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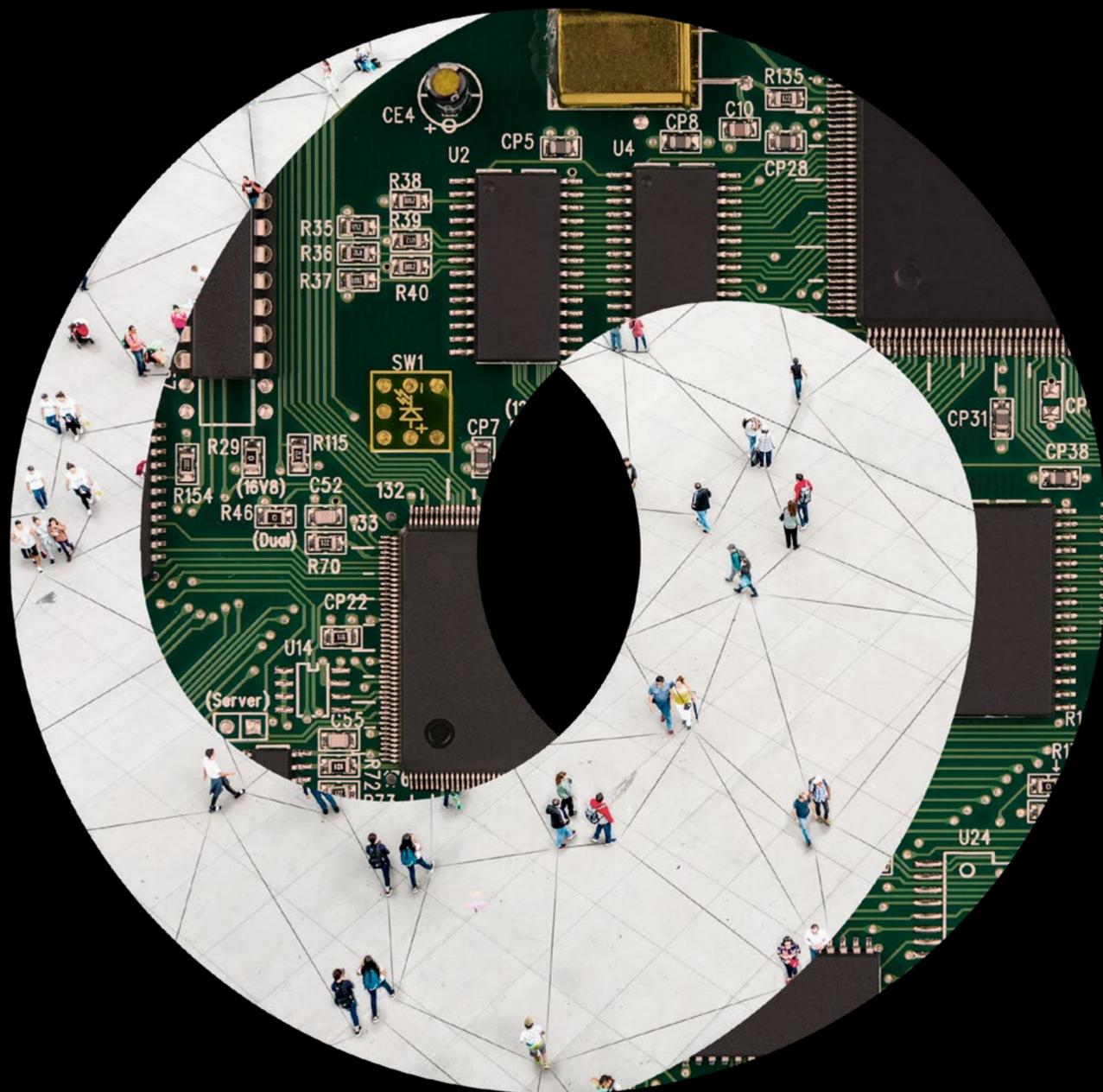
Tax Reporting and Transparency Trends

A study of FY22/23
year ends for the FTSE350

January 2023



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Foreword

Tax is a central part of our public lives – it funds vital services and seeks to encourage the behaviours we want to see within our societies. As businesses increasingly focus on their purpose and respond to Environmental, Societal and Governance (ESG) considerations, it is right that tax is a key part of that thinking. Companies’ external tax reports provide a window into their approach to tax governance (the G of ESG) and the taxes they pay and collect for the benefit of society (the S). Transparency reports are therefore an important part of a group’s disclosures to a range of external stakeholders: investors, lenders, customers, suppliers, regulators and wider society. This transparency is a key part of how tax leaders can help achieve sustainability goals, as set out in our recent ESG and Tax Report.

Talking about tax is a challenge. It is a complex subject and also an emotive one. As finance and tax professionals we are typically relatively comfortable handling the complexity of tax, particularly when engaging with other professionals. Even in that context there is a lot to reflect in our 2022 reporting: global tax reform including Pillars One and Two, plus unilateral tax changes as the world responds to impact of digitisation and other mega-trends.

The emotive side of tax is newer, certainly less comfortable and requires us to talk about tax in a more accessible and meaningful way. It is important that we rise to that challenge and provide the insight and information that external stakeholders need and want. We need to develop a narrative that not only meets existing and emerging requirements like Public Country-by-Country Reporting but also tells, in a consistent and coherent way, the broader story of the principles that inform how we meet our tax obligations around the world.

We should also provide relevant detail and data which supports that narrative and provides the assurance that people need. And you can only tell this story with confidence if you have the right people, processes and systems to manage taxes effectively in the first place.

For this report we undertook research to establish how the FTSE350 is responding to these new challenges, linking tax reporting and transparency to the Governance in ESG. We’re passionate about governance and responsibility across our own business as well as our clients; you can find out more about our approach in our **Tax Impact Report**.

Lisa Stott
Head of Tax

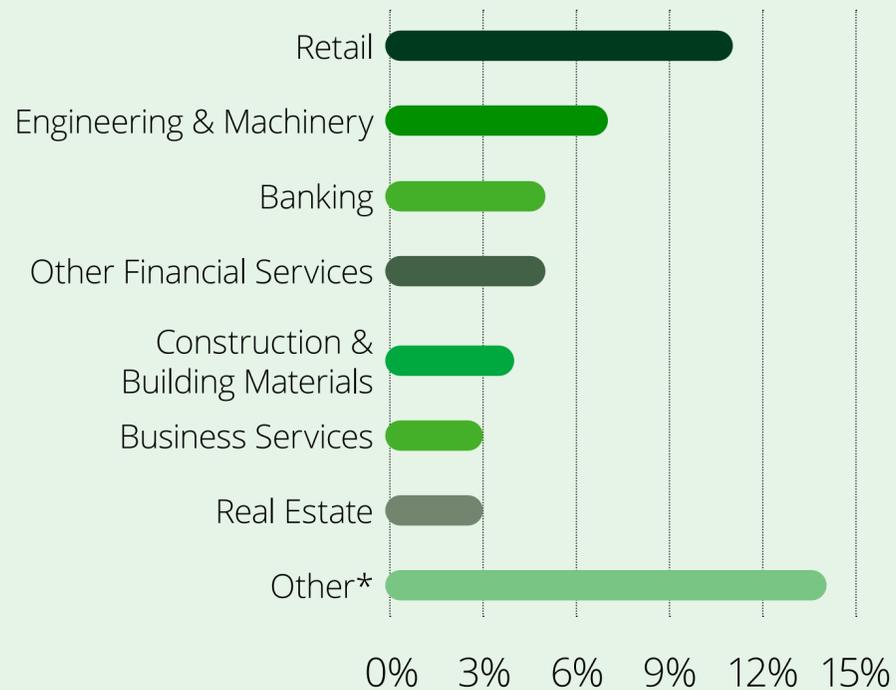
1. Executive Summary

Background and scope

The tax policy landscape is complex and businesses are currently facing a raft of new and upcoming requirements on topics ranging from corporate governance (UK Internal Control regime) to increased public transparency (Country-by-Country reporting – CBCR), and a global minimum tax rate of 15% (the OECD Inclusive Framework’s Pillar Two).

To understand how groups are navigating the complex external tax reporting and transparency landscape we took a sample of 52 of the FTSE350 and reviewed external reports across a range of industry groups.

Sample representation by industry



* Other = fewer than three groups per industry category

Tax Reporting Themes

Uncertain Tax Positions (UTPs)

UTPs relate to items of income or expenses where the law is unclear on how those items should be taxed or deducted. Whilst the appropriate tax treatment is being determined by the tax authorities, judgement must be exercised to determine the likely outcome of the decision and the amount of any tax provisions required. International Financial Reporting Interpretations Committee (IFRIC) 23 provides the accounting framework for the disclosure of UTPs in financial statements.



58% of companies reviewed included no disclosures on UTPs or tax-related contingent liabilities

Our research found that 58% (30 groups) included no disclosures on UTPs or tax-related contingent liabilities in their financial statements. Of those companies that did include disclosure, 73% (38 groups) quantified their tax provisions. For the entities that provided details of the nature of their tax provisions and contingent liabilities, the most common matters were transfer pricing followed by the EU Commission’s State aid investigations into the United Kingdom’s Controlled Foreign Company rules.

[Read more >](#)
Uncertain Tax Positions



1. Executive Summary

Discussion of Future Tax Rate Drivers or Risks

This discussion relates to a company's forecast future Effective Tax Rate (ETR), and the factors which may affect this.

11 groups (21%) provided an indication of the forecast future ETR. Five of these (10%) provided narrative discussion to indicate whether the future effective tax rate would be higher, lower or around the same as the standard UK tax rate. A further six (12%) provided more detailed ETR forecasts, either as a specific rate or a potential range of rates.



21% provided an indication of the forecast future Effective Tax Rate (ETR)

11 groups (21%) indicated that the OECD Inclusive Framework Pillar Two proposals could have an impact on the future ETR, however no groups quantified the potential future impact in their 2021 financial statements.

[Read more >](#)

Discussion of Future Tax Rate Drivers or Risks

Tax Estimates and Judgements

IAS12 requires companies to disclose the judgements that management has made in applying the entity's accounting policies; tax has been identified as a key matter requiring a critical judgment/estimate.



6% provided an indication of the amount of potential adjustment in next 12 months

17 groups (33%) disclosed tax as either a critical accounting estimate/judgement or a principal risk/uncertainty in their financial statements.

Three groups (6%) provided an indication of the amount of potential adjustment in the next 12 months.

Tax was also identified as a key matter in the independent external auditor reports of 11 groups (21%).

[Read more >](#)

Tax Estimates and Judgements

Deferred Tax Asset Recognition

This relates to the recognition and decisions related to Deferred Tax Assets (DTAs). Such decisions include the forecast time period and the likelihood that tax losses will be utilised.

