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Five ways tax leaders can help achieve sustainability goals

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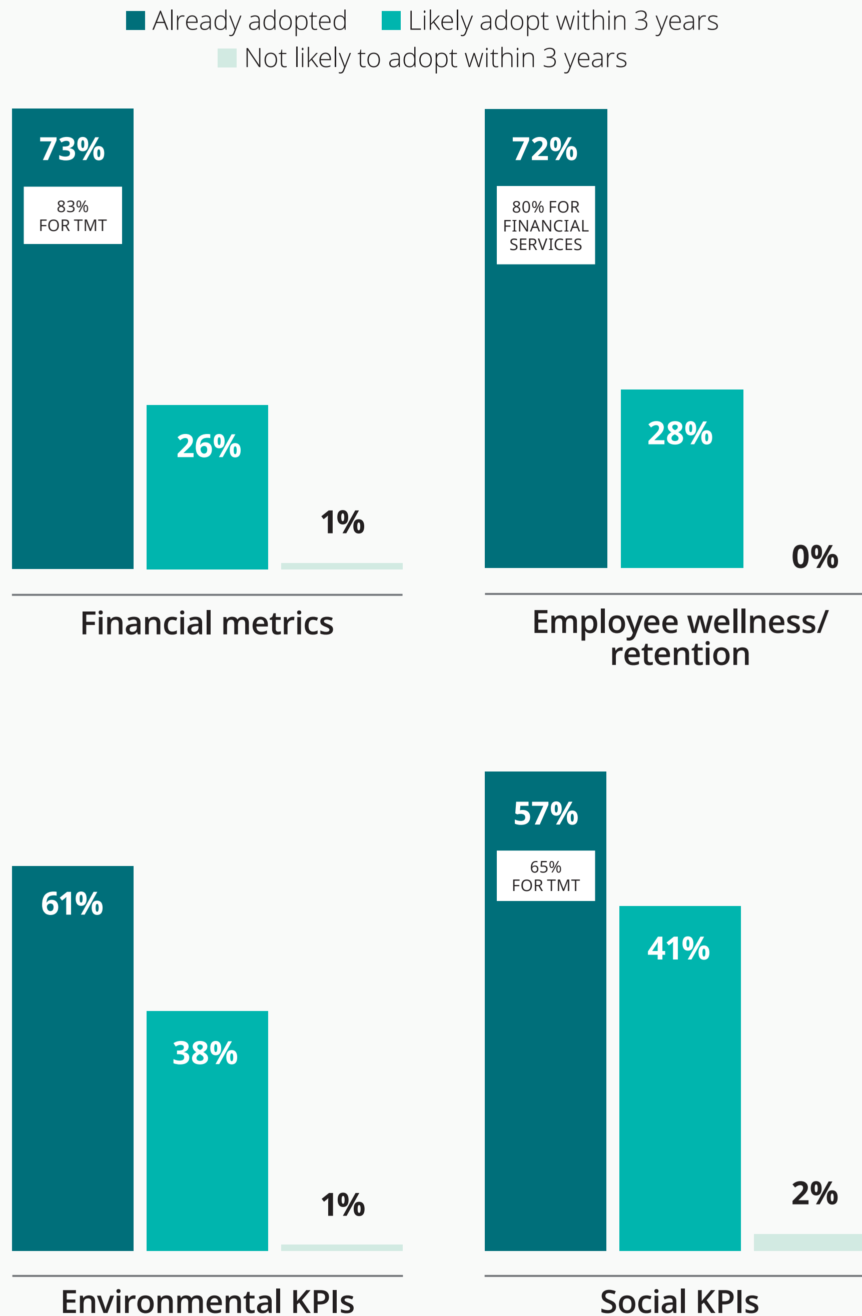
Introduction

Large companies feel the need to act when it comes to sustainability and climate change. According to a recent Deloitte CxO Sustainability Report, sustainability has become a central business issue, with two-thirds of respondents saying it will have a significant impact on their companies' strategies and operations over the next three years.[1] This is pertinent to tax leaders because changes to strategy and operations have associated tax implications and may materially alter companies' tax positions.

Businesses are now embedding environmental sustainability goals into their strategies and processes and measuring and reporting their progress and performance. Efforts to reduce carbon footprints range from using greener energy sources, to rethinking supply chains and avoiding plastic.

