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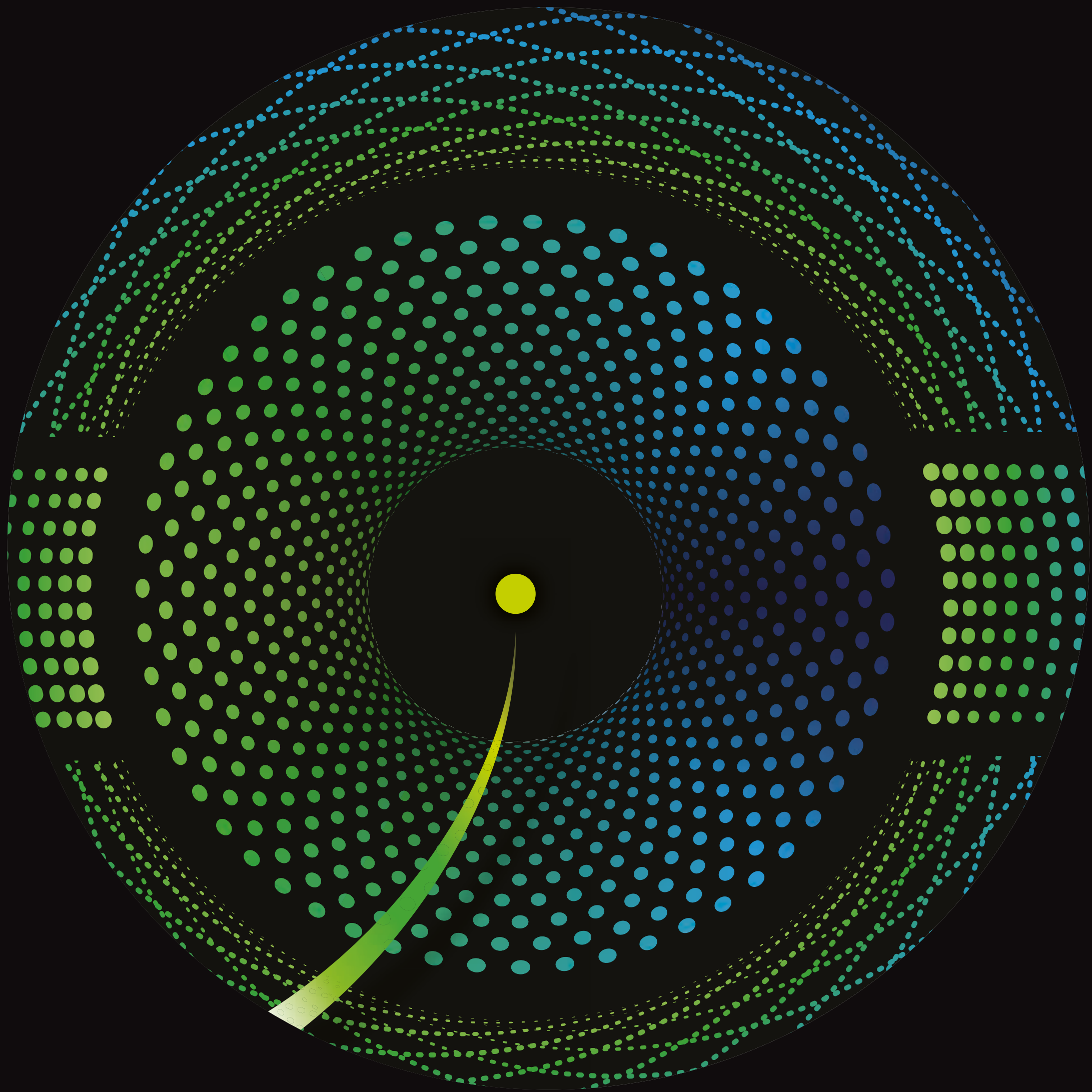

