Tax authorities
- Tax policy advocacy
- Gaining stakeholder views

#### 4. Country-by-country tax reporting

- All countries, all taxes

### WEF – Core tax metric

#### Community and social vitality

#### Total tax paid

The total global tax borne by the company, including corporate income taxes, non-creditable VAT and other sales taxes, employer-paid payroll taxes, and other taxes that constitute costs to the company, by category of taxes.

Adapted from GRI-201-1

### WEF – Expanded metrics

#### Community and social vitality

#### Additional tax remitted

The total additional global tax collected by the company on behalf of other taxpayers, including VAT, and employee-related taxes that are remitted by the company on behalf of customers or employees, by category of taxes.

Adapted from GRI-201-1

#### Community and social vitality

#### Total tax paid by country for significant locations

Total tax paid, and if reported, additional tax remitted by country for significant locations.

Adapted from GRI-201-1

# Tax governance and transparency readiness

## 4 steps to approach communicating with clarity on tax

### 1 Understand the landscape

- Analyze relevant measures, regulations on transparency and governance
- Undertake maturity and gap analysis of tax governance and control framework
- Identify and evaluate external stakeholders
- Engage internal stakeholders
- Document existing communications across all channels (e.g., financials)
- Assess and align to broader ESG reporting and strategy
- Benchmark communications against relevant peers

### 2 Set a tailored strategy

- Analyze external stakeholders to prioritize messaging
- Map communications channels with messaging/stakeholders
- Collate existing payment data, identify data owners
- Collate matters of potential interest relating to taxes
- Consider assurance standard and approach
- Document and agree on strategy road map
- Identify resource needs to implement strategy
- Seek stakeholder approval/resources for strategy

### 3 Mobilize efficiently

- Formalize and enhance tax policy, governance and control framework
- Develop baseline communication examples, including dummy data
- Establish and maintain reporting processes and systems to capture data (e.g., spreadsheet templates or automated system extraction)
- Gather and verify data
- Sample testing—review and challenge
- Develop narrative, align with other reporting
- Stress-test communications

### 4 Communicate confidently

- Objective review of intended external reporting, with recommendations
- External assurance against standard, where appropriate
- Final sign-off on communications
- Issue reporting through appropriate channels
- Ensure external scrutiny is identified and considered by a dedicated team
- Continue to monitor landscape and refine strategy

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