Nine groups (17%) provided disclosures on the forecast time period used when assessing the recognition of DTAs. The forecast periods disclosed ranged from two to 30 years, with an average of 11 years.



The forecast time period used when assessing the recognition of DTAs... ranged from two to 30 years

Nine groups (17%) included disclosure of the information which supports the recognition of DTAs when there were tax losses in recent years.

[Read more >](#)

Deferred Tax Asset Recognition

1. Executive Summary

Tax Transparency Themes

The external reporting of tax is going beyond what is required for financial reporting purposes and existing legal requirements (e.g. the publication of a UK tax strategy).

From our research we have seen that many groups now voluntarily publish more tax information in dedicated 'Tax Transparency Reports' and in some cases these are linked to their wider sustainability reporting.

This overlap is evidence of tax playing a key role within a group's Environmental, Social and Governance (ESG) strategy.

In addition to ESG being an important factor, some groups are also looking to expand on their Tax Transparency disclosures due to other drivers such as pressure from internal and external stakeholders, a range of external requirements (more detail is provided in this report), and a need to fit in with their peers.

Our report identified reporting themes under five distinct headings.

1. Context – setting the scene

Groups often include some introductory text to set the scene for their tax transparency disclosure. This could include information about the business, an introduction from a senior stakeholder, or even a link to broader ESG themes/their sustainability report. Amongst our sample group, 17 groups (33%) included additional information on the nature and location of their operations, and nine groups (17%) included an introduction from their CFO or similar senior stakeholder.

[Read more >](#)
Context



33% included additional information on the nature and location of their operations

2. Approach – your tax fundamentals

As a result of the UK's Tax Strategy legislation, most large UK-headed groups have published their approach to tax and tax risk management. Whilst for many, this started as a brief and high-level piece of narrative, this is often now more detailed and provides further insight into how the group manages tax risk. Over half of the groups we reviewed are going further and saying more than legally required in this area and 22 groups (42%) are providing detail on how they identify, manage and internally report their tax risks.

[Read more >](#)
Approach



42% are providing detail on how they identify, manage and internally report their tax risks

3. Key Matters – what shapes your tax profile

Whilst not universally present in the tax transparency disclosure of large groups, a significant minority are mentioning their use of tax incentives and reliefs and explaining what it is about their particular business or sector which impacts on their tax profile.



15% mention their approach to Transfer Pricing and how they have responded to COVID-specific measures

Our research has shown that 12 groups (23%) talk about how they assess and access tax incentives, and eight groups (15%) mention their approach to Transfer Pricing and how they have responded to COVID-specific measures. A smaller number also talk about their presence in low tax rate jurisdictions.

[Read more >](#)
Key Matters

1. Executive Summary

4. Data – the taxes you pay (and where)

The publication of numerical data within tax transparency reports has traditionally been restricted to certain sectors (e.g. extractives and banking) or has been limited to a small number of groups who are looking to be particularly transparent in their external reporting.

With EU public CBCR and other tax transparency initiatives likely to impact future disclosures, we expect this to increase significantly in the coming years.



71% of groups publish some information on the taxes they pay, with 23% of the groups breaking this down by country and/or tax

Whilst only one group in our sample currently publishes their CBCR data, 37 groups (71%) voluntarily publish some information on the taxes they pay, with 12 groups (23%) of the sample group breaking this down by country and/or tax.

[Read more >](#)
Data

5. Assurance – giving confidence in your commitments

At this time it is currently rare for groups to obtain assurance over their tax transparency disclosures and this is likely due to a lack of numerical reporting at this time.



We expect this to increase as numerical disclosures become more common

This is supported by our findings where only one group obtained any assurance on their tax transparency disclosure (regarding their CBCR disclosure under the Capital Requirements Regulation) but we expect this to increase as numerical disclosures become more common.

[Read more >](#)
Assurance



Global Perspectives on Tax Transparency

Whilst our sample group of companies is exclusively UK headquartered, it is important to note that tax transparency is a global challenge and that multinationals who are headquartered elsewhere are also developing their tax transparency disclosures (albeit with slightly different cultures and starting points in each case).

Our report provides perspectives from other key jurisdictions including the US, Canada, Australia, Germany and the Netherlands.

[Read more >](#)
Global Perspectives on Tax Transparency

2. Tax Reporting Themes

The disclosure of tax in annual reports and financial statements continues to be an area of focus for companies, auditors and regulators. The impact of the COVID-19 pandemic is still being felt by many entities.

The profile and materiality of judgements relating to the recognition of deferred tax assets for losses carried forward and provisions for uncertain tax positions has increased dramatically. Recent tax initiatives such as OECD Inclusive Framework's Pillar Two rules mean that the complexity of the tax landscape continues to increase.



Our review of tax reporting themes focuses on some of the most judgemental and complex areas in IAS 1

Against this backdrop we have examined 52 FTSE 350 companies across industry groups, examining tax reporting trends in the four key areas set out below. We focused our review on these areas as they are some of the most judgemental and complex areas of tax reporting in International Accounting Standard (IAS) 12.

We examined tax reporting trends in the key areas set out below:



Uncertain Tax Positions (UTPs)

Items of income or expense where the law is unclear on how those items should be taxed or deducted, or where judgement is involved in determining this.



Discussion of Future Tax Rate Drivers or Risks

This discussion relates to a company's forecast future Effective Tax Rate (ETR), and the factors which may affect this.



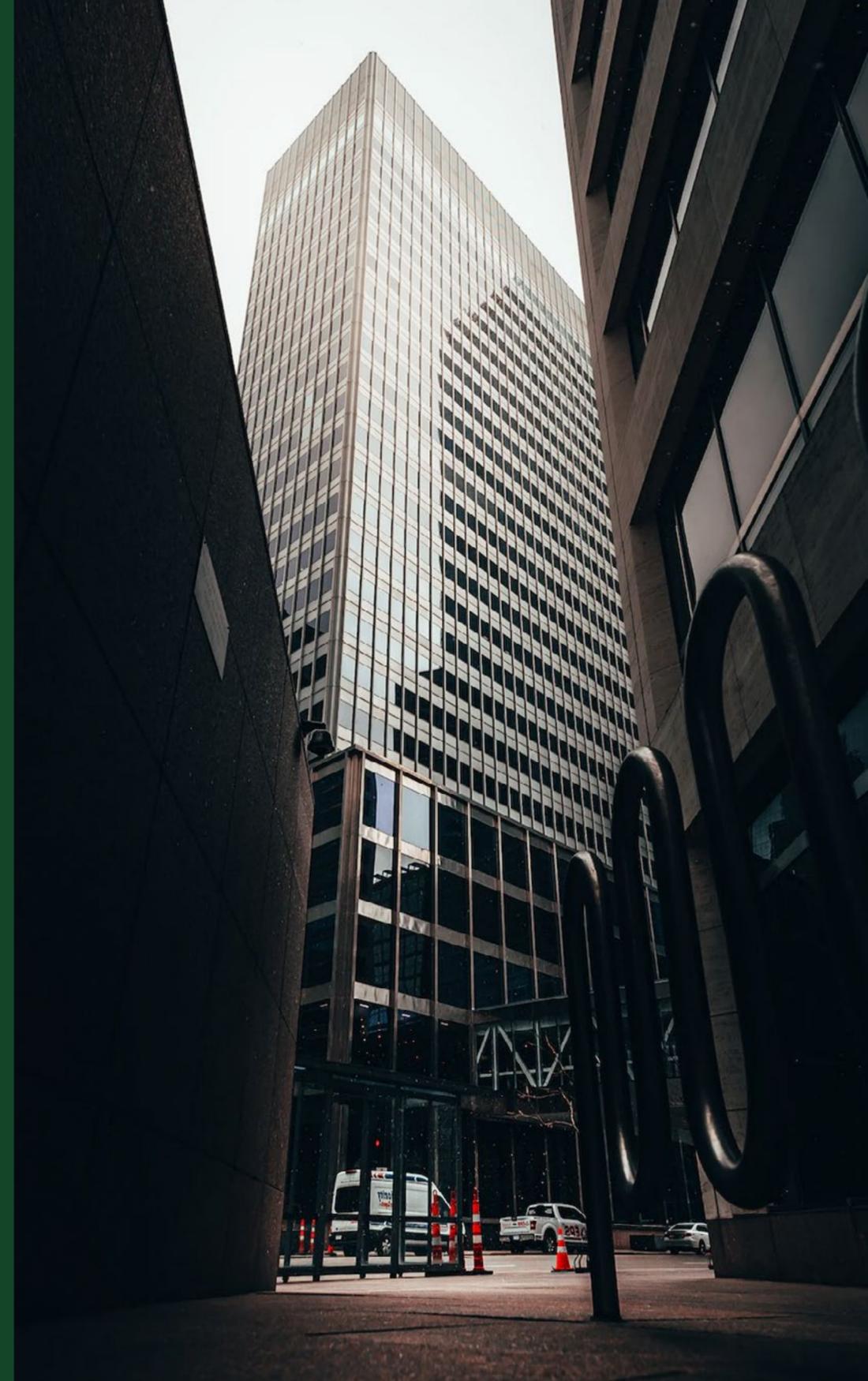
Tax Estimates and Judgements

Following IAS1, tax has been identified as a key matter requiring critical accounting judgment/estimates.



Deferred Tax Asset Recognition

This relates to the recognition and decisions related to deferred tax assets (DTAs).



Uncertain Tax Positions

Uncertain Tax Positions (UTPs) relate to items of income or expense where the law is unclear on how those items should be taxed or deducted, or where judgement is involved in determining the appropriate tax treatment.

The final decision on the tax treatment of an item may not be concluded for some time after the accounting period, once the tax authority has concluded its approval or inspection of the tax return. IFRIC 23, which was published in June 2017, provides the accounting framework for the recognition, measurement and disclosure of UTPs in financial statements.