Tax transparency is becoming a business imperative, with companies scrutinizing their responsibilities and role in society.



Introduction

In June 2022, Deloitte surveyed 335 tax leaders globally and drew insights from a series of in-depth interviews to examine the role of tax departments in sustainability efforts. It found that tax leaders are actively helping their companies with sustainability initiatives. Two notable macro-level findings from the survey:

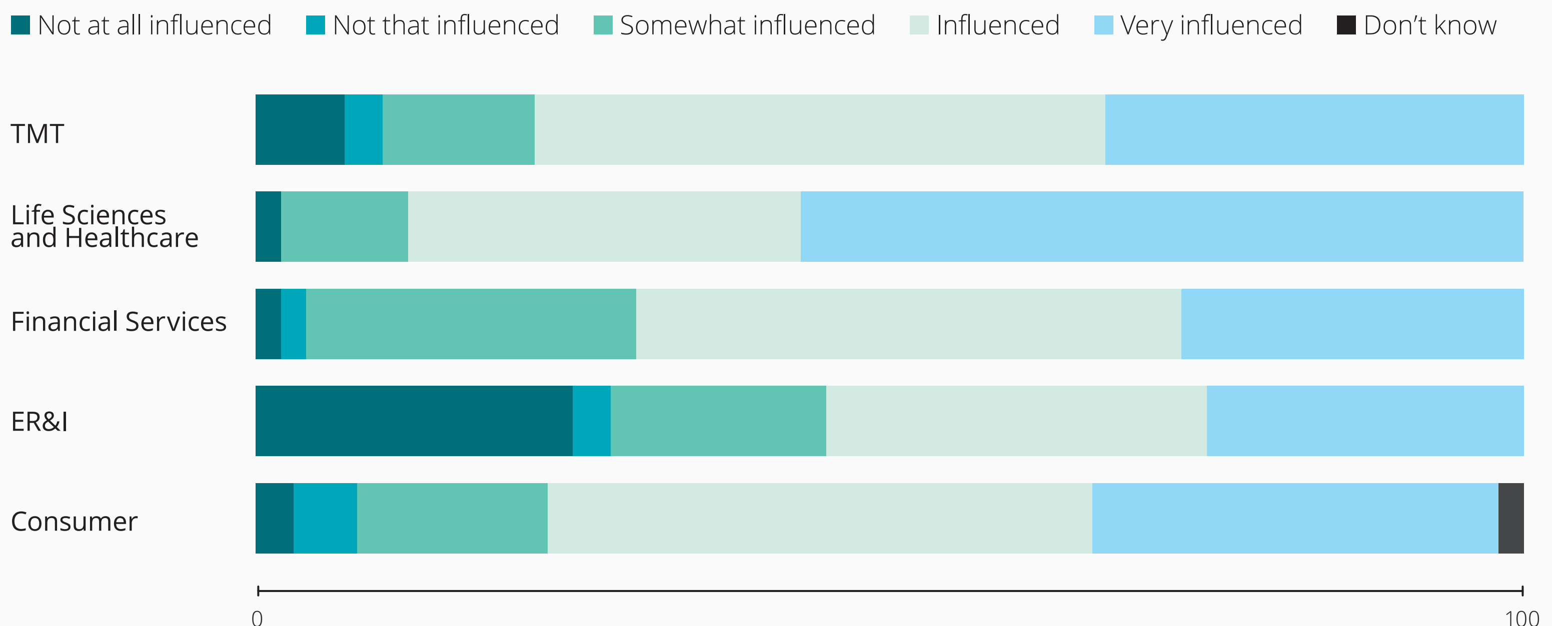
Governance is key. Arguably, in society at large, climate change makes the demand for progress on the Environmental component of ESG significantly greater than it is for progress on the Governance and Social components of ESG. However, the survey showed businesses have moved first on Governance, with 73% having already adopted measures for financial metrics and 72% for employee wellness versus 61% for Environmental key performance indicators (KPIs) and 57% for Social KPIs. Nearly 100% of respondents anticipate measures for all dimensions to be adopted within the next three years. *See Fig. 1.*

Tax is emerging as an ESG indicator in all industries, but, relative to others, it appears not to be as dominant in Energy, Resources, and Industrials (ER&I).