ESG: Tax transparency - Achieving clarity in a complex world

MAKING AN IMPACT THAT MATTERS since 1845

November 2021

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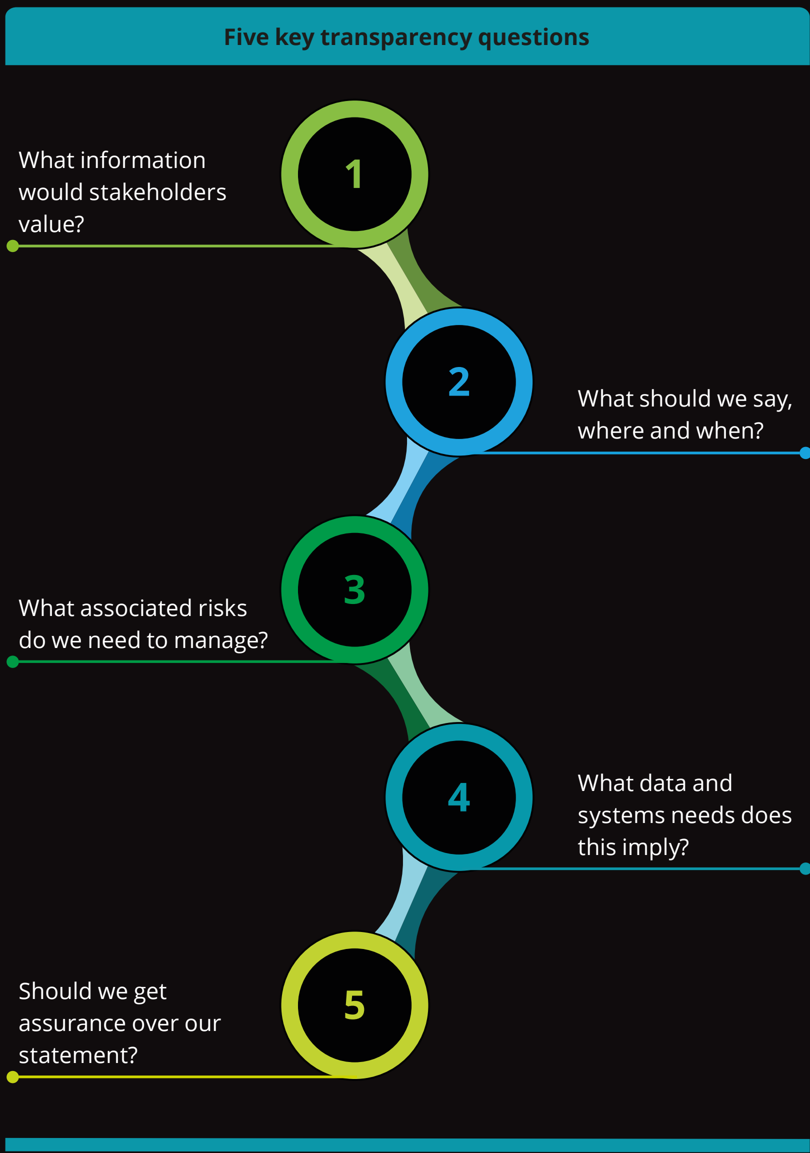
Businesses are increasingly expected to go beyond existing legal requirements and volunteer more information about their approach to the management of tax (i.e. their behaviours) and its outcomes (i.e. the taxes they pay and influence). Effectively communicating about a complex and potentially emotive subject such as tax is important but can be 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 five key questions below for your business.

Businesses face formal tax reporting obligations as well as an array of transparency expectations from stakeholders. The latter have increased markedly in recent years, stimulated by the broader sustainability debate and specific tax developments, and likely entrenched by the impact of COVID 19.

Baseline external reporting requirements

Many 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. The level of tax disclosure in these reports will vary. 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. Whilst these requirements are not all mandatory for all businesses, they each have an influence on the overall landscape and may have knock-on impacts for tax transparency more broadly.