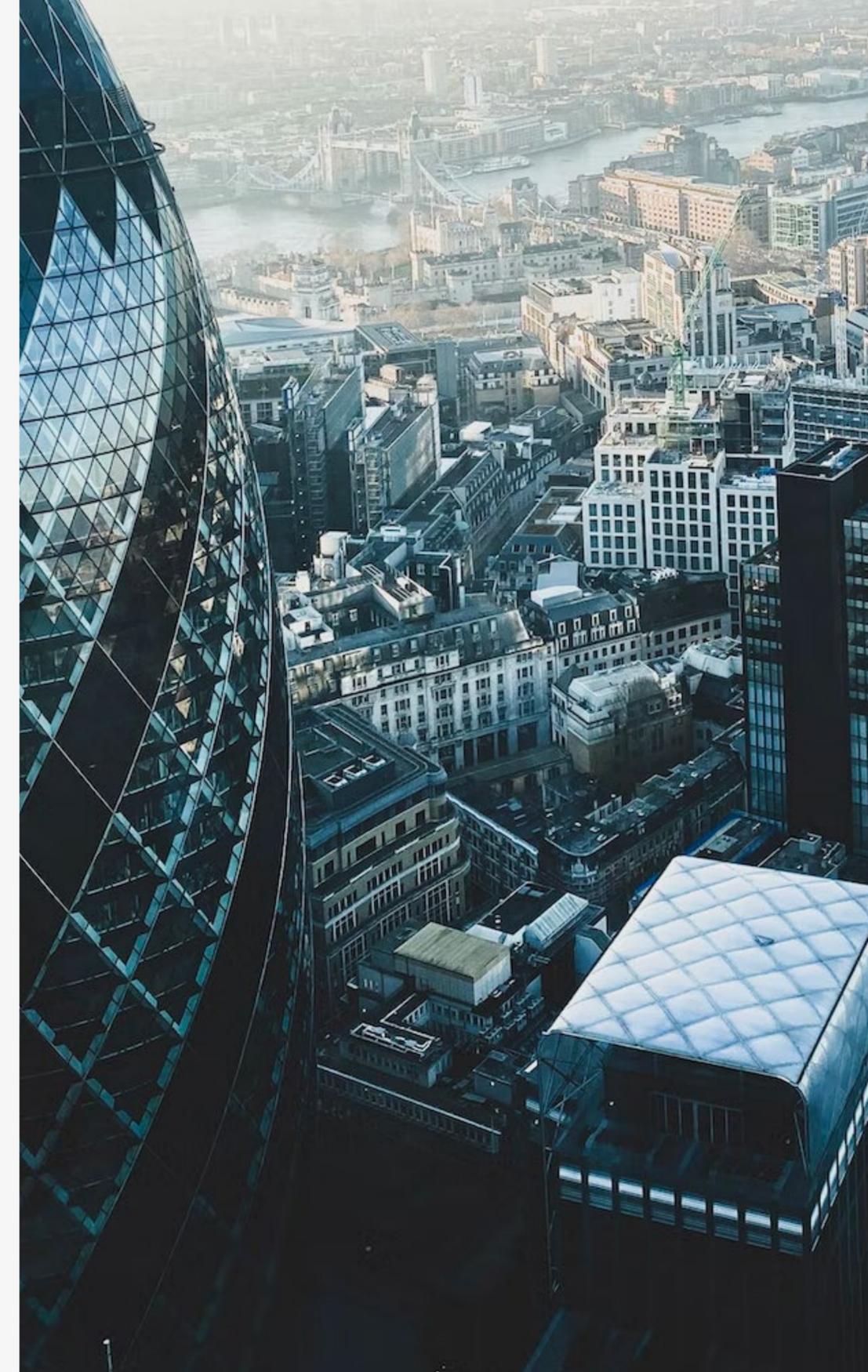
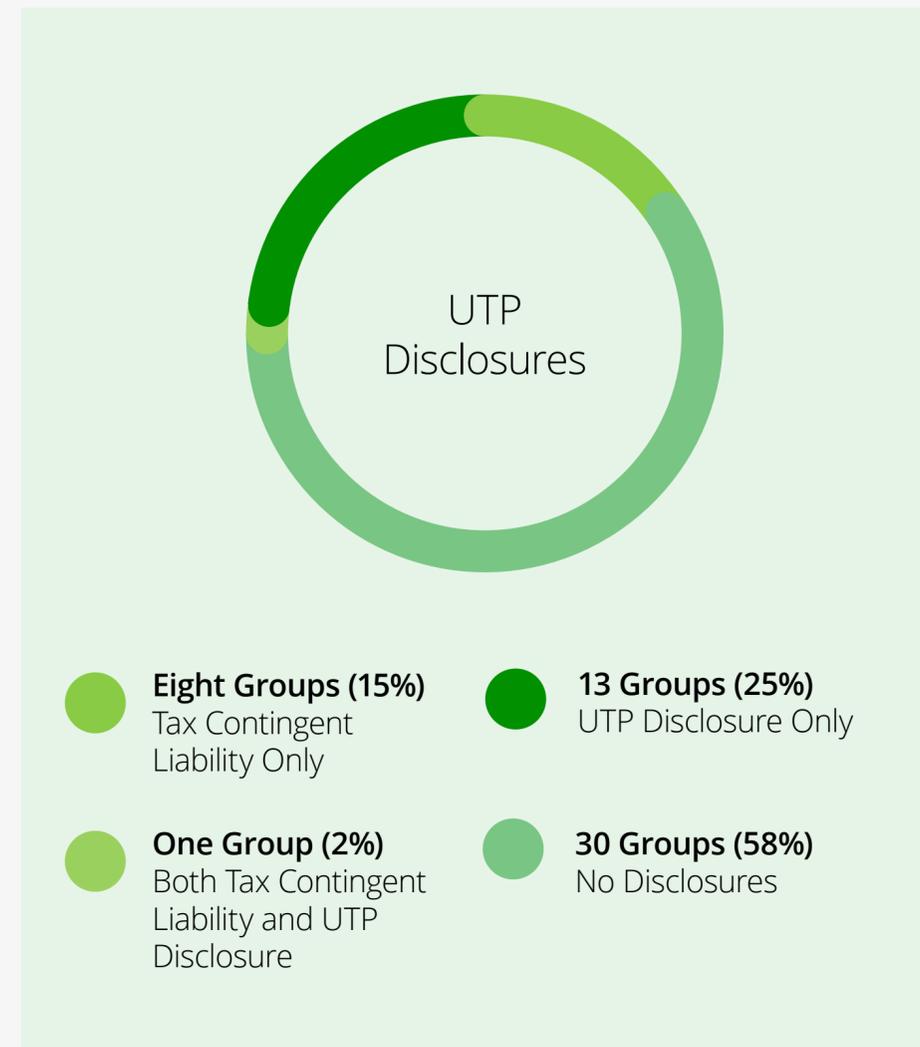
An entity is required to exercise judgement to determine the outcome of tax authority inspections and the amount of any tax provisions required.

Where material, disclosures in relation to UTPs help a user of the financial statements to assess the level of potential future tax payments and understand the tax judgements taken by the company.

Notification of Uncertain Tax Treatments

In the UK, Finance Act 2022 introduced the requirement for large businesses to notify HMRC where they have an Uncertain Tax Treatment (UTT). This is defined as either a provision in the accounts for an uncertain tax treatment or a position taken which is different to HMRC's known interpretation or application.

If a UTT gives rise to a tax advantage(s) of more than £5m for a particular tax, this will need to be disclosed. The requirement applies to returns filed on or after 1 April 2022.



Uncertain Tax Positions

We found that 30 groups (58%) included no disclosures on UTPs or tax-related contingent liabilities in their financial statements.

Of those that did include disclosure, 16 groups (73%) quantified the amount of the tax provisions recorded. The Financial Reporting Council's (FRC) Thematic Review of Tax Disclosures in October 2012 noted that justification for non-quantification will continue to be a regulatory focus in future.

The FRC's project relating to "Accounting policies and integration of related financial information" concluded that investors value an understanding of the judgements made and estimations applied by management, including where that judgement sits within a range of possible or acceptable outcomes.

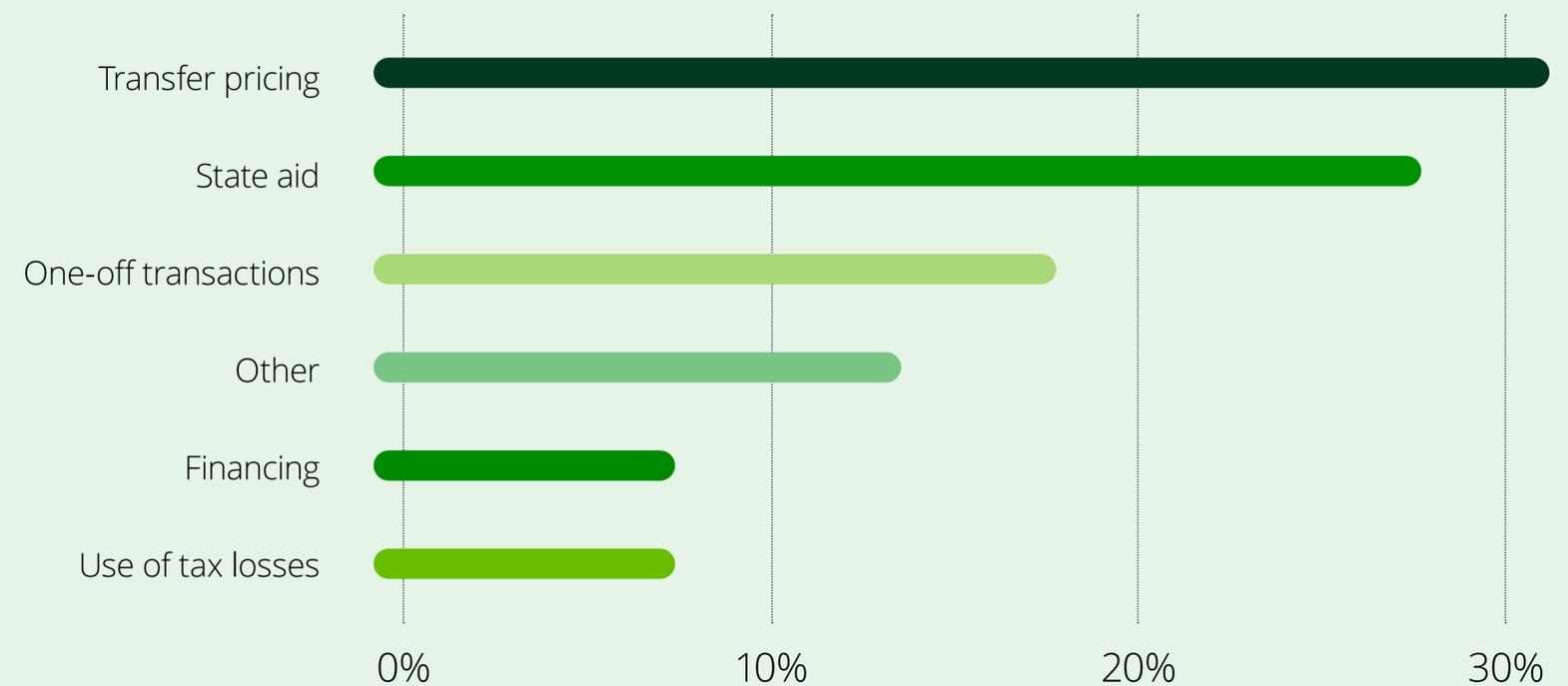


58% included no disclosures on UTPs or tax-related contingent liabilities in their financial statements

Better UTP disclosures provided users of the financial statements with details on the nature of the tax risk, the quantum of the provision held, and details of any changes to the level of provision during the period.

