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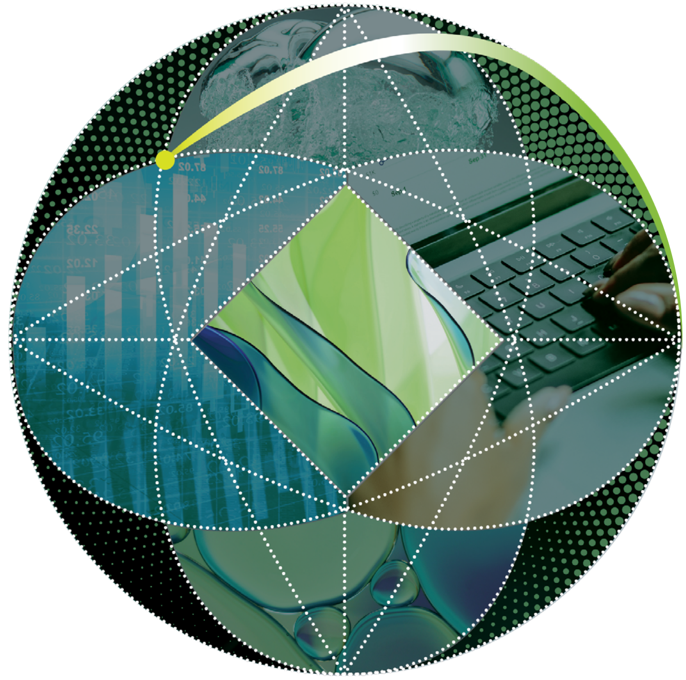
Tax Transparency & Reporting:

How can we see more clearly?



Introduction

The principle of increased tax transparency is a good one. It brings the promise of greater public trust in tax systems and greater consistency and accuracy in how those systems operate. But there is increasing concern that the complexity and cost of reporting, as well as collecting and assessing data on tax-related activities around the world, could be at the tipping point of outweighing these benefits.

This article considers why this is and looks at how different futures for Transparency & Reporting could potentially deliver better outcomes.

Context

When respondents to [Deloitte's 2024 Global Tax Policy Survey] were asked to rank five key policy themes in terms of their impact on business, Transparency & Reporting ranked at the top of the list.

Ninety-seven percent of the multi-national businesses sampled have a tax transparency strategy in place. However, more than two-thirds of respondents recorded "high" or "very high" levels of concern about executing their strategy.

These elevated levels of concern related to fundamental aspects of Transparency & Reporting, such as "understanding the relevant requirements and standards" and efforts required to "source and verify the data". In other words, well over 60% of survey respondents are highly concerned about what information they should be collecting and reporting, where they can find it, how they resource that work, and how they can be confident in its accuracy.

Amanda Tickel, Deloitte Global Tax & Legal Policy Leader

"These are really striking survey results, particularly in the context of all the other challenges confronting tax functions, such as Pillar Two implementation.

They highlight the challenges both for business, in terms of managing the complexities and burdens of tax transparency and reporting, but also for governments, in terms of effort required to administer transparency policies and actually utilize the data collected."

While greater transparency can deliver benefits, they come at the price of additional costs and burdens which vary depending on the type of reporting and disclosures involved.

In the case of reporting to tax authorities, whether directly reporting on their own account or third-party reporting, these costs and burdens fall primarily on the information providers, as the business of reporting is an add-on to their core business (whereas receiving this information is very much the core business of the tax authority).

On the other hand, for public transparency disclosures, aimed at building trust with other stakeholders (e.g., investors, employees, lenders, civil society) costs and burdens also arise for the information users who need to have the appropriate processes in place to receive, understand and use the disclosed information.

When considering the future of Transparency & Reporting a central question is: can the benefits delivered through increased transparency be secured in a less burdensome and costly way?

Why is this the number one tax policy concern for business? Because transparency frameworks have become complex and cluttered.