Even though many believe the greatest opportunity to materially impact Environmental targets today resides in the ER&I space,[2] Deloitte's survey results indicate that the sector is lagging behind the Consumer, Financial Services, and Technology, Media & Telecommunictions (TMT) industries. The influence tax has on businesses' sustainability targets varies by industry. Twenty-five percent of ER&I respondents said their business sustainability targets are not at all influenced by taxes. Compare this to the Life Sciences and Healthcare industry, where less than 2% said taxes had no influence. Outside ER&I, more than 90% of respondents from other industries indicated their targets are at least somewhat influenced by carbon and environmental taxes. *See Fig. 2.*

The capital-intensive nature of the ER&I sector is likely to be influencing this response. The accumulation of sunk costs invested over the past 75 years means that pivoting the scale of operations to clean and renewable energy sources, while also balancing the need to remain profitable, is challenging. **However, over the next decade, oil and gas companies will have a key role in navigating both energy security and energy transition, while helping commercialize essential low-carbon technologies.**

Figure 2. **Impact of carbon/environmental taxes on ESG by industry sector** (% of respondents)



"People used to see sustainability as one of those fluffy things, with the idea that sustainability teams would work in their little corner without much support from other teams. But with the pressures coming from regulators, investors, and others, and the [sustainability] targets that we've put out there publicly, there was a realization that if we're going to take this seriously, we have to do this as an organization and make tax and finance part of the journey."

Stephanie Fielding, Director of Tax and Sustainable Finance, **BUPA**

According to a recent Deloitte article, "Striking the balance: How and where will oil and gas producers deploy their cash?" the industry expects to generate up to US$1.5 trillion in surplus cash by 2030.[3] This is likely to boost the sustainability momentum and presents an ideal opportunity to strategically redirect the business model, capitalizing on new technologies to mitigate climate change. It could also allow companies to be more accepting of losses in returns as they transition to a low-carbon future.

The upshot of our conversations with business leaders is that we appear to be in a period of transition in which embedding sustainability into the core strategy is increasingly seen as business-critical, with sustainability gradually becoming integrated into every part of the business. This trajectory is similar to how IT went from being a separate department to being embedded into every aspect of business operations today.

Five steps for tax leaders to take today

1 Identify the tax implications of your business' ESG strategy

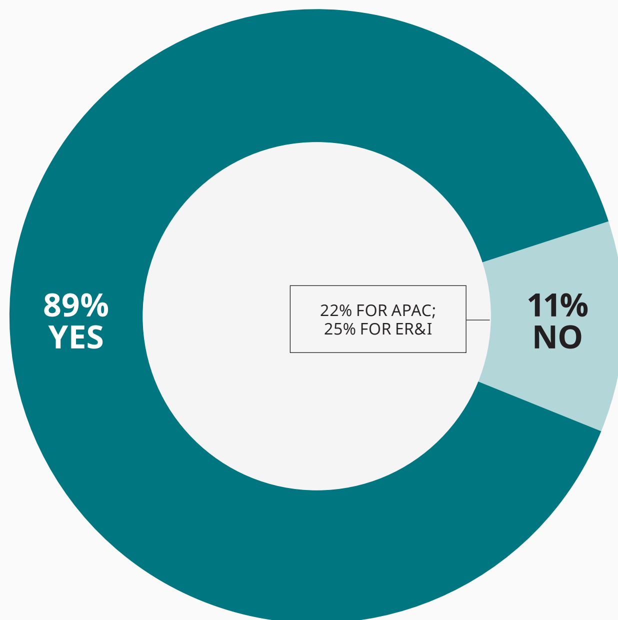
Based on the survey findings and our qualitative interviews, we have identified five steps tax leaders should take today to keep pace with the business as it shifts toward a sustainable way of operating.

Understand the broader ESG-related business goal for your organization and determine where tax intersects both at a strategic level and at the operational level. Compliance and reporting are critical, but tax leaders should also highlight the tax incentives, savings opportunities, and other sustainability-related benefits that may be available to the business. Additionally, help business leaders understand the tax impact of sustainable changes to supply chains, business models, mergers and acquisitions, and other strategic shifts they may be considering.