For the entities that provided details, the most common nature of tax provisions and contingent tax liabilities recorded was transfer pricing, followed by matters related to the EU Commission's State aid investigations into the United Kingdom's Controlled Foreign Company rules.

Nature of provisions and contingent liabilities for tax risks



Note: Of those who provided details, 31 matters were disclosed by 21 groups

Discussion of Future Tax Rate Drivers or Risks

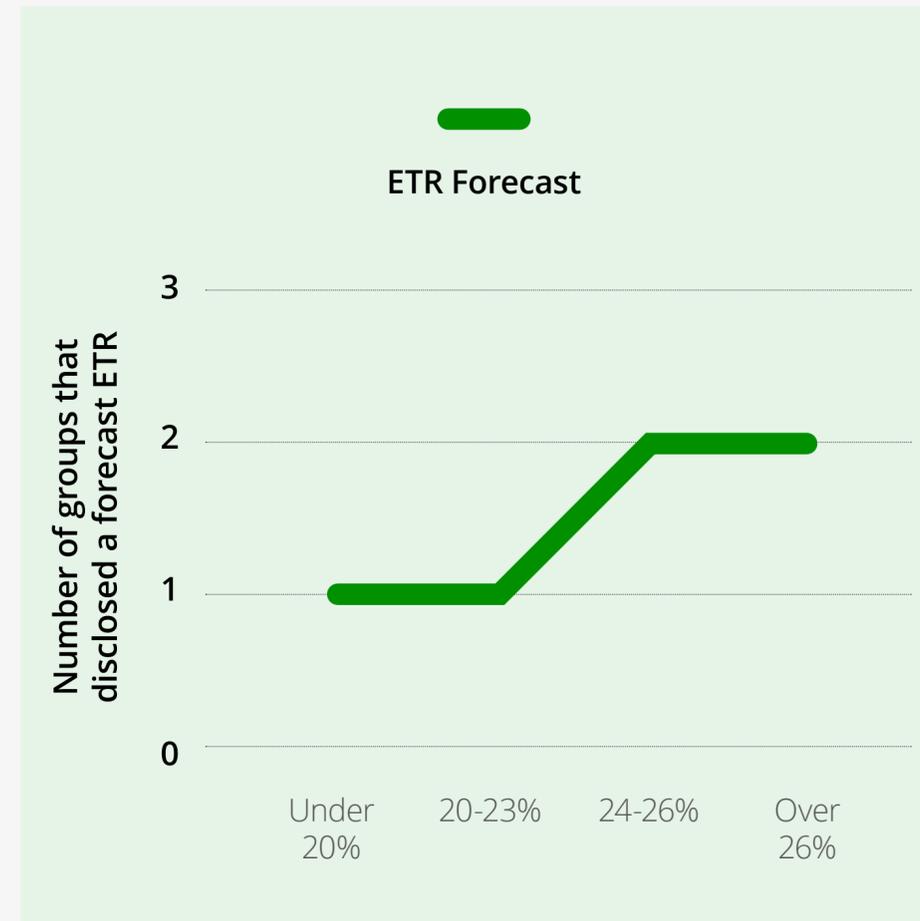
Our research revealed that 11 groups (21%) provided an indication of the forecast future ETR.

Of these, five (10%) provided narrative discussion to indicate whether the future ETR would be higher, lower or around the same as the standard UK tax rate. A further six (12%) provided more detailed ETR forecasts, either as a specific rate or a potential range of rates.

For those groups that disclosed specific percentages, the overall range of forecast future tax rates was from 17.7% to 35%.

Seven of the groups (13%) stated that these forecast rates were the underlying or adjusted tax rates on adjusted profits.

We discovered that 11 groups (21%) indicated that the OECD Inclusive Framework's proposals could have an impact on the future effective tax rate, however no groups quantified the potential future impact in their 2021 financial statements. Two groups (4%) noted specific US tax law matters that could impact their future ETR.



Tax Estimates and Judgements

Tax as a critical accounting estimate/judgement, or a principal risk/uncertainty

IAS1 has a number of disclosure requirements in relation to the judgements and estimates made by an entity.

It also has disclosure requirements with respect to the assumptions that an entity makes about the future.



Only three groups provided an indication of the amount of potential adjustment in next 12 months

These requirements apply to all areas of the financial statements, including tax.

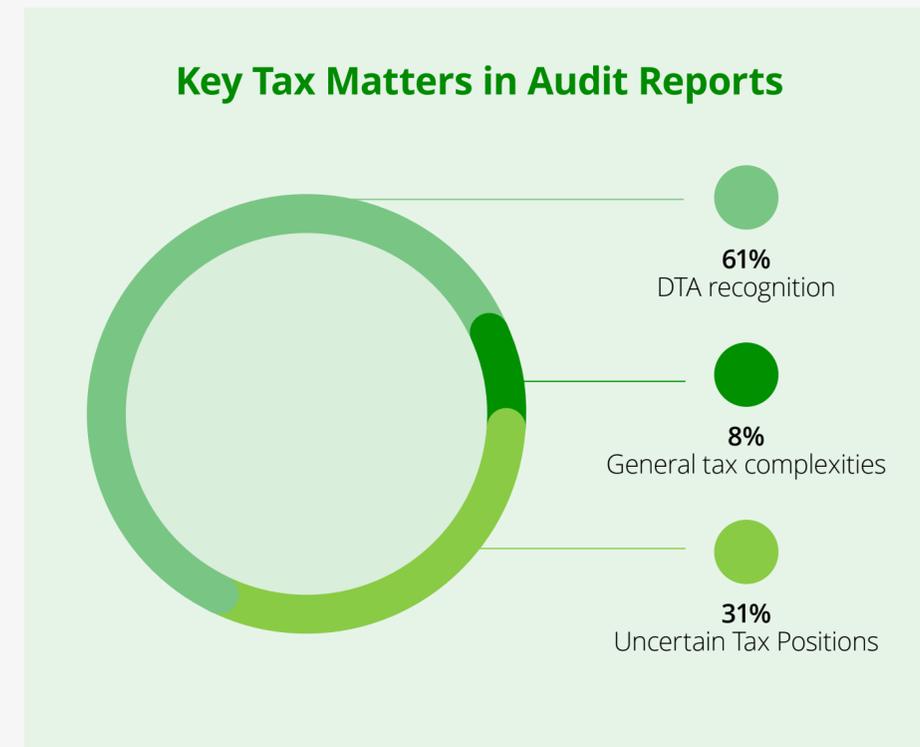
We discovered that 17 groups (33%) disclosed tax as either a critical accounting estimate/judgement or a principal risk/uncertainty in their financial statements. Three groups (6%) provided an indication of the amount of potential adjustment in next 12 months.

Independent Auditor Report – Tax Matters

Tax was identified as a key matter in the independent external auditor reports of 11 groups (21%).

The tax matters noted were provisions for uncertain tax positions (31%), deferred tax asset recognition (61%) and general tax complexities (8%).

This demonstrates the continued focus on the accounting for tax by external auditors and the judgement that entities must make in estimating their taxation balances.



Deferred Tax Asset Recognition

An entity's decisions relating to the recognition of DTAs impact the ETR in a set of financial statements. This is because entities may be required to forecast what their future taxable profits will be, which is inherently judgmental and can lead to volatility in the ETR in the future, to the extent that the actual results of the business differ from those forecasts.

Nine groups (17%) provided disclosures on the forecast time period used when assessing the recognition of DTAs. The forecast periods disclosed ranged from two to 30 years, with an average of 11 years.



The forecast periods disclosed ranged from two to 30 years, with an average of 11 years

IAS12 paragraph 35 states that the criteria for recognising deferred tax assets arising from the carry-forward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences.

However, the existence of unused tax losses is strong evidence that future taxable profit may not be available.



The FRC noted that companies should recognise deferred tax assets only to the extent their recoverability is probable

When an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.

Nine groups (17%) included disclosure of the information which supports the recognition of DTAs when there were tax losses in recent years.

In September 2022 the Financial Reporting Council (FRC) published its thematic review of deferred tax assets and we are aware of the FRC issuing letters to businesses challenging some of their deferred tax disclosures. The FRC noted that companies should recognise deferred tax assets only to the extent their recoverability is probable.

The FRC did not identify any obvious issues with over-recognition in this area, although in some cases they noted that it was difficult to make a full assessment due to the lack of informative disclosure. The FRC review found several instances of good practice across most individual aspects of deferred tax asset disclosure.

However, the FRC identified that there is scope for improvement in the following key areas:

- Companies should give more specific disclosures about the nature of the convincing evidence they use to support the recognition of deferred tax assets when they have a recent history of losses.
- Companies should disclose the specific nature of key judgements and significant estimation uncertainties in relation to deferred tax assets, and the related sensitivities to changes in assumptions or the range of possible outcomes within the next financial year.

3. Tax Transparency Themes

Tax Transparency encompasses a wide range of numerical and narrative disclosures which groups typically publish outside of their Annual Report and Accounts.

Whilst the UK Tax Strategy legislation (published in 2016) requires a minimum level of disclosure for all large groups operating in the UK (and some sectors have been publishing similar information for even longer), the nature and content of disclosures has since expanded. When undertaking our research, we analysed the current level of Tax Transparency reporting within tax and non-tax documents (i.e. Sustainability Reports).

Although there is a significant variation in the detail of what groups are publishing, we found that disclosures can typically be grouped under the five key areas on the right.

Key areas of Tax Transparency Disclosure

Area	Description
Context	Business operations, geographical footprint, CFO introduction, links with wider ESG initiatives
Approach	How tax and tax risk is managed, approach to tax planning and tax risk appetite, tax authority interactions
Key matters	Business or sector specific impacts (e.g. reliefs/incentives)
Outcomes	Numerical disclosure (ETR reconciliation, Total Tax Contribution report, and Public CBCR)
Assurance	External assurance (on narrative and/or numerical disclosures)



5

Disclosures can be grouped under five key themes

Drivers for Tax Transparency

Whilst our research did not confirm the specific drivers for change across all of the sample groups, it is clear that a range of factors are influencing the content and volume of groups' tax transparency disclosures.

Since the first application of the UK's Tax Strategy legislation just five years ago, there has been a marked increase in the level of detail that companies publish and this is almost certainly a result of demand from other stakeholders (including customers, NGOs and tax authorities) as well as a drive to be consistent with other ESG disclosures and with what peers are publishing.

More recently, we have seen shareholder action (predominantly in the US to date) to force companies to be more transparent on tax matters and in particular, to publish country-by-country information which was previously just shared with tax authorities.