From its origins in the personal tax and bank secrecy fields—with mechanisms such as the EU Savings Directive, Tax Information Exchange Agreements, the US Foreign Account Tax Compliance Act, and the OECD Common Reporting Standard—the international transparency framework has expanded to include broader tax reporting at a corporate level.

Multilateral reporting regimes now include corporate tax reporting through Country-by-Country Reporting as well as the requirements under the EU Directives on Administrative Cooperation in the field of taxation, the EU Accounting Directive, and the OECD Mandatory Disclosure Rules.

Reporting requirements from other policy domains also affect tax reporting. These include EU measures such as the Corporate Requirement Directives IV, the Sustainable Finance Disclosure Regulation, and the Corporate Sustainability Reporting Directive.

Additional legal disclosure requirements are often also layered on at the national level. The UK, Spain, and Poland have tax strategy disclosure requirements, while Australia additionally has Public Country-by-Country Reporting.

Beyond legislative requirements, voluntary reporting standards have been developed under the Global Reporting Initiative and the World Economic Forum IBC Core Metric.

In addition, many businesses feel obliged to supplement mandatory reporting with voluntary disclosures to set tax data in its full context. Taken together, all of this presents a complex and cluttered reporting environment for businesses.

This complexity is not only a concern for business but is also beginning to be echoed by fiscal associations and tax authorities themselves. For example, at the IFA European Region Conference 2024[1], a lively panel discussion addressed the fact that burdens are being created by different reporting requirements emerging from disparate sources. This complicates and increases the cost of collecting and verifying the required data. A comparison of the requirements set under the EU, OECD, Global Reporting Initiative, and Australian variants of Country-by-Country Reporting revealed more than a dozen points of variance.[2]

There is already some recognition that the framework needs refreshing, with the European Union referencing the need to "declutter" an overcrowded regulatory and reporting field, as evidenced by a joint position paper from most EU member states urging the Commission to go beyond its existing commitment to reduce reporting requirements by 25%.[3] This echoes a more widespread global focus, for example in India and in Brazil, on the need to simplify tax systems.

[1] IFA European Region Conference 2024 | IFA - International Fiscal Association

[2] Comparison of Country-by-Country Reporting initiatives (deloitte.com)

[3] 20 EU Countries Call for More Action to Simplify Reporting | Tax Notes

A further area of concern is a perception that there is a lack of transparency about how the inputs to transparency reporting are being used. There is a suspicion that large amounts of expensively collected and reported tax information may be languishing unused by the world's tax authorities. This problem has been highlighted by the EU Court of Auditors' special report on exchanging tax information which states that "Member States receive huge volumes of information, with information generally underused".[4] An indication of the centrality of this issue is provided by the UK's HMRC identification of "Exploiting Information" as one of the top ten strategic risks facing the tax authority, noting that "Failure to exploit our data effectively could result in reduced revenue collection, tax gap widening and/or weaker customer service by failing to build analytical capability".[5]

These issues will be explored further in an inquiry by the UK Parliament's Public Accounts Committee (PAC), launched on 15 January 2025, examining the costs associated with the UK tax system.

Ronnie Nielsen, Tax Administration Thought Leader at Deloitte's Center for Fiscal Systems

"The perception that tax authorities are not properly exploiting the data reported by businesses at great cost is worrying. Tax authorities are progressing towards more digital and data-driven processes but could perhaps do more to bring out what is changing and how this benefits taxpayers and society."

Is it time for a reset to ensure the right data is collected as efficiently as possible—and what might the future direction be?

Diana McCutchen, Tax Partner Deloitte US

"We should view the current transparency framework as a point of departure rather than a destination. That means fully exploring how far we can achieve a better balance between costs and benefits."

Three possible futures for Transparency & Reporting

1. **Simplifying and unifying existing frameworks** – streamline and reform the international framework to reduce the costs and effort of reporting while increasing the accuracy and usefulness of the data collected.
2. **Focusing on modern tax administration** – revisiting the core objectives of the transparency agenda in the light of current and future expectations of developments in tax administration to explore how best to pursue transparency goals.
3. **Moving beyond transparency** – leveraging modern tax administration and technology to move beyond reporting as a basis for re-establishing trust among key stakeholders and using reported data more productively.

