Tax transparency and sustainability

Achieving clarity in a complex world

Businesses are increasingly expected to go beyond existing requirements and volunteer more information about their approach to the management of tax (i.e. their behaviours) and its outcomes (i.e. the taxes they pay and influence). Communicating about a complex and potentially emotive subject such as tax is important but difficult, particularly in the absence of common standards. The purpose of this paper is to help demystify this landscape so you can start to think about how you could answer the 5 key questions below for your business.

Businesses face formal tax reporting obligations as well as an array of transparency expectations from stakeholders. The former have stayed largely static in the last year but the latter have increased markedly, stimulated by the broader sustainability debate and specific tax developments, and likely entrenched by the impact of Covid-19.

Baseline external reporting requirements

Large companies publish annual reports in relation to their financial performance and position which include key elements relating to their tax charge, cash tax and tax creditors and debtors in line with relevant standards. Such standards have not changed recently and the level of significance of tax in these reports will vary depending on the risk profile of the business. For example, many UK groups now cite that tax is a principal risk for the organisation and may provide details in relation to specific developments such as the impact of state aid challenges.

As we can see from the illustration overleaf (Figure 1), additional tax reporting requirements have developed gradually since the financial crisis of 2008 but these remain the exception rather than the norm. For example, certain jurisdictions do impose further public tax reporting obligations on large organisations, e.g. the tax strategy publication requirements in the UK and Spain and there are sector specific project/country-level reporting obligations for extractives (EU Accounting Directive) and banks in the EU (under EU Capital Requirements Directive IV).

5 key transparency questions

1. What information would stakeholders value?
2. What should we say, where and when?
3. What associated risks do we need to manage?
4. Should we get assurance over our statement?
5. What data and systems needs does this imply?
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2013 - EU Accounting Directive
- Aimed at transparency over payments made by extractive companies to governments.
- Requires that all large / publically traded companies operating in the extraction of natural resources publish a report outlining payments made to governments.

2014 - Capital Requirements Directive IV
- EU directive containing prudential rules for banks, building societies and investment firms.
- Made changes to corporate governance rules and introduced standardized EU regulatory reporting.

2015 - Spanish Tax Governance code
- Applies to Spanish listed and public interest entities with turnover exceeding €2 billion Euros during 2 financial years and with 4,000 employees.
- Requires that these companies design and implement a tax risk management and control framework and report on this in their Annual Corporate Governance Report.

2017 - Publication of UK Tax Strategy
- Legal requirement for companies with revenues in excess of £200 million or assets in excess of £2 billion.
- Requires that companies publish their approach to: managing tax risks, attitude to tax planning, level of tax risk a company is willing to accept and how a business works with HMRC.
- Although not enacted, the legislation included provision for future publication of Country-by-Country information.

2019 - Australian Tax Transparency code
- Enables businesses to provide greater public disclosure and consistency in Tax Transparency based reports.
- Expectation is that companies publish details of their numerical Tax contribution and ETR and explanations of the drivers of Tax position for the group.

Figure 1: growth in external tax reporting requirements
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Voluntary tax transparency expectations
In addition to growing statutory requirements there has been a proliferation of voluntary transparency measures which have been introduced over time. A number of these key measures are summarised in the table overleaf (Figure 2). The 3 most recent entrants are set out below.

Good Business Charter – this is a UK focused body which launched in 2020 and whose standards cover a range of issues, including tax. Deloitte UK has signed up to this charter.

Global Reporting Initiative (GRI) – this is a global organisation which promotes standards for sustainability reporting. In 2019, they released a specific tax standard (GRI207) which included a requirement to publish Country-by-Country information.

World Economic Forum (WEF) – on 22 September 2020 the World Economic Forum published a set of core and expanded Stakeholder Capitalism Metrics which, for tax, adapt those from the GRI reporting standards.

What is driving this change? It is a combination of three key factors:

1. The launch by the United Nations of their 17 Sustainable Development Goals has stimulated much activity from a range of actors across the Environmental, Societal and Governance (‘ESG’) space. These actors include standard setters like GRI, the UN’s Principles for Responsible Investment (PRI), as well as those who seek to assess businesses like Dow Jones Sustainability Index (DJSI) and FTSE4Good. All of these groups now include tax in their standards, prompting businesses to act.

2. There has also been a specific shift in the tax landscape. Tax specific voluntary reporting measures such as the Fair Tax Mark have been introduced and businesses themselves have become transparent with an increasing number of large organisations going beyond what is legally required to make, in some cases lengthy, public statements on their tax profile. As companies look to their peers this has led to a gradual but discernible levelling-up in terms of the volume of disclosure.

3. As with everything in life, Covid-19 is having an impact. Some businesses have needed and received public support, often through tax reliefs and deferrals. Some jurisdictions like Denmark and France have explicitly linked the availability of such support to tax behaviours. Other businesses have enjoyed financial success in this difficult period and this has led to scrutiny of their tax contribution.