Context – setting the scene

The first of our Tax Transparency themes is how groups provide context for their disclosure. This can be broken down into three key areas:

1. Where groups are choosing to publish information;
2. The strength of connection (if any) to wider ESG reporting; and
3. What groups are including by way of business context.

The locations of Tax Transparency disclosures are illustrated on the right. We discovered that a majority of groups are continuing to publish a standalone Tax Strategy document. Around a fifth of those researched are now publishing a specific Tax Transparency report alongside the strategy document, and a similar number are including some references to tax governance and transparency in their wider sustainability report.

This link to broader ESG themes works both ways, and we noted that many tax transparency disclosures referred to broader sustainability targets and in some cases even linked back to the group's Sustainability Report.



Standalone Tax Strategy



Tax Transparency/Tax Contribution Report



Tax content within Sustainability Report



Context – setting the scene

Disclosures are evolving

Since the introduction of the UK's Tax Strategy legislation in 2017, the tax transparency disclosures of groups has evolved and many groups now include a range of contextual information to set the scene for their approach to tax and tax risk management.

Our review identified the following trends in this space:

- 15% (eight groups) include an introduction from a Board level sponsor (such as the CFO or CEO)
- 33% (17 groups) provide an overview on where the business operates and/or what it does.

Voluntary regimes

Groups are increasingly signing up to and disclosing that they are reporting under certain voluntary Tax Transparency regimes.

The table quantifies those in our sample that have publicly disclosed that they are signatories to each Transparency initiative.

Although still a relatively small proportion at seven groups (13%), the B-Team's responsible Tax Principles is the most common voluntary tax transparency regime for our sample.

This is likely to be due to the way in which groups are able to effectively sign up to the B-Team's principles by publicly endorsing them and committing to work towards reflecting those principles in their external disclosures.

Therefore there is no need for a company which endorses the B-team's responsible tax principles to have any specific disclosures in place except for a 'Tax Strategy' (which all large groups should have in place anyway by virtue of the UK Tax Strategy legislation).

Other transparency initiatives

Other transparency initiatives which were mentioned include Global Reporting Initiative (GRI) 207 and the World Economic Forum's (WEF) metric on tax – both of which have been available since early 2021 and are seeing a slow uptake across the board.

This may be due to the fact that the GRI and WEF initiatives apply to a multitude of ESG themes and therefore need to be signed up to by the whole business. We have seen tax teams fall in line with the wider organisation's commitment to GRI but it is uncommon for tax to lead this.

Overall, these results reconcile with our experience and client conversations with B-Team being the most common tax transparency regime.

We expect that the EU's public CBCR requirement will have a significant impact on the disclosure of the groups that it affects in relation to operations in EU member states.

Tax Transparency Initiative	Our sample
B-Team	7 (13%)
GRI 207	5 (10%)
WEF ESG Metrics	3 (6%)
Polish Tax Strategy*	2 (4%)
EITI	1 (2%)
IPIECA (Oil and Gas framework)	1 (2%)
EU Public CBCR**	1 (2%)

* The Polish Tax Strategy requirement is a compulsory requirement for groups with a significant footprint in Poland (local revenue threshold of €50m)

** EU CBCR is not yet in effect and the comment here comes from a group which is talking prospectively about complying with the requirement.

EU Public Country-by-Country Reporting

The EU public country-by-country reporting (public CBCR) directive entered into force on 21 December 2021. EU member states have until 22 June 2023 to transpose the directive into their national laws.

The directive will require multinationals (either EU-parented groups and their subsidiaries or non-EU-parented groups, with large or medium-sized EU subsidiaries or branches), with annual global consolidated revenue exceeding EUR 750 million to publish certain tax information on a country-by-country and annual basis, including the points shown on the right hand side.

This information will need to be provided for each EU member state and for each jurisdiction on the so-called EU 'black' and 'grey' lists, within the EU list of non-cooperative jurisdictions for tax purposes (jurisdictions listed on 1 March of the financial year for which the report is to be drawn up for 'black' listed; and jurisdictions which, both on 1 March of the financial year for which the report is to be drawn up and on 1 March of the preceding financial year, were mentioned on the 'grey' list).

EU CBCR requirements

- ✓ Nature of the company's activities;
- ✓ Number of full-time equivalents;
- ✓ Profit or loss before income tax;
- ✓ Accumulated income tax;
- ✓ Income tax paid; and
- ✓ Accumulated earnings.

EU Public Country-by-Country Reporting

Publishing requirements

The directive contains rules (the 'safeguard clause') which may allow multinationals to temporarily exclude information from their reports – but these are strongly circumscribed and member states are able to choose whether or not to include these rules in their implementation.

The directive states “Member States should have the possibility of allowing undertakings to defer the disclosure of specific items of information for a limited number of years, provided they clearly disclose the existence of the deferral, give a reasoned explanation for it in the report and document the basis for the reasoning.

The information undertakings omit would be disclosed in a later report. Information pertaining to tax jurisdictions included in the EU’s list of non-cooperative jurisdictions for tax purposes can never be omitted.

The directive includes a review clause under which the Public CBCR rules will be revisited and reassessed after four years and possibly extended.



Multinationals will be required to publish certain tax information on a country – by – country and annual basis

Next steps

Businesses will need to comply with the directive by mid-2024 as it should apply, at the latest, from the commencement date of the first financial year starting on or after 22 June 2024. Member states are able to transpose and apply the rules sooner.

The transposition of the directive by the EU member states will have to be monitored over the months ahead, notably with respect to timing for its application and the possible adoption of the safeguard clause, including conditions for its application.

Reputational risk and financial communication should thus be assessed in anticipation of the first reporting and monitored on an ongoing basis.

Romanian law comes into effect earlier

The EU’s public country-by-country reporting directive has been transposed into Romanian law and will enter into effect with respect to in-scope multinationals’ reporting years beginning on or after 1 January 2023. This is earlier than anticipated and will mean that calendar year ended groups which are within scope of the Romanian rules will need to publish a country-by-country report for 2023 by 31 December 2024.

Whilst we are still awaiting local guidance, it is anticipated that the local legislation broadly reflects the EU directive. More information on this development in Romania can be found [here](#).

Approach – your tax fundamentals

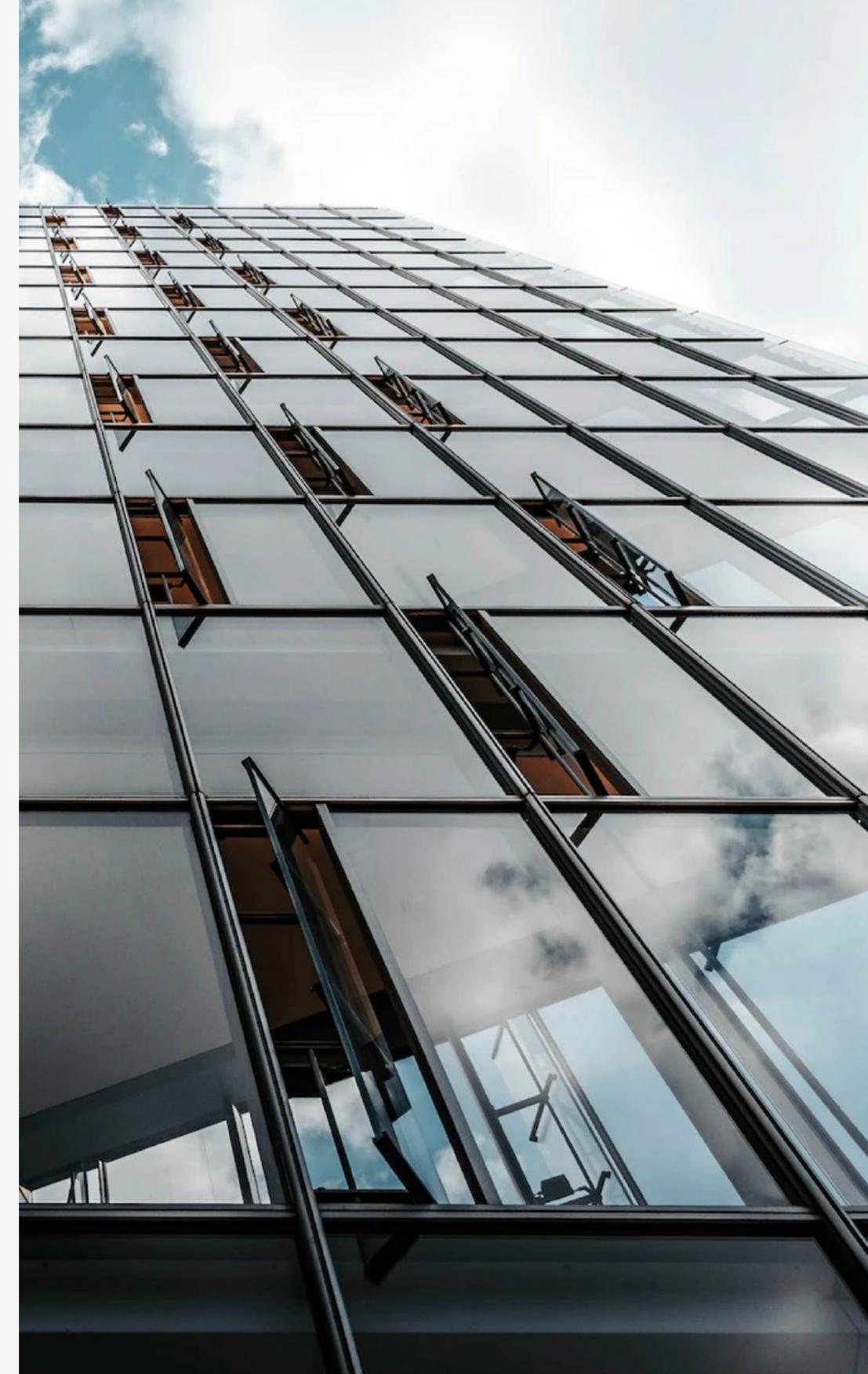
This theme generally refers to the narrative content where groups explain their approach to managing tax (including accountability and day to day responsibility for individual taxes), tax risk management, tax risk appetite, and approach towards tax planning.

This content will be common knowledge to anyone who is familiar with the UK's Tax Strategy legislation. However the level of detail in this area of tax transparency disclosure has increased significantly since 2017 and it is useful to take stock of what this looks like in 2022.

The table below sets out the key points which groups look to communicate, expanding on the expectations of the UK Tax Strategy Legislation.

The most common items refer to how the statement itself is approved and overseen by the Board, and how the day-to-day management of tax (and compliance with the external statement itself) is delegated to the CFO and Tax team.