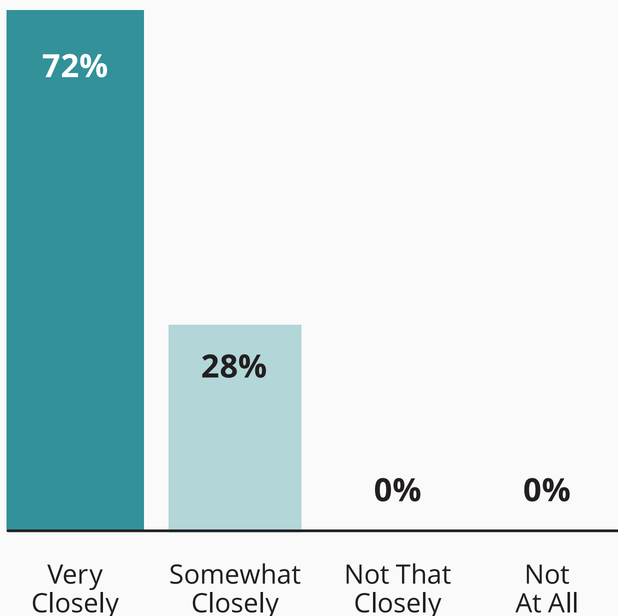
At many companies, in addition to the obvious considerations, the tax function will need to help the business understand the tax implications of new sustainability-related processes and technologies. One example—in buildings and power generation—is the production and use of clean hydrogen, which is experiencing a significant uptick globally, fueled by numerous government grants and tax incentives. Another is carbon capture, utilization, and storage (CCUS) technologies, which will potentially enable carbon to be used as a chemical feedstock, for example, helping to reduce emissions in heavy industries. Policy levers in the form of government tax incentives and other initiatives will likely play a key role in enabling the widespread use of CCUS.

Figure 3.
(% of respondents)

Does your company have a designated chief sustainability officer?



How closely do you work with your company's chief sustainability officer?



"Initially it was a really hard slog to get finance to have a seat at the table—it was like, 'Why are you guys sticking your nose in our patch?' But once the business was able to see the value that tax/finance brought to the discussion, the response became, 'We need you here—we cannot do this without you.'"

Stephanie Fielding,
Director of Tax and Sustainable Finance, **BUPA**

It may also be useful for tax specialists to be connected to R&D, technical, and development teams, to help factor the availability of grants, early in the product development process. Overall, such connections will help the tax function "get upstream" in understanding the sustainability landscape, helping it to remain a relevant, valuable business partner as the business, regulations, tax rules, and incentives change over time.

With 89% of Deloitte's survey respondents indicating that their companies have designated a chief sustainability officer (CSO) and 72% indicating they already work very closely with the CSO, that is a good place to start a deeper conversation. *See Fig. 3.*

2 Know the tax implications of your company’s value chain

For many companies, meeting aggressive carbon and climate change goals often means making fundamental changes to operations. As always, these business transformations will have tax consequences. Remind your business leaders that sustainability-related supply chain changes will require consideration of intellectual property (IP) ownership, transfer pricing, and VAT and customs impacts.

Monitor trends such as the role of green finance and carbon credits, then look for new opportunities. Governments are likely to create more incentives, such as credits and grants, to promote research and development, carbon capture, fleet electrification, IP ownership, the development of green buildings, and the use of renewable energy.

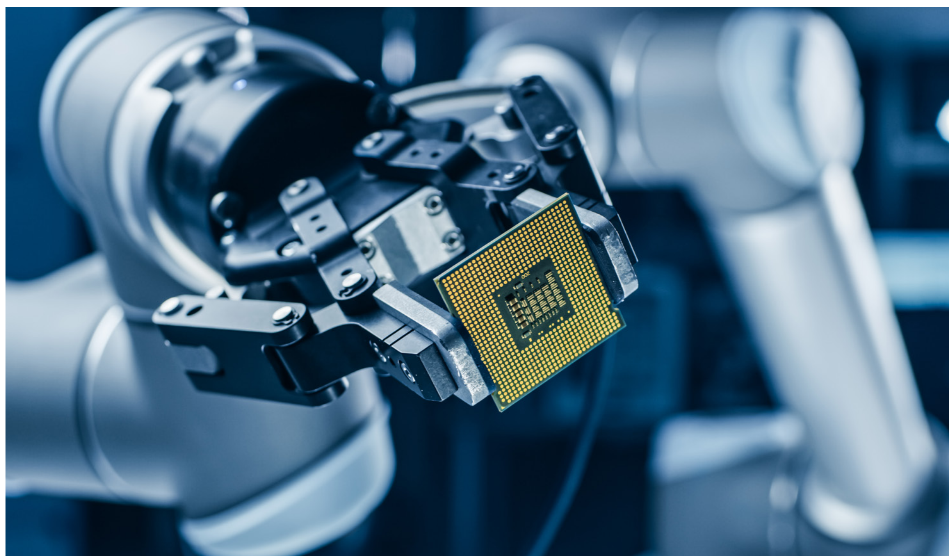
Be mindful of environmental and carbon taxes. Environmental energy taxes target areas such as energy usage and emissions, waste, resource exploitation, and transport. They are becoming an increasingly important lever for governments. Carbon taxes typically focus on emissions, or the amount of energy produced, and are expected to be an important part of decarbonization policies.