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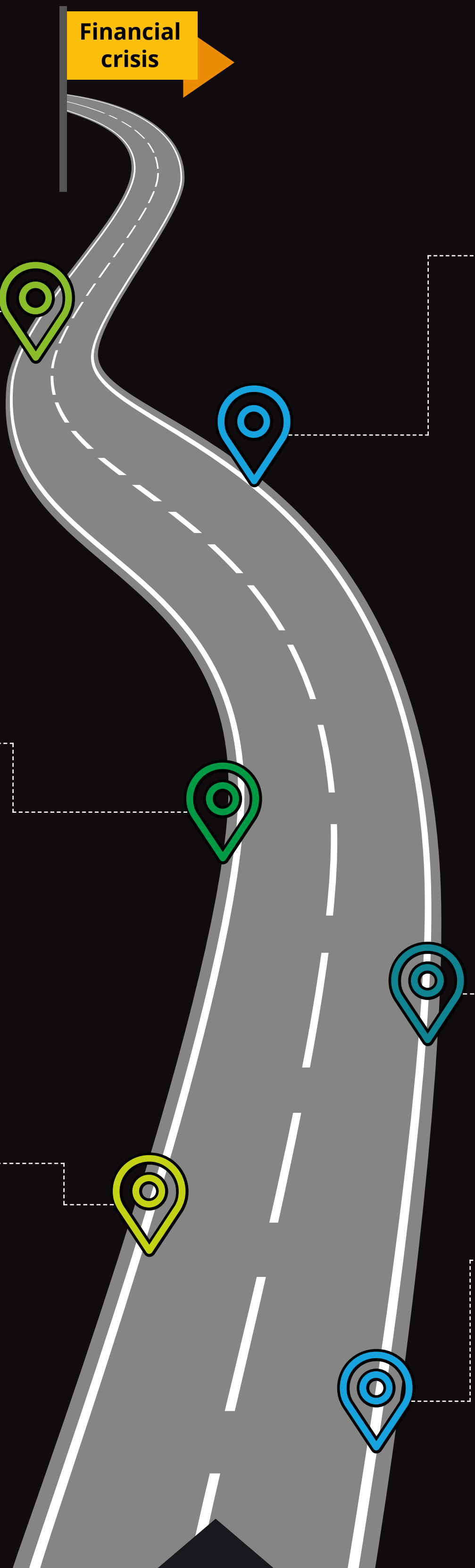

2010 - Spanish Code of Best Tax Practices

- Optional regime for all Spanish companies which promotes a cooperative relationship with the Spanish Tax Authorities based on the principles of mutual trust and transparency.
- Includes a requirement to publish certain information including the group's structure and the nature and location of its operations.

2013 - EU Accounting Directive

- Aimed at transparency over payments made by extractive companies to governments.
- Requires that all large / publicly 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.

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.

2019 - Australian Tax Transparency code

- Requires 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.

2024/25 (at the latest) – EU CBCR

- Legal requirement for the disclosure of CBCR information for EU countries and those on the EU's black / grey lists.
- Details overleaf.

Figure 1: growth in external tax reporting requirements

EU's proposal for Country-by-Country Reporting

Reporting proposal to be formally approved (possible application from 2024 for calendar year companies)

EU operations

EU MNEs or non-EU MNEs present through at least one medium/large-sized entity in the EU, or an equivalent branch (exceed 2/3 criteria: EUR 4m balance sheet total; EUR 8m net revenue; 50 average # of employees during the FY)

EUR 750m revenue

Consolidated group or EU entity / branch revenues of at least EUR 750m for two consecutive periods

Comply or explain

Obligation to publish all available info and (if applicable) a statement indicating that the non-EU head office has not provided all the required info

Safeguard clause

Possible deferral of disclosure of commercially sensitive information for five years, provided the deferral is clearly disclosed and explained

Tax information to be published

Countries

- Break down for each EU member state and listed non-cooperative tax jurisdictions (those on the blacklist + at least 2 years on the grey lists).
- Aggregation of all other third-country operations.

Information

- Nature of the activities
- Number of FTE
- Total net turnover
- Profit or loss before tax
- Income tax accrued
- Income tax paid
- Accumulated earnings

Equivalence / Exemption

Publication of DAC 4 / BEPS Action 13 report should satisfy the obligation.
Financial institutions: exemption where ultimate parent subject to public CbC reporting under CRD IV (Directive 2013/36/EU) covering all their activities and consolidated affiliated undertakings.

Report

Country-specific reports to be available free of charge, in an EU language, according to a common template and in an open data format.
Confirmation from the auditor that the company falls in scope (or not), and whether the report has been released (or not).