Percentage of groups which include



Approach – your tax fundamentals

The importance of having a Tax Control Framework

If groups are making public statements on how they approach tax and tax risk management it is vital that these statements can be supported by an internal framework.

This internal Tax Control Framework is important not only to ensure that tax risk is being managed effectively within the business but it is often discussed with (and elements shared with) HMRC and other tax authorities as part of Justified Trust and Cooperative Compliance regimes around the world.

In the UK, this is predominantly covered by HMRC's Business Risk Review (BRR) process.

Much like Tax Transparency disclosures themselves, Tax Control Frameworks are influenced by a range of existing tax governance requirements (including SoX in the US and Senior Accounting Officer (SAO), Corporate Criminal Offence (CCO) and BRR in the UK) as well as future obligations/requirements (such as the OECD's consultation on the principles of corporate governance and the UK's impending move towards a SoX-type internal control regime).

Leading organisations have a scalable tax control framework which means they can meet these requirements and expectations and control their key risks effectively and efficiently.

Focus on: Typical contents of a Tax Control Framework

- ✓ Board approved strategic plan, which sets out key decisions, plans and risks to be controlled
- ✓ Board approved tax policy, which sets out accountabilities, standards, criteria for decision-making/escalation
- ✓ Committee oversees performance, reviews key decisions and management of key risks
- ✓ 'Issue log' of key risks and other emerging issues fed by insight from testing, control owners and centre
- ✓ Testing plan in place and executed to provide sufficient assurance regarding how key risks are being controlled
- ✓ 'Risk and control matrix' bottom-up understanding of key risks, controls over risks
- ✓ Processes, people and systems (documented as needed) to enable the controls to operate effectively

Key Matters – what shapes your tax profile

Material impacts on the tax profile

Within Key Matters, groups have the opportunity to comment on anything which is specific to their business or sector which has a material impact on their tax profile and overall contribution.

This can include their presence in low tax rate jurisdictions, their use of sector specific reliefs and incentives, and even (in recent years) their response to COVID-19 related reliefs and government support.

This is where groups can explain the drivers behind their tax numbers and own the narrative of their tax story – which we expect to become much more prevalent as the volume of numerical disclosures increases in the coming years.

The results below show that the most common disclosure under this heading, with 12 groups (23%) of groups saying something, relates to the way in which groups access incentives and reliefs in the countries where they operate. Although not always the case, some of these groups have gone on to mention specific reliefs which they obtain and which will impact their Effective Tax Rate (ETR).

A slightly smaller proportion, 15% (eight groups) publish information on their approach to Transfer Pricing and their response to COVID-19 related reliefs and incentive programmes.

Low tax rate jurisdictions

Although only a small portion of the sample group mention their presence in low tax rate jurisdictions, this appears to be becoming more prevalent and, in some cases, groups provide a full analysis of the group’s operations in these jurisdictions.

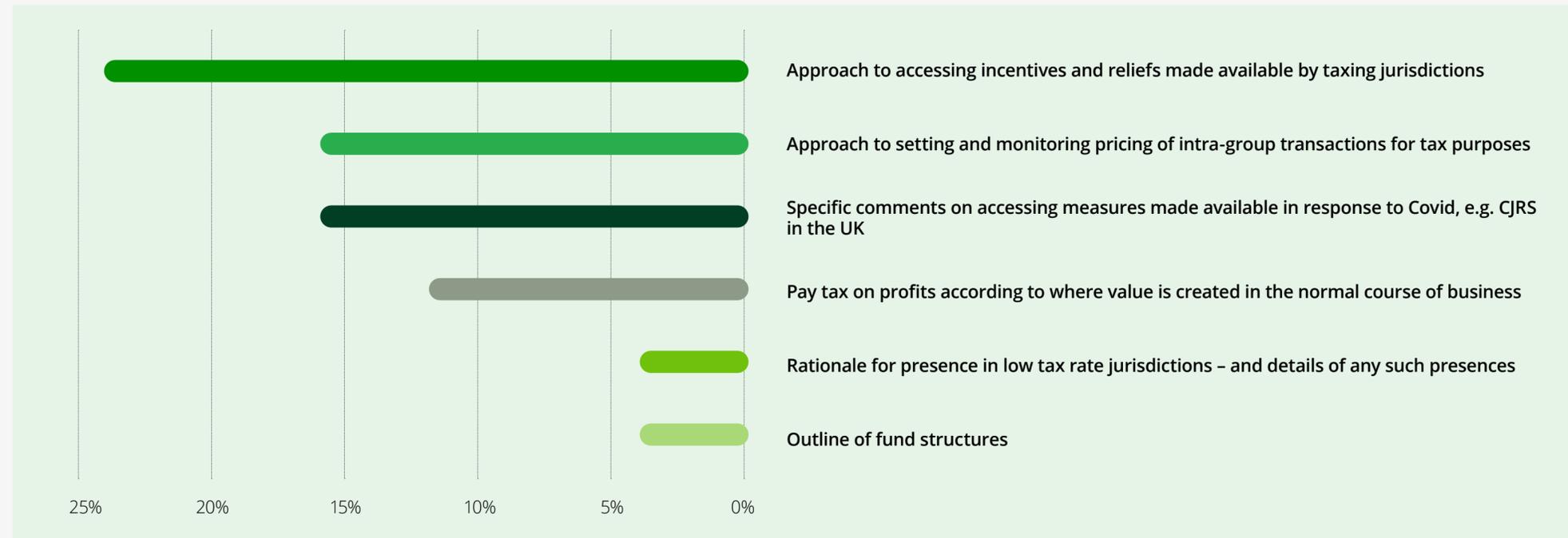


We expect key matter disclosures to become more common as the volume of data increases

Whilst the graph to the left shows that these key matter disclosures are currently in the minority of groups’ disclosures on tax, this may become more common as the volume of numerical data increases in the coming years (see following section).

This is because any unusual or unexpected results will likely be explained by specific matters for that group.

With the increasing link between tax and ESG, it is possible that groups will provide further context on the impact that environmental taxes/reliefs have on their numbers and link this to their sustainability strategy/ performance.



Data – the taxes you pay (and where)

A gradual increase in transparency reporting

In most sectors, there has been a gradual increase over the last few years of groups including numerical data in their tax transparency disclosure.

Whilst this has typically been in the form of summarised tax contribution data, granular information is increasingly being included due to the voluntary adoption of regimes such as GRI207 and the World Economic Forum's ESG metrics.

We expect this to further increase in the short term with many groups becoming subject to EU Public CBCR rules in the next few years.

Total Tax Contribution – 37 disclosures (71% of sample group)

In our sample, 25 groups (48%) provided group wide tax paid/tax collected numbers.

A further 12 groups (23%) went further and provided a breakdown by country and/or tax type. In total, 71% of our sample published some form of tax payment information and this high proportion aligns with the conversations we are having in the market where groups are often more comfortable with publishing some form of TTC data than any other numerical disclosures such as CBCR.



71% of the sample published tax payment information

Total Tax Contribution

CBCR information only provides part of a group's 'tax story' and many groups are now choosing to disclose their tax payment information (often referred to as Total Tax Contribution or TTC) in order to better represent the group's financial contribution to tax authorities around the world. This can be done in various ways and whilst some groups do provide a detailed breakdown of the taxes they pay (and collect on behalf of tax authorities) by jurisdiction and by tax, others provide just a single Total Tax paid figure.

There is no set method for collating tax payment information or how to present this externally. The closest to a prescribed format comes from the World Economic Forum which included a tax element to their ESG metrics published in 2020.

The core requirement for groups wishing to comply with the WEF's approach is to publish a single figure for their taxes paid. Optional elements include also including the amount collected on behalf of tax authorities, and breaking these amounts down by country and tax.

This approach was adapted from the Global Reporting Initiative's economic contribution standard (GRI201) and typically groups have been more open to considering the WEF's approach compared to GRI207.

Data – the taxes you pay (and where)

Outlook and challenges

Given the lack of a defined TTC approach, it is important to be clear on the meaning and reliability of the data you are disclosing.

This includes framing the disclosure in the right way as well as ensuring you can stand behind the published numbers.

Definitions

It is important to define the difference between taxes that are borne by the group and those that are collected on behalf of tax authorities. This distinction should be clear internally and externally, both where the information is split between taxes borne and collected but also for any Total Tax Contribution figures.

Basis of preparation

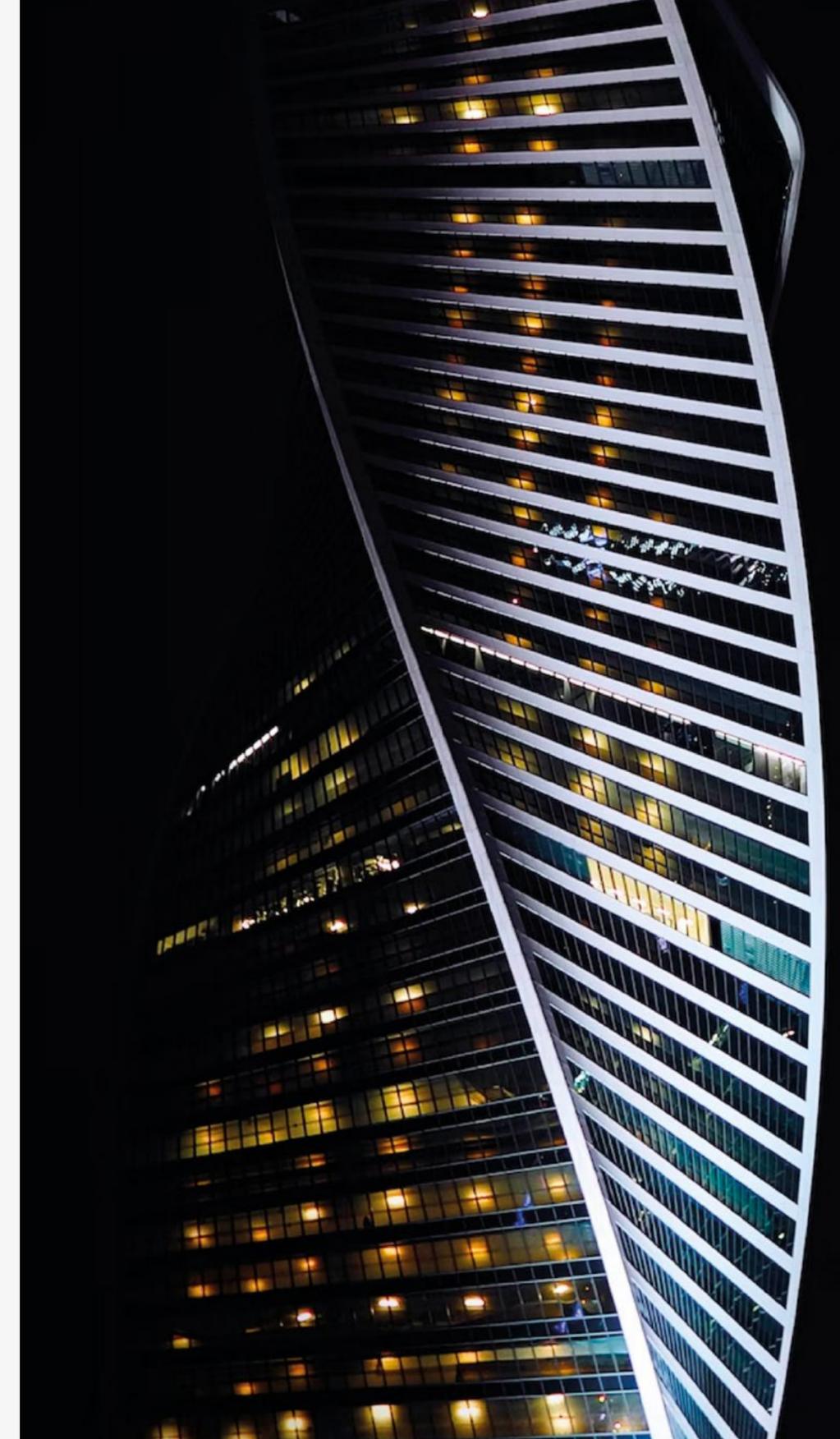
There is no set methodology for collating and publishing TTC information and therefore unlike a set of consolidated accounts, there is no set basis of preparation which must be followed. A decision needs to be taken internally to determine the most appropriate way of aggregating tax payment information from around the group (in particular on exchange rates and the treatment of any JVs) and this approach should be followed consistently from year to year.

