When it comes to the ‘E’ in ‘ESG,’ tax needs a seat at the table

Environmental, social, and governance (ESG) initiatives have shifted from above and beyond to standard operating procedure, and organizations need to implement them without financial or operational disruption. For the environmental sustainability aspect of ESG, tax is key to not only meeting but exceeding rising stakeholder expectations.

Environmental sustainability is top of mind for businesses today

Over the next 10 years, the amount of business transformation related to environmental sustainability is expected to be staggering. With a sound environmental sustainability strategy, so will be the opportunities.

An environmental sustainability strategy, as part of a wider ESG plan, can help an organization advance toward a more responsible future. It can drive top-line revenue growth by developing environmentally sustainable solutions and can help build and implement the capabilities, processes, innovations, and ecosystems required to mitigate and adapt to climate change. It can also help companies engage with existing and potential employees, and support the communities they operate in.

When planning for an environmental sustainability strategy to enhance business value, tax needs to be involved.

For all ESG initiatives, tax plays a key role. But it plays a particularly critical role in delivering value for the organization—from knowing...
indirect tax and value chain opportunities, to funding them through grants, credits, and incentives.

Giving tax a seat at the table is vital to your environmental sustainability strategy. Four key areas show why.

1. Grants, credits, and incentives
A financially sound ESG strategy depends on capturing environmental sustainability tax grants, credits, and incentives—and understanding potential tax penalties across a complex web of global jurisdictions. A credits and incentives approach that contributes to funding a company’s ESG strategy may take into account various incentive categories, including:

- Cash grants
- Income tax credits
- Property tax abatements/sales and use tax/value-added tax/other indirect exemptions and abatements
- Forgivable loans
- Other incentives

ESG grants, credits, and incentives are triggered by a wide array of activities, including:

- Hiring employees from eligible targeted populations (such as unemployed individuals, veterans, former felons, etc.)
- Making investments and adjusting operations to focus on or increase:
  - Recycling initiatives
  - Carbon offset initiatives
  - Carbon sequestration/reduction of emissions initiatives
  - Alternative fuels usage
  - Electric and autonomous vehicles usage
  - Green technology solutions
- Investing in renewable energy projects as a tax equity investor, which allows the taxpayer to be allocated portions of available ESG tax credits

Tax leaders can provide much needed guidance on a range of questions as organizations look to assess what ESG grants, credits, and incentives might be available; put in place a plan to pursue such programs; and ultimately monetize and remain in compliance with such programs.

Aside from generating tax benefits for the organization, there is an increasing focus within tax departments on assisting their organization to accurately reflect tax credits in environmental sustainability disclosures—for example, how to use tax credits and incentives to fund sustainability initiatives and offset the cost of carbon-reducing policies. European Union taxpayers are anticipated to increase reporting of incentives overall in their GRI 207 sustainability reports as well as various grant reporting requirements, and ESG reporting requirements have been proposed in the United States as well.

Finally, as the C-suite is focused on sustainability, often discussions about future plans are focused significantly on ESG activity, which is top of mind for organizations.

2. Indirect tax
Environmental sustainability transformations carry significant implications for your company’s indirect taxes.

Certain efficiency initiatives can lead to property tax reductions. In the state of New York, for example, municipalities are authorized to provide property-tax exemptions for LEED-certified buildings and renovation projects. Other efficiency-based property tax credits can be found around the United States.

Property taxes aren’t the only indirect taxes that sustainability efforts can impact. Reduced usage of gasoline across your fleet can affect your excise taxes. There can also be significant opportunities for savings on sales and use taxes based on your environmental sustainability strategy. Pollution control equipment and alternative energy investments typically provide exemptions and abatements yet can vary widely across the states.

With the right data and knowledge, your tax team can advise on all of these areas. You can identify areas of overpayment for sales and excise taxes with a reverse audit analyzing your environmental sustainability expenditures, potentially leading to tax savings.
refunds. You can also navigate planning and mitigating risk issues around excise taxes. Additionally, you can contribute to organizationwide green initiatives by knowing of and executing on potential property tax opportunities.

3. Global income tax and value chain planning
A company’s value chain, how it handles its supply chain and intellectual property, is frequently a focus area for environmental sustainability strategies. Sustainability commitments require companies to evaluate how value chain changes will affect their overall global footprint—and their global income tax profile. Organizations may find that this transformation affects the operations of their global procurement, manufacturing, sales and distribution, and shared services functions. Take sustainable sourcing as an example. Many companies are focusing on its potential to create positive brand value with customers and avoid negative value that comes with sourcing from areas with unsustainable practices. Altering your supply chain to reflect this focus carries income tax implications in terms of what the rates in your new sourcing areas are and how it could create deduction opportunities in the United States.

Additionally, the investments in new technologies may create significant value in intellectual property that may impact the global tax profile of multinationals. Your tax team can advise the organization on the implications related to these changes, which may result in changes to existing tax and legal entity structures as well as global transfer pricing considerations.

4. M&A and investments
M&A transactions and other investments typically bring significant tax work. Fitting these transactions within an environmental sustainability strategy increases their complexity.

If your company is acquiring a business that has not prioritized sustainability, your tax team’s input will be critical in this process, as the acquisition’s impact on the status of all the previously covered areas needs to be clearly understood. When a buyer acquires a target, stakeholders need to be assured that it won’t compromise the environmental sustainability strategy, jeopardize the company’s existing tax credits or incentives, and add an unsustainable stop into the company’s supply chain. And if it does, then it will be addressed immediately.

Acquisitions and investments can also be used to advance a company’s environmental sustainability strategy. Your company may want to purchase a developing climate tech startup, or set up a virtual power purchase agreement within the renewables industry. Just as important as understanding and addressing the potential negative impacts of a target on credits and incentives, indirect tax, and value chains are your tax team’s understanding and ability to enhance the potential positive impacts of a target.

A ‘nice to have’ no longer
Expectations around climate and sustainability initiatives—from investors, customers, employees, and the general public—have moved past setting targets and low-hanging fruit. Organizations across industries are implementing environmental sustainability strategies that include real and significant positive change.

By giving tax a seat at the table, you can be confident your company’s environmental sustainability strategy reaps cost-saving credits and incentives, considers indirect tax opportunities, and implements a responsible value chain. And that each of these efforts can be maintained through M&A activity and other major transactions.

An environmental sustainability strategy that’s sustainable for your organization is even more possible when tax is in the fold.

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