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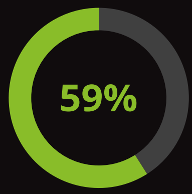
Voluntary tax transparency expectations

In addition to growing statutory requirements there has been a proliferation of voluntary transparency measures which have been introduced over time. Some of these key measures are summarised in the table overleaf (Figure 2) and below.



The percentage of participants on a recent Deloitte webinar who intend to publish more than is legally required (25 May 2021 - 66 participants).

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.

Broader factors influencing the word of Tax Transparency

1. The launch by the United Nations of their 17 Sustainable Development Goals has stimulated much activity from a range of parties across the Environmental, Societal and Governance ('ESG') space. These 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 an increasing number of large organisations going beyond what is legally required, in some cases publishing 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. Some businesses have needed and received public COVID 19 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:

Measure	Scope	Nature	Tax transparency elements - summary
Fair Tax Mark	UK - Tax	Requirements	Standard for multinationals includes: transparency (e.g. beneficial ownership), public CBCR, tax policy and tax rate reconciliation.
Good Business Charter	UK - Broad	Principles	#7 Pay fair tax: Sign up to Fair Tax Mark or commit to publish tax policy.
B Team	Global - Broad (with tax specific content)	Principles	Responsible tax principles: Accountability and governance; Compliance; Business structure; Relationship with tax authorities; Seeking and accepting tax incentives; Supporting effective tax systems; and Transparency.
GRI	Global - Broad	Requirements	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.
PRI	Global - Broad	Principles	Annual disclosure through reporting tool of 12 modules dependent on asset class using comply or explain format, disclosure of comprehensive tax policy.
WEF	Global - Broad	Principles	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.
DJSI	Global - Broad	Principles	Publish tax policy addressing five elements: commitment to compliance with spirit of tax laws, commitment to not transfer value to low tax jurisdictions, the non-use of tax structures intended for avoidance, transfer pricing approach, use of tax havens, explanation if ETR is deemed to be low.

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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What gets disclosed?

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.

Theme	Depth	Coverage
Context	Low	High-level summary of scale and breadth of the organisation's commercial activities. Setting the scene for the group's tax profile.
	High	In-depth look at key parts of the business, their value chains and key locations.
Approach	Low	Core elements of 'UK tax strategy': commitment to compliance, approach to planning, governance and risk management arrangements and interaction with tax authorities.
	High	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.
Key matters	Low	Often there is no comment on specific tax matters.
	High	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.
Outcomes	Low	Many businesses do not provide any tax contribution or other payment information, beyond what is required for financial reporting purposes.
	High	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.
Assurance	Low	The vast majority of businesses do not get external assurance in relation to the voluntary tax statements.
	High	A minority obtain limited assurance, typically in relation to the approach taken to collect/report tax contribution data.

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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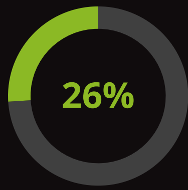
Focus on the numbers

In addition to the Global Reporting Initiative's standard on taxation (GRI207) and the World Economic Forum's ESG metrics relating to tax transparency, the EU's push for public Country by Country Reporting will further impact the numerical disclosures which groups make. The table below summarises the requirements of these three initiatives as well as commenting on the scope and optionality of each.



The percentage of participants on a recent Deloitte webinar who intend to publish detailed narrative and data. (25 May 2021 – 66 participants)

		GRI: 207: Tax Repoting	EU Public CBCR	WEF ESG metrics
Mandatory / Optional		Optional*	Mandatory (once local legislation is passed)	Optional
Scope		Global	Applies to operations in EU countries and those in non-cooperative jurisdictions	Global
Narrative	Approach to Tax (Tax Strategy and Board oversight)	✓		
	Tax Governance, Control and Risk Management	✓		
	Stakeholder Engagement regarding tax	✓		
Total Tax Contribution	Taxes Borne (Total)			✓ Core
	Taxes Collected (Total)			✓ Expanded
	Taxes Borne and Collected (country breakdown)			✓ Expanded
Country by Country Reporting	Total Revenue		✓	
	3rd Party Revenue / Related Party Revenue	✓		
	Profit/Loss Before Tax	✓	✓	
	Cash Tax Paid	✓	✓	
	Tax accrued	✓	✓	
	ETR reconciliation	✓		

*Although signing up to GRI is optional for most groups, companies may be required to sign up as part of their membership to certain industry bodies (e.g. ICMM in the extractive sector). For those that are signed up to the GRI's reporting standards, disclosures under GRI 207 will be required for FY21 reports onwards by groups for whom tax is a material issue.