QUALITY NOT QUANTITY? Our experience is that longer transparency statements do not necessarily mean better information is provided. As businesses look to respond to these prompts they should consider how meaningful the information is to their stakeholders.
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**Figure 2:** The list below is a non-exhaustive snapshot of some of the key voluntary tax transparency measures, identifying which are global or local in nature and which apply only to tax or are part of a wider set of standards:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Scope</th>
<th>Nature</th>
<th>Tax transparency elements - summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fair Tax Mark</strong></td>
<td>UK - Tax</td>
<td>Requirements</td>
<td>Standard for multinational includes: transparency (e.g. beneficial ownership), public CBCR, tax policy and tax rate reconciliation</td>
</tr>
<tr>
<td><strong>Good Business Charter</strong></td>
<td>UK - Broad</td>
<td>Principles</td>
<td>#7 Pay fair tax: Sign up to Fair Tax Mark or commit to publish tax policy</td>
</tr>
<tr>
<td><strong>B Team</strong></td>
<td>Regional (Europe) - Broad</td>
<td>Principles</td>
<td>Responsible tax principles: tax policy, group structure, havens, ETR and country level information, tax reliefs/incentives, lobbying</td>
</tr>
<tr>
<td><strong>GRI</strong></td>
<td>Global - Broad</td>
<td>Requirements</td>
<td>To confirm that management reports comply with GRI the reports must detail: management approach to tax, tax governance and control framework, stakeholder engagement and management of concerns in relation to Tax, country level tax information</td>
</tr>
<tr>
<td><strong>PRI</strong></td>
<td>Global - Broad</td>
<td>Principles</td>
<td>Annual disclosure through reporting tool of 12 modules dependent on asset class using comply or explain format, disclosure of comprehensive tax policy</td>
</tr>
<tr>
<td><strong>WEF</strong></td>
<td>Global - Broad</td>
<td>Principles</td>
<td>Core metrics: Total taxes paid by the business globally and financial assistance received from any government (including tax reliefs). Expanded metrics: Total taxes collected by the business on behalf of others and total taxes paid by country for significant locations.</td>
</tr>
<tr>
<td><strong>DJSI</strong></td>
<td>Global - Broad</td>
<td>Principles</td>
<td>Publish tax policy addressing 5 elements: commitment to compliance with spirit of tax laws, commitment to not transfer value to low tax jurisdictions, the use of tax structures intended for avoidance, transfer pricing approach, use of tax havens, explanation if ETR is deemed to be low.</td>
</tr>
</tbody>
</table>

**ONE STANDARD?** There is a widespread frustration with the saturation of competing standards in ESG generally and also specifically for tax. Alignment under a global standard setter is an aspiration for many and the G7 in 2021 provides hope for progress in this regard.
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<table>
<thead>
<tr>
<th>What gets disclosed?</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have noted that there are a variety of standards and measures out there but it is possible to identify common themes in large businesses’ tax transparency, albeit with differing levels in depth of disclosure. Inevitably, most fall somewhere between these points.</td>
</tr>
</tbody>
</table>

### Theme | Depth | Coverage |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Context</strong></td>
<td>Low</td>
<td>High-level summary of scale and breadth of the organisation’s commercial activities. Setting the scene for the group’s tax profile.</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>In-depth look at key parts of the business, their value chains and key locations.</td>
</tr>
<tr>
<td><strong>Approach</strong></td>
<td>Low</td>
<td>Core elements of ‘UK tax strategy’: commitment to compliance, approach to planning, governance and risk management arrangements and interaction with tax authorities.</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Global ‘strategy’ statements which also expand on other areas of interest, including: value chain, presence in (perceived) tax havens, use of advisors, engagement around tax policy and connection of tax to broader ESG agenda/purpose.</td>
</tr>
<tr>
<td><strong>Key matters</strong></td>
<td>Low</td>
<td>Often there is no comment on specific tax matters.</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Certain businesses address specific aspects of their tax profile, anticipating interest from external parties. For example, utility businesses may explain the impact of capital investment and financing on their tax outcomes.</td>
</tr>
<tr>
<td><strong>Outcomes</strong></td>
<td>Low</td>
<td>Many businesses do not provide any tax contribution or other payment information, beyond what is required for financial reporting purposes.</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Some provide global/regional tax contribution data (possibly including where taxes are collected but not borne) and a few provide some country-level tax data. In addition, some groups provide economic contribution/community investment data.</td>
</tr>
<tr>
<td><strong>Assurance</strong></td>
<td>Low</td>
<td>The vast majority of businesses do not get external assurance in relation to the voluntary tax statements.</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>A minority obtain limited assurance, typically in relation to the approach taken to collect/report tax contribution data.</td>
</tr>
</tbody>
</table>