[4] Special Report 03/2021: Exchanging tax information in the EU: solid foundation, cracks in the implementation | European Court of Auditors

[5] HM Revenue and Customs - Annual Report and Accounts 2023 to 2024 (publishing.service.gov.uk)

Future 1: Existing transparency frameworks could be unified and simplified.

The current transparency framework has evolved over time and has been elaborated through a variety of multilateral processes (with the OECD and the EU being prime movers). The need to secure broad support and buy-in to multilateral processes inevitably involves a trade-off between uniformity and diversity when agreeing to policy measures. The result, even in politically integrated blocs such as the EU, is that the process that would emerge could allow for considerable diversity in terms of detailed implementation. In other words, the transparency framework delivers a common approach rather than a standardized approach.

The resulting lack of uniformity raises challenges for businesses that operate across different jurisdictions and sectors. Difficulties also arise for wider stakeholders as they seek to draw coherent messages from a myriad of different sources.

The case in favor of moving towards a more unified and simplified framework is a strong one in principle. However, for progress to be made at a practical level three conditions need to be met. There would need to be:

- A recognition by multilateral policymakers that the current framework could be enhanced and improved by a process of greater unification and simplification and that this should be a priority focus for multilateral action.
- A detailed understanding of the areas of complexity, duplication, and redundancy that create undue burdens under the current arrangements.
- A set of principles for prioritizing issues within the review process.

Given that the current costs and burdens primarily fall on businesses and stakeholders outside the multilateral policy processes, the onus will fall on them to raise the political priority attached to these issues, and to make the case for a more unified and simplified transparency framework.

Future 2: Modernized tax administrations could deliver better outcomes.

While Tax Transparency & Reporting has become a standard feature of global tax management, it is worth recalling that its original driver was addressing information failures within tax administrations. Some of these failures were internal (i.e., a lack of adequate data-matching across systems) and others were external (i.e., banking secrecy and tax secrecy between jurisdictions).

In the period since the launching of the transparency revolution, following the 2008 Global Financial Crisis, there have been significant advances in the technology available to tax authorities to data match across systems and to track transactions and activities in (or near) real-time. Major tax digitalization projects are being rolled out in jurisdictions, such as the USA and the UK, and digital transformation is a priority focus at the multilateral level including through the OECD's Tax Administration 3.0 initiative.[6]

This modernization has greatly boosted the capacity of tax administrations to accurately identify, calculate, and collect taxes due, and introduces the prospect that tax outcomes can be more readily relied upon because data, processes, and tax control frameworks themselves are robust and trusted.

Looking to the future, it should be increasingly possible for the rules and algorithms of the tax system to be embedded in the natural processes operated by businesses, thus removing the need to request the same data with a view to cross-checking, repeating calculations, and identifying errors or discrepancies.

Simply put, a future can be imagined where advances in tax administration render elements of the current transparency framework obsolete. At that point, the focus on transparency might shift to ensuring that all stakeholders can fully understand and buy into the tax outcomes being delivered.

[6] Tax administrations agree an ambitious set of practical initiatives to support digital transformation, enhance tax certainty and deepen partnerships on global tax capacity building

Mark Kennedy, Partner, Deloitte UK

"Fundamentally, the need for, and the effectiveness of, tax transparency is linked to the robustness of legal frameworks and the funding of the tax administration.

The challenge, moving forward, is to get the balance right between what can be best delivered through reporting and transparency, and what can be achieved more effectively by other measures."

Future 3.1: Moving beyond transparency to rebuild trust.

A central objective driving the development of the global Transparency & Reporting model has been the need to (re) establish trust between taxpayers, tax collectors, and citizens. The logic here is that increased public reporting will give citizens confidence that the right tax is being collected and paid and that civic trust will be bolstered as a result.