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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 he 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*

*Source: BlackRock, Larry Fink's 2020 letter to CEOs

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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 and the introduction of the EU's CBCR reporting requirements are 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.

EU Public CbCr

Technology and Process

The impact

The minimum additional requirement for CbCR will be to publish the data in a machine readable format. This has not been prescribed and could be similar to the filing format. Technology will be required to support this.

Public CbCR may have wider implications to your process and technology however. It could impact:

- The timing of your CbCR process – an earlier process needs more automation and potentially may move you from “bottom up” to “top down”;
- The governance built in over the process – does your process and tooling have the adequate level of audit trail and sign off for public disclosure;
- The extent of your data collection – The CbC report is only one view of your tax contribution, you may choose to collect and publish more tax contribution data (i.e. VAT, payroll, other taxes).

Our response

We offer a file conversion service for that final mile processing through our long running platform: myInsight CbC Filing
We can partner with you to design and build a process to achieve your process and strategic objectives

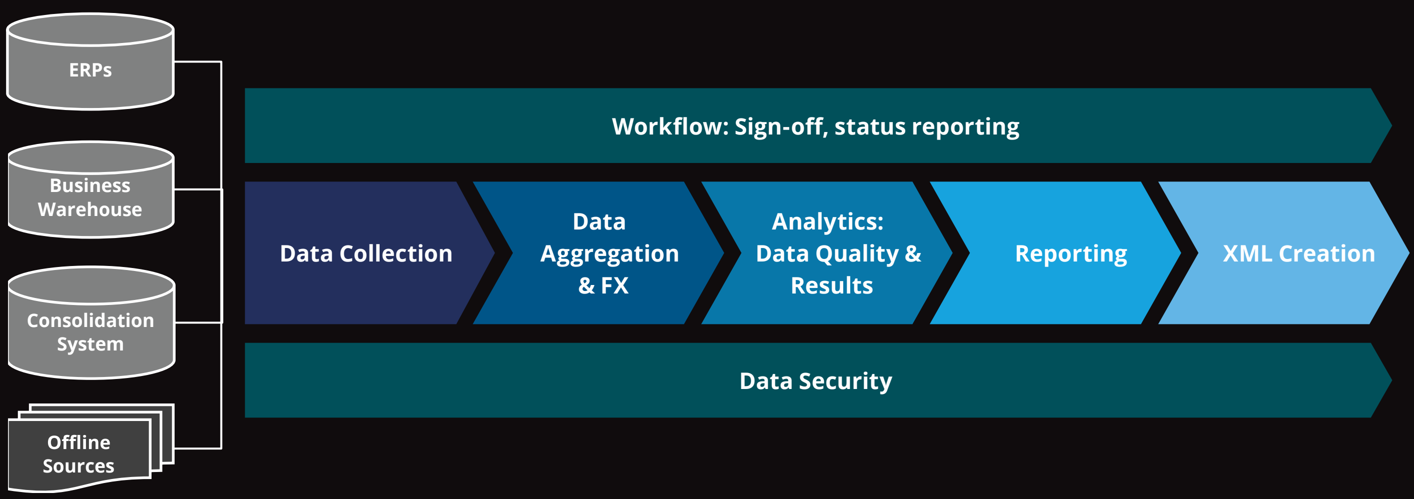
1 Understand your business objectives

2 Map your data sources and current process

3 Develop system requirements for the new process

4 Fit-Gap analysis of your current system architecture to support

5 Assist with implementation including vendor selection exercises



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Get in touch

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 below if you would like to discuss the issues raised in this paper or explore how you as a business can respond.

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