Ability to collect

Often tax payment information is not recorded within a group's ERP system meaning that any data collection can be more time-consuming and can be open to more inaccuracies/errors. Having a defined internal approach to collating this information is important to mitigate this and many groups are now turning to technology to collect and aggregate TTC information.



It is important to be clear on the meaning and reliability of the data you are disclosing



Data – the taxes you pay (and where)

Public Country-By-Country Reporting – 1 disclosure

Public CBCR is currently more prevalent amongst certain sectors but it is becoming more common across the spectrum.

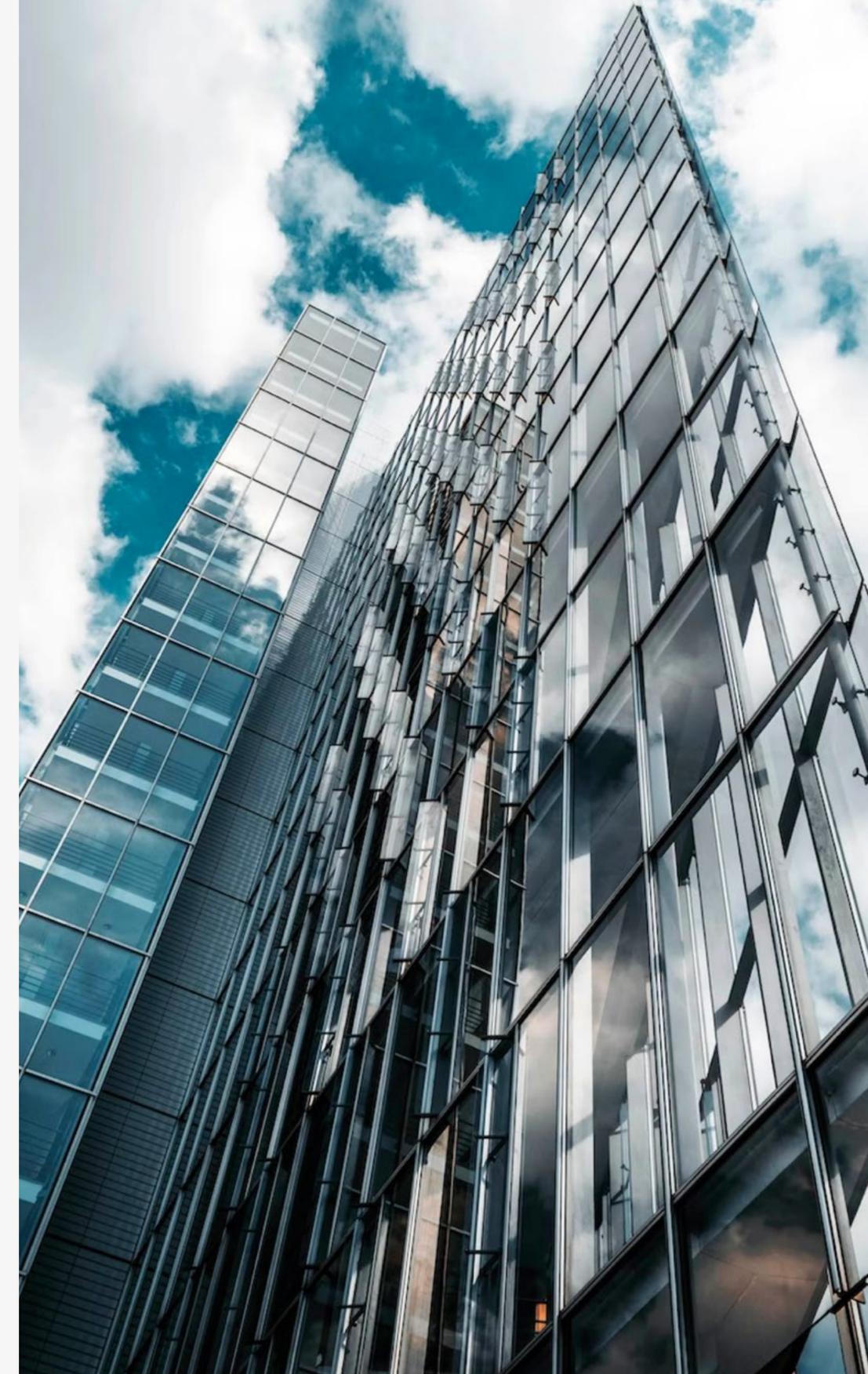
In our sample, just 6% (one) of the groups currently include CBCR data in their public disclosure.

With EU public CBCR around the corner, there is only going to be one direction of travel for this disclosure meaning that most (if not all) of the other groups in our sample have some ground to cover in the years to come.

The table below provides an example of how groups can depict their information on a country by country basis. This could incorporate, but also expand on, the data which will be required under EU CBCR.

Indicative disclosure of tax data on a Country-By-Country basis

	Turnover (£m)	Profit/(Loss) before tax (£m)	Total Tax paid/ (refunded) (£m)	Social security paid (£m)	VAT paid (£m)	Other taxes paid (£m)	Average number of employees
United Kingdom	12,250	4,130	956	321	364	35	31,214
United States	10,290	3,469	803	270	306	29	26,220
Germany	8,644	2,914	675	226	257	25	4,860
Austria	7,261	2,448	567	190	216	21	2,132
France	6,099	2,056	476	160	181	17	1,791
Spain	5,123	1,727	400	134	1522	15	1,504



Data – the taxes you pay (and where)

Public Country-By-Country Reporting

Whilst all large groups will be familiar with the concept of CBCR (due to the OECD Inclusive Framework’s requirement to file this information with tax authorities), the public reporting of this information has typically been restricted to the banking and extractive sectors where, since 2013, groups have published their payments to government information in line with the relevant EU directives.

For some groups in these sectors, this has naturally led on to more detailed country-by-country reporting and for extractives in particular, they have been strongly encouraged to publish their CBCR information based on their membership of the International Council on Mining and Metals (ICMM).

The ICMM has required members to sign up to the Global Reporting Initiative (GRI) which since the start of 2021 has meant providing CBCR information under GRI207. The panel on the right for a summary of how GRI207 differs slightly from the EU’s public CBCR directive.

		GRI 207: Tax Reporting	EU Public CBCR
Mandatory/Optional		Optional*	Mandatory** (once local legislation is passed)
Scope		Global	Applies to operations in EU countries and those in “non-cooperative jurisdictions”
Narrative	Approach to Tax (Tax Strategy and Board oversight)	✓	
	Tax Governance, Control and Risk Management	✓	
	Stakeholder Engagement regarding tax	✓	
Selected CBCR items	Total Revenue		✓
	Third 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 have been required for FY21 reports onwards by groups for whom tax is a material issue.

** Applies to EU-headed groups, and non-EU headed groups with large or medium-sized subsidiary undertaking or branch in a member state, with annual global consolidated revenue exceeding EUR 750 million.

Data – the taxes you pay (and where)

Public Country-By-Country

The key challenge facing groups who will be publishing their CBCR data for the first time in the coming years is anticipating how any numerical disclosures of CBCR data could be misconstrued by readers of the document and therefore getting ahead of any uncertainty.

Here we break this down into three elements:



Bottom up vs Top down

In providing their CBCR data to tax authorities, groups have the choice to prepare their CBCR data bottom up (based on their local tax and finance numbers) or top down (starting with their consolidated PBT and tax charge). The former is helpful for tax authorities who will easily be able to tie the numbers back to the local returns, whereas the latter will make sense to anyone who is reading the CBCR disclosure alongside the consolidated financial statements.



Communicating with clarity

Linked to the previous point, the table of CBCR data alone may mean very little to an outside reader and could be open to misinterpretation without any context. Whilst an answer may be to provide in line narrative to explain any unusual or inconsistent data points, some groups may wish to consider presenting a more user friendly country-by-country analysis of the groups tax position and include the mandated table as an appendix.



Focus of numerical disclosures

Groups may question the value of publishing CBCR data on its own given that it is limited to Direct Tax and the majority of information is taken from the annual reports. Many groups may consider taking the opportunity to supplement this information with disclosures on the other taxes including the amounts they pay and collect on behalf of tax authorities.

This provides a fuller picture of the group's total tax contribution which can help to demonstrate their economic contribution to society.

The Role of Technology

The key challenge facing groups who want to, or in future must, disclose numerical information in their tax disclosures is ensuring that they are collating high quality data in a consistent way, both across the group and from year to year.

Tax Payment information in particular is not typically collected and stored within a group's ERP system and any manual data collation is subject to the usual challenges of accuracy, completeness, reconciliation to other sources, and even identifying the right cut off dates for the period in question.

It is important that groups develop a robust approach and methodology for collating any numerical data so that they can confidently stand behind their external disclosures and also satisfy any auditor who may review their methodology.

One solution is to leverage technology to assist in the capture, verification and aggregation of numerical tax data.

Whilst a central technology solution for aggregating data is easy to conceive and configure (and has many advantages over existing Excel based tools), the complexity arises when considering how this might link to local systems, particularly for those groups who run multiple disparate ERP systems and ledgers.