Prior to the transparency revolution of the early 2000s, there were two fundamental trust issues at stake. Firstly, on the part of tax administrations, there was a basic need to be able to trust that taxpayers were compliant with their obligations. This had been addressed by the development of an audit and enforcement culture which had become characterized by a somewhat adversarial relationship, which in turn was damaging to trust. Secondly, civil society had limited visibility on how effectively and fairly the tax system was being administered, contributing to a lack of trust in tax administrations.

Ronnie Nielsen, Tax Administration Thought Leader at Deloitte's Center for Fiscal Systems

"Transparency is not an end in and of itself. It is a way of underpinning justified trust that tax outcomes can be relied upon by taxpayers, tax authorities, and other stakeholders. The focus of the conversation should always be on what it takes to create and sustain this trust."

The framework of reporting obligations currently in place, supported by additional voluntary public reporting, has set a new baseline for openness. However, this has not necessarily delivered a step-change in trust. In part, this may be because advances in transparency can be outstripped by advances in the complexity of the tax system itself. Given this, it is not immediately apparent why persevering with the current model of transparency will be effective in building greater trust.

Rather than assuming more transparency (in the form of public reporting) is the answer, a revisiting of trust issues could usefully focus on the extent to which modern technology could deliver for tax authorities, and for civil society, some of the reassurance currently provided by reporting. In particular, the potential for validation and verification to be delivered by AI in ways that would meet the trust concerns of both tax authorities and other stakeholders should be explored.

Future 3.2: Moving beyond transparency to use reported data more productively.

To date, tax data has been used for tax purposes. Given that tax administration databases contain a granular, often to the transaction level, picture of an entire economy, and data that has been collected subject to rigorously applied standards, they offer an unparalleled resource for policymakers far beyond the confines of the tax system. With modern data analytics, the potential exists for this data to be deployed in support of wider economic and social policy-making, thereby generating a new form of public value.

A future approach that focuses on using reported tax data to drive wider economic benefits would mark an advance beyond the current arrangements where the benefits of reporting flow to the government while the costs and burdens fall to business.

Mark Kennedy, Partner, Deloitte UK

"The effective adoption of emerging technologies should move us closer to realizing the big desire in businesses of taking the focus of their tax people away from processes and helping them spend more time being business advisors."

The focus of the future needs to be on a more productive, less burdensome, and less costly transparency framework.

The current global framework for Transparency & Reporting is subject to significant shortcomings. How radically and thoroughly these weaknesses are addressed, and by what means, would be a matter of political choice and prioritization.

There is already an emerging recognition by governments around the world that decluttering is needed to remove obsolete requirements or duplication. At the same time, the power of technology to transform tax administration opens up the prospect of different approaches to securing transparency and trust.

A broad range of options is available to global tax policy makers, ranging from a streamlining and rationalization of the existing reporting mechanisms to a complete reframing of the fundamental trust issues that underpin the transparency debate.

The challenge for businesses and other stakeholders is now to engage effectively with policymakers to maximize the positive outcomes that can be delivered through Transparency & Reporting.

Amanda Tickel, Deloitte Global Tax & Legal Policy Leader

"There is a real risk that the current model of transparency and reporting creates a lose-lose situation where businesses bear costs and burdens while tax authorities don't derive optimal benefit from the data they collect.

The focus of all the stakeholders involved needs to be on moving that closer to a win-win, by designing consistent requirements to report meaningful data."

Contacts

Amanda Tickel
Global Leader, Tax & Legal Policy
ajtickel@deloitte.co.uk
+44 (0)20 7303 3812

Diana McCutchen
Partner, Business Tax Services
djmccutchen@deloitte.com
+1 714 436 7702

Mark Kennedy
Partner, Tax
markennedy@deloitte.co.uk
+44 (0)20 7007 3832

Ronnie Nielsen
Senior Manager
rnielsen@deloitte.dk
+45 27 24 20 09

Steven Effingham
Editorial Advisor, Deloitte Global
seffingham@deloitte.co.uk
+44 7887 634 011