**NEWS FROM A DISTANT STAR?** It is important to note when benchmarking against peers’ historic statements that you may not know how they intend to reshape their forthcoming statements.
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Focus on the numbers

An increasingly key element of tax transparency reporting is the inclusion of key tax data. Often this can be limited to the tax contribution of the business (the taxes it bears itself and possibly those that it collects on behalf of others) but in a few cases it can extend to country-level tax information. An example of this is the ‘core’ and ‘expanded’ metrics of the WEF metric for tax transparency:

**WEF: Core tax metric**

<table>
<thead>
<tr>
<th>Community and social vitality</th>
<th>Total tax paid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The total global tax borne by the company, including corporate income taxes, property 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.</td>
</tr>
</tbody>
</table>

**WEF: Expanded metrics**

<table>
<thead>
<tr>
<th>Community and social vitality</th>
<th>Additional tax remitted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>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.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Community and social vitality</th>
<th>Total tax paid by country for significant locations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total tax paid and, if reported, additional tax remitted, by country for significant locations.</td>
</tr>
</tbody>
</table>

**LESS IS MORE?** It is worth noting that some businesses do not believe it is necessarily logical to laud those who pay/collect the highest taxes. They note that taxes are increasingly being used to influence behaviour and so a higher payment of some taxes could be reflective of a business which is not acting in line with government policy objectives. This may be increasingly true if we see higher taxation of climate related activity and outcomes.
A broader purpose?

In January 2020, continuing a theme from his previous letters to CEOs, Larry Fink stated his belief that “we are on the edge of a fundamental reshaping of finance”. The chair of BlackRock wrote that he sees purpose, including a focus on climate alongside a range of other societal considerations, as the “engine of long-term profitability”. This builds on the message from his 2018 letter in which said: “Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate. Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders.”

This sentiment is reflected in the Business Roundtable statement from August 2019 in which 181 CEOs redefined the purpose of a corporation “to promote an economy that serves all Americans.” The statement made a commitment to deliver value to all of the companies’ stakeholders, “for the future success of our companies, our communities and our country.”

In the UK, the Section 172 duty of the Companies Act requires directors to ‘have regard’ to a number of matters when carrying out their duties, including regard for the long term and for stakeholders, and for maintaining a high reputation. Directors are now required to disclose in their strategic report how they have discharged this duty. Globally, companies are including information in their corporate reports on how they create value through a range of capitals (including social capital), using frameworks such as that issued by the International Integrated Reporting Council.

This focus on purpose prompts questions as to the connection between matters such as tax and the company’s ‘licence to operate’ and how boards consider issues relating to tax when seeking to identifying and balance shareholder and broader stakeholder needs. Leading from greater interest by investors and other stakeholders in broader ESG factors, tax is becoming an increasingly common reporting metric.

“We are on the edge of a fundamental reshaping of finance.”

Larry Fink, Chair of BlackRock, January 2020
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Moving forward
Over the next 12 months large businesses are going to have to manage increased pressure to make external tax disclosures. The impact of Covid-19 is likely to increase scrutiny of large businesses and their tax behaviours and contributions. Navigating this complex landscape with confidence will be a challenge. Even those who don’t choose to say more externally are likely to value having the data to hand as they engage with tax authorities around the world. Businesses who take the following steps should be able to communicate their taxes with clarity:

1. Understand the landscape
   • Analyse relevant measures, regulations (tax and other relevant, e.g. climate)
   • Identify external stakeholders
   • Collate matters of potential interest relating to your taxes
   • Engage internal stakeholders
   • Document existing communications across all channels, e.g. financial reporting, tax strategy etc
   • Collate existing payment data, identify data owners
   • Benchmark communications against relevant peers

2. Set a tailored strategy
   • Analyse external stakeholders to prioritise messaging
   • Map communications channels with messaging/stakeholders
   • Develop strawman report, including prior year data
   • Align with sustainability reporting
   • Consider phased plan
   • Determine assurance standard, e.g. ISAE3000
   • Identify resource needs to implement strategy
   • Seek approval/resources from Board for strategy

3. Mobilise efficiently
   • Ensure you have an effective governance and risk management framework
   • Establish and maintain reporting processes and systems to capture appropriate data, e.g. excel templates or automated extraction from systems
   • 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 your strategy

ONE WAY? There is no one-size-fits-all approach to tax transparency. You need to consider what matters to your stakeholders and develop a response which addresses their concerns. Looking at what peers are doing is a relevant input but only one of many.
As we have seen, the world of tax transparency is complex. It is a technical and also emotional subject, we lack global standards, the environment is changing rapidly and every business has a different set of stakeholders and circumstances to consider.

Our aim is the same as yours: to provide meaningful information to those with an interest in the tax position of large businesses.

Please do not hesitate to get in touch with your Deloitte contact or any of those listed to the right if you would like to discuss the issues raised in this paper or explore how you as a business can respond.