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Deriving business value from a sustainable tax governance

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When governance models are reviewed by real estate players to achieve their ESG goals, it also integrates an important tax dimension – tax transparency – which requires the production of data on tax governance and a control framework and which is in many cases not yet available. Real estate players have an opportunity to increase the value of their portfolio and their brand by taking pre-emptive actions to set up a tax governance as part of their overall ESG strategy.

Robust governance models which include transparency reporting have become the cornerstone of the EU policy agenda, attracting tax in corporate ESG strategies. There are currently few legal requirements for businesses to be publicly transparent regarding taxes beyond pure financial reporting obligations. However, there are a significant number of voluntary best practices such as Global Reporting Initiative[1] and the World Economic Forum[2], etc. As from 2021 onwards, tax transparency will be embedded in sustainability reporting regulations. Businesses will have to report about tax at two levels, one for financial reporting purposes to their shareholders, and a second for sustainability reporting purposes to a much wider base of stakeholders, including investors, media, NGOs and the general public. EU Public Country-by-Country tax reporting is well underway to become a reality and would require multinational enterprises to publicly disclose certain tax information for the countries in which they operate. Under the EU Sustainable Finance Disclosure Regulation, financial market participants and financial advisers must disclose sustainability risks in all investments, notably with respect to companies' good governance practices and in particular to tax compliance. These transparency obligations would require businesses to produce data on their tax governance which is in many cases not yet available (e.g. description of the approach to tax and how it is linked to the business and sustainable development strategies of the organization, description of the assurance process for disclosures on tax, etc.). The challenges and opportunities raised by sustainability in relation to tax requires businesses to anticipate, adapt, and act proactively by developing and mastering tax governance and tax communication, which are interdependent.

In this evolving and complex environment, with increasing tax risks and double taxation, businesses are facing growing pressure for tax transparency. Society and stakeholders require them to explain and demonstrate the sustainability of their tax governance and control framework in order to fulfill their tax obligations (i.e., to explain their strategy and approach to tax management). Communication regarding taxation is an important and constituent part of an ESG governance strategy, but it is a highly technical subject that may be challenging for all stakeholders to fully grasp. From a nice to have it is becoming an obligation in 2021.

The setting up of the tax governance function and the processes required will take time and will need resources in respect to notably people, processes, data, tools and technology. And tax governance can no longer be considered in isolation from a broader business and ESG strategy. Anticipating and understanding the tax landscape, as well as setting up a tailored tax governance and control framework will also allow taxpayers to participate in tax policy discussions and share their experience and point of view to lawmakers.

The ability to produce data and to communicate effectively about tax strategy and tax governance to the public and policymakers is positively impacting businesses (e.g. strengthened brand attracting more investors, opportunities to qualify for tax incentives, environmental taxes, etc.). Other immediate benefits from a robust tax governance are the reduced tax risks and associated costs, including decreased insurance premiums. Hence, the value and return on investment for investors and shareholders in companies with a mature tax governance and control framework would increase. The overall ESG rating and reputation of both businesses and their investors would be improved, strengthening their brand.

It is now time to act on this opportunity offered to real estate players to generate value in relation to tax by creating an integrated ESG tax governance.

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[1] https://www.globalreporting.org/standards/media/2482/gri-207-tax-2019.pdf
[2] https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation

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