If your company operates across multiple jurisdictions, be prepared to work with an increasingly complex environmental tax landscape as more regulations and taxes are introduced. The European Union for example, has adopted the “Fit for 55” decarbonization strategy.[4] Accompanying this will likely be the need to manage a growing range of ESG-related tax disclosures.

“If you’re evaluating one [new facility] location or the other and you have a limited amount of capital, it would be great to have tax involved at the beginning to say, ‘You get the bigger bang for your buck if you put it in location X versus location Y.’ The same amount of capital goes further if there’s an incentive available.”

Andra Brion, Tax Manager, **3M Company**

On the positive side, there are also likely to be new credits and incentives introduced that can contribute value to your business. For example, the US recently announced the Inflation Reduction Act, which includes approximately US$400 billion of tax incentives to promote climate change mitigation and clean energy. The act also includes significant changes to credit eligibility requirements and new options for credit utilization that will meaningfully impact the project finance and development landscape of the energy transition.



The US Congress also passed the US$280 billion Chips and Science Act (CHIPs).[5] The CHIPs legislation will provide US$52 billion in subsidies for US chip manufacturers, and of that, approximately US$39 billion is set aside for manufacturing incentives.

Many other countries are planning to do the same. Germany, for example, has said it will fund 32 semiconductor projects using a €10 billion fund it announced in May. Japan has approved US$6.8 billion in funding for domestic semiconductor investment.

When it comes to changes in your organization’s value chain, it’s important to advise business leaders about the risks and how to navigate them, but to also highlight opportunities by way of credits and incentives that could deliver more value back to the business.

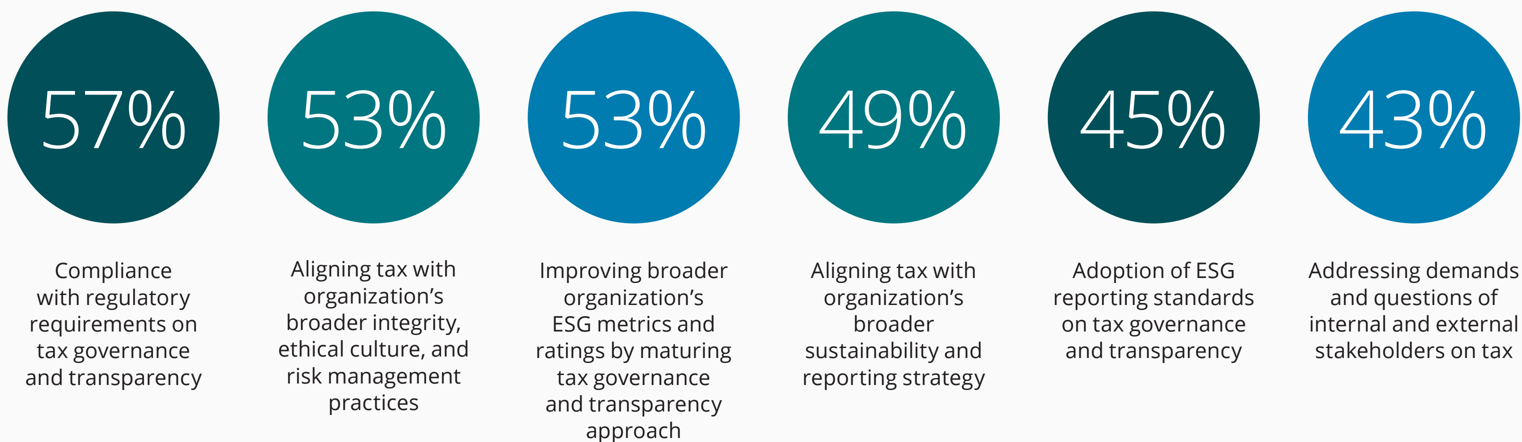
3 Prioritize tax transparency on ESG matters