There are also access right challenges (ensuring that people can only see the data that is intended for them), questions around how the data should be aggregated and translated into a single currency, and decisions to be taken on the reporting and analytics capabilities of such a platform.

For any groups looking to implement technology to improve their data collection process, our recommendations are:

1. Leverage existing software where possible

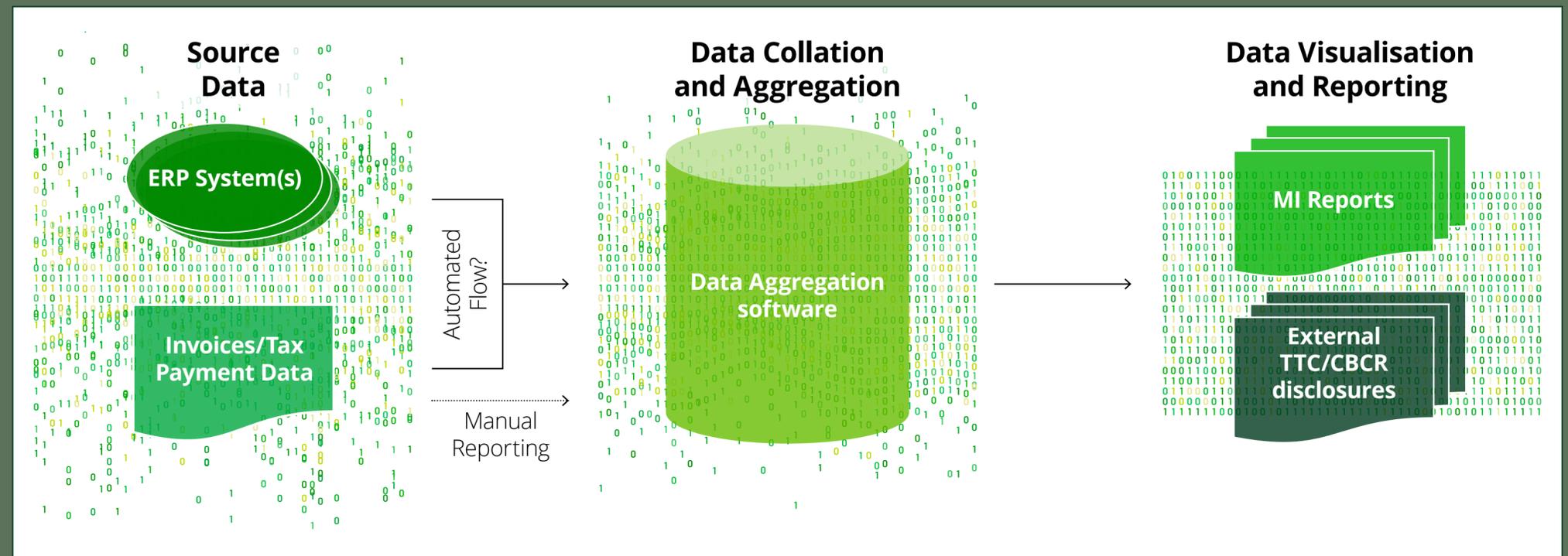
Not just because the data may already be in those systems but it is typically easier (and cheaper) to configure an existing system to collate data than to seek out another solution.

2. Work backwards

Starting with the data points you want to be able to disclose, first build a central template that can support those data points and then consider how you can map local numbers into that template.

3. Automate over time

Don't aim for 100% automation across the group from the start. As well as being far more complex and time consuming to set up, it may be that the cost benefit decisions for smaller countries mean that data mapping is never automated, so focus on the largest jurisdictions and aim for increased automation over time.



Assurance – giving confidence in your commitments

Obtaining assurance on transparency

It has been uncommon for groups to obtain external assurance on any part of their tax transparency disclosures.

The exception has been for a minority of groups that publish numerical data, where reasonable or limited assurance has been obtained on either the numbers themselves (more likely for CBCR disclosures) or on the methodology used by the group to obtain and report on those numbers (more likely for TTC where there is no set methodology or basis of preparation and therefore assurance cannot be provided on the underlying numbers).

In our study, only one group obtained assurance on their tax transparency disclosures and in this case it was specifically on their CBCR data where assurance was obtained that the information provided was in line with the Capital Requirements Regulation from 2013 (this group being a UK bank).

Outside of the sample group, we are aware that several extractive groups obtain assurance for their tax and economic contribution data and this is typically provided on the methodology they use to derive and publish this information.

It is expected that numerical disclosures will increase significantly in the coming years. As a result, we expect the number of groups which will consider obtaining assurance on elements of their tax transparency disclosure to also increase alongside this development.

Broader requirements may bring change

To date, there has been no requirement for businesses to obtain external assurance in relation to the tax transparency disclosures that they make.



We expect key matter disclosures to become more common as the volume of data increases

It seems likely that in the long-term this will change due to broader requirements relating to the ESG commitments of large groups. For example, the EU's Platform on Sustainable Finance issued a draft paper this summer which observed that ESG accredited businesses and products cannot focus only on green targets, they must also meet minimum safeguards in respect other matters, including tax.

In their view, failure to meet these safeguards should result in the business or product losing its accreditation.

In a tax context this could include losing a court case on a point of technical interpretation or in relation to some operational failure. In such circumstances, the expectation would be that accreditation could not be restored until the business was able to demonstrate that they had undertaken appropriate due diligence in that area.



Long-term, we anticipate that the requirement for businesses to obtain external assurance in relation to tax transparency will change



4. Global Perspective

Global trends towards increased Tax Transparency

In addition to considering the landscape and reporting trends for UK headed groups, multinational groups need to think about the culture and expectations in all of the markets where they operate.

Whilst the UK was the first country to legislate for the publication of tax transparency disclosures (UK Tax Strategy) across all sectors, there is a global trend for increased transparency due to a range of factors.

These include a range of transparency initiatives, including GRI207, the World Economic Forum's ESG metric on tax, the B-Team's responsible tax principles, and of course the EU's requirement for public CBCR (to name a few).

There are also a range of tax governance initiatives around the world which further enforce the importance of having a robust tax control framework in place, and often include an element of public transparency on the group's approach to tax.

These include TCMS in Germany, the OECD's guidance on Tax Control Frameworks, and a range of cooperative compliance/justified trust regimes in countries such as Spain, Australia and the Netherlands.

We have provided perspectives from a selection of countries where we are seeing particular interest and movement in Tax Transparency, but there are developments in this space in other countries too. These country summaries are provided on pages 29 to 35.

Results from Deloitte's Global BEPS survey

Our recent **Global BEPS survey** highlights some interesting forward looking insights, some of which are shown below and overleaf.

In particular 85% of groups reported that they expect stakeholder interest in tax behaviours to increase in the coming years and 60% expect to align themselves with one or more Tax Transparency standards.



Multinational groups need to think about the culture and expectations in all of the markets where they operate

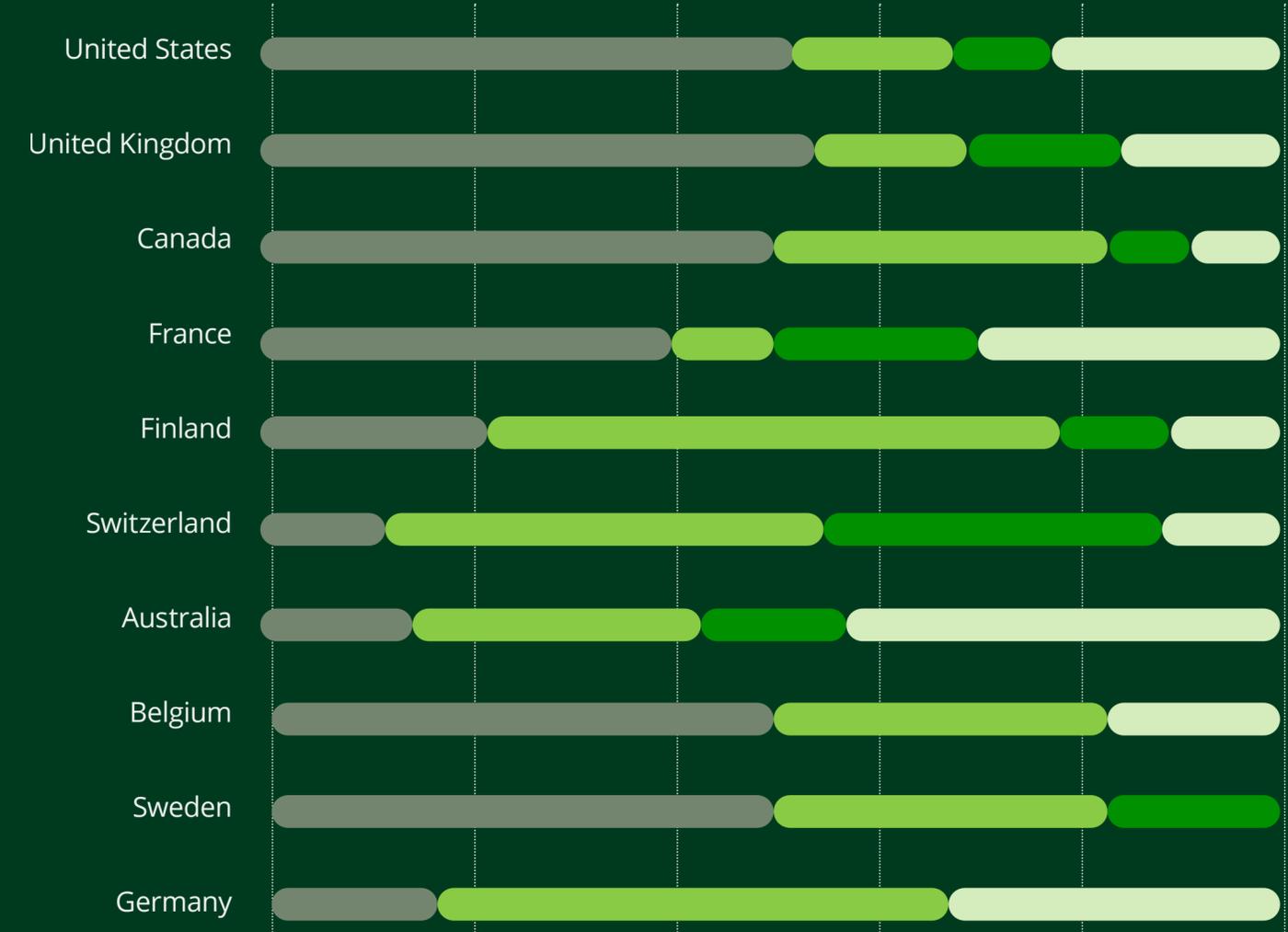


4. Global Perspective

Country - specific results