The area of ESG moving fastest in tax appears to be the G, which is Governance. In Deloitte's survey, tax leaders were asked which initiatives were most important to their ability to provide sound tax governance and visibility. Compliance with regulatory requirements for governance topped the list (57%), but not far behind were aligning the tax organization with the company's integrity, ethics, and risk management practices (53%), as well as using tax expertise to help improve the broader organization's ESG metrics and ratings (53%). *See Fig. 4.*

Preparing for the changing tax ESG environment will take more effort in some industries than others, and tax directors are unlikely to be successful if they simply research the landscape and develop a formal plan. **Support will be needed to help with identifying the ESG reporting standards, regulations, ESG ratings agencies, and industry standards that are relevant to the organization and identifying any gaps against the requirements they have for tax.**

Figure 4.

Initiatives most important to the ability of tax leaders to provide sound tax governance and visibility (% of respondents)



> ***We're one of the only functions that looks right across the business and sees the whole picture. Many business counterparts will be focused on individual key performance indicators (KPIs), which they're targeted on, whereas what we see are all those different businesses from KPI positions to the bottom line, including capital. Often, our vantage point means we are the first to be aware of issues that others may have overlooked.***

Jon Priestnall, Group Tax Director, **Aviva**

Consider also any other stakeholder needs, such as those of institutional investors, and develop a plan for improving tax governance and expanding tax transparency in a systematic fashion.

As new policy and tax-reporting requirements emerge, tax can establish accurate KPIs to facilitate transparent disclosure and reporting. Tax leaders should also look outside the company to collaborate, and engage proactively with policymakers, peers, and regulators to influence tax policy.

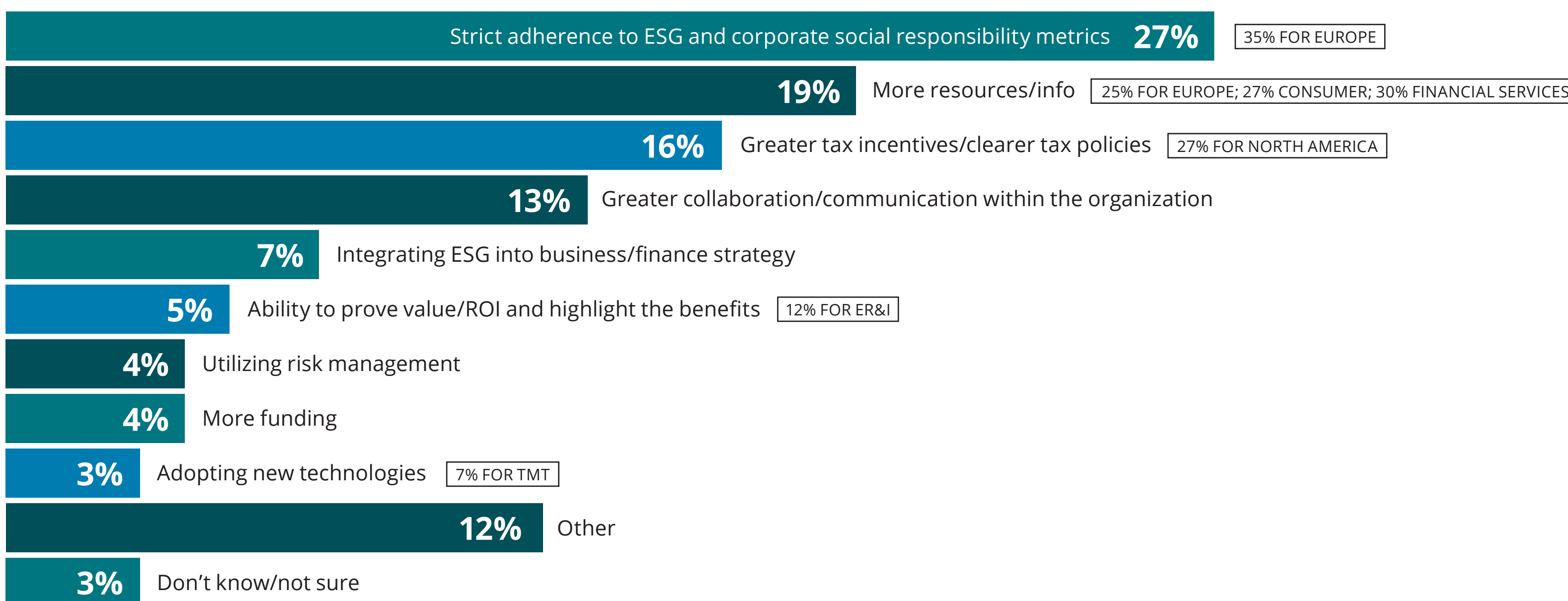
Tax leaders have a different vantage point than their departmental peers: they can see across the business in ways others cannot. This beneficial point of view means tax is positioned to contribute a broad, strategic perspective and an assessment of how sustainability goals are progressing across the business.

4 Transform the tax operating model as it relates to ESG

Depending on your industry, sustainability will place significant new demands on talent in the tax functions and will require skills in everything from indirect and transfer taxes to assessing the impact of new carbon-reducing technologies, modeling potential scenarios, and analyzing governmental policies.

In Deloitte's survey, tax leaders provided insights into the factors that would help elevate the tax point of view in sustainability conversations. The list included factors such as "greater collaboration/communication within the organization" and "more resources/information." Together, these suggest that tax leaders may believe their current resources and capabilities will be strained by the growing demands on tax, created by sustainability initiatives and the need for deeper participation in business strategy discussions. *See Fig. 5.*

Figure 5. **Starting the conversation** (% of respondents)



> ***“While we have been building the expertise internally, we’ve also had to rely on external support when it comes to the more challenging areas of decarbonization. Certainly, Scope 1 emissions is something that we’re struggling with because it’s difficult and it requires investment. We want to make sure we’re getting the biggest bang for our buck in terms of where we invest.”***

Stephanie Fielding, Director of Tax and Sustainable Finance, **BUPA**

The soft skills of communication and building business cases will be key to working closely with the business. Tax leaders can consider upskilling and diversifying the roles on their teams, acquiring new talent, increasing automation, and outsourcing/partnering to access the capabilities they need to meet increasing sustainability-related business advisory needs and demands.

Sustainability illustrates another reason why tax department transformation is needed. The focus on transparency and the resources required to support sustainability initiatives provides an incentive to free up resources by using digital and artificial intelligence (AI) technologies to automate rote tasks such as compliance and filing processes.

Tax leaders should take advantage of the sustainability landscape to drive changes within their own operations. If successful, they and their teams will have access to more data, will have improved governance and control, and will be empowered as true advisors to the business.

5 Agree on ESG tax roles and responsibilities

As tax leaders revisit their tax operating models to create capacity for ESG-related advisory and compliance activities, they should clarify the role of the tax function and how it will interface with the business in these matters. Sustainability touches on many aspects of the company, and some of those areas may involve taxes that are beyond the traditional mandate of the tax function and handled instead by HR and payroll, for example.

Thus, tax leaders should clearly establish who is responsible and accountable for ESG tax matters— which can range from plastic packaging taxes to minimum-wage issues—and ensure that they have the right level of oversight in areas where they don't have day-to-day control.

> ***"With sustainability, especially in tax, there are lots of things to be considered. So, this is an example of how tax and finance, globally and locally, can be involved in such an important project where we shape the market in the future—and have the ability to make a substantial and certain impact."***

Jian Teng, Executive Finance Director, **Gilead China**

Conclusion

Taking tax to the next level

Business is at a tipping point: All industries must think differently about how they operate. Sustainability measures are likely to start to permeate every aspect of business in the not-too-distant future.

Our survey found that, while many tax leaders feel they are on top of sustainability or the moment, others suggest specialization and advisory support related to ESG are required. With more change anticipated, tax leaders need to have a broad understanding of these fast-evolving areas of sustainability to distinguish themselves and create value for the business.

Tax needs to be ready to support the business in new ways to manage the tax consequences for sustainability-related business change and to help tell the company's sustainability story.

Tax leaders can leverage opportunities offered by sustainability to transform the business and the tax function itself. To do so, they need to embed tax into business strategies and financial decisions from the outset.

Those tax leaders who are embedded in these conversations are becoming more integral and valuable to their companies than ever before and, by doing so, are making themselves indispensable. Those that are not prepared for these conversations may leave value on the table.

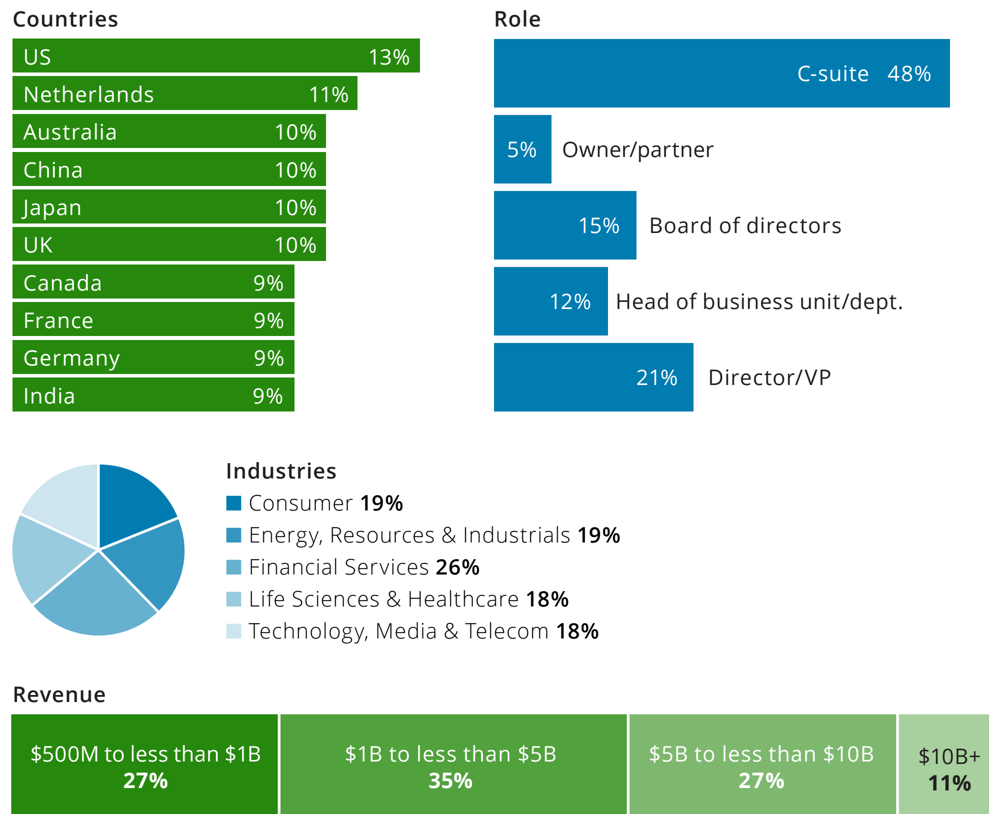
Are you ready?

About the research

The research discussed in this paper, "Five ways tax leaders can help achieve ESG goals," is based on online surveys with 335 tax leaders across Europe, North America, and the Asia Pacific regions. KS&R, a global independent market research and consulting firm, also conducted a series of in-depth one-on-one interviews with tax leaders to garner additional insight.

Respondents were all executives (C-suite, owner/partner, board of directors, head of business unit/department, or director/VP) from the finance, risk assessment, or tax functions, within large enterprises. *See Fig. 6.*

Figure 6. **Survey respondents** (% of respondents; n = 335)



TOTALS MAY SUM ABOVE 100% DUE TO ROUNDING.

Endnotes

1. **Deloitte publication:** Deloitte 2022 CxO Sustainability Report The disconnect between ambition and impact

2. **Deloitte article:** Getting from hard-to-abate to a low-carbon future, *Deloitte Insights,* September 2021

3. **Deloitte article:** John W. England, Striking the balance: How and where will oil and gas producers deploy their cash?, *Deloitte Insights,* August 2022

4. **Deloitte article:** European Commission publishes "Fit for 55" package, July 2021

5. **Deloitte article:** Advancing energy security: Sustainability-related provisions in the Inflation Reduction Act, August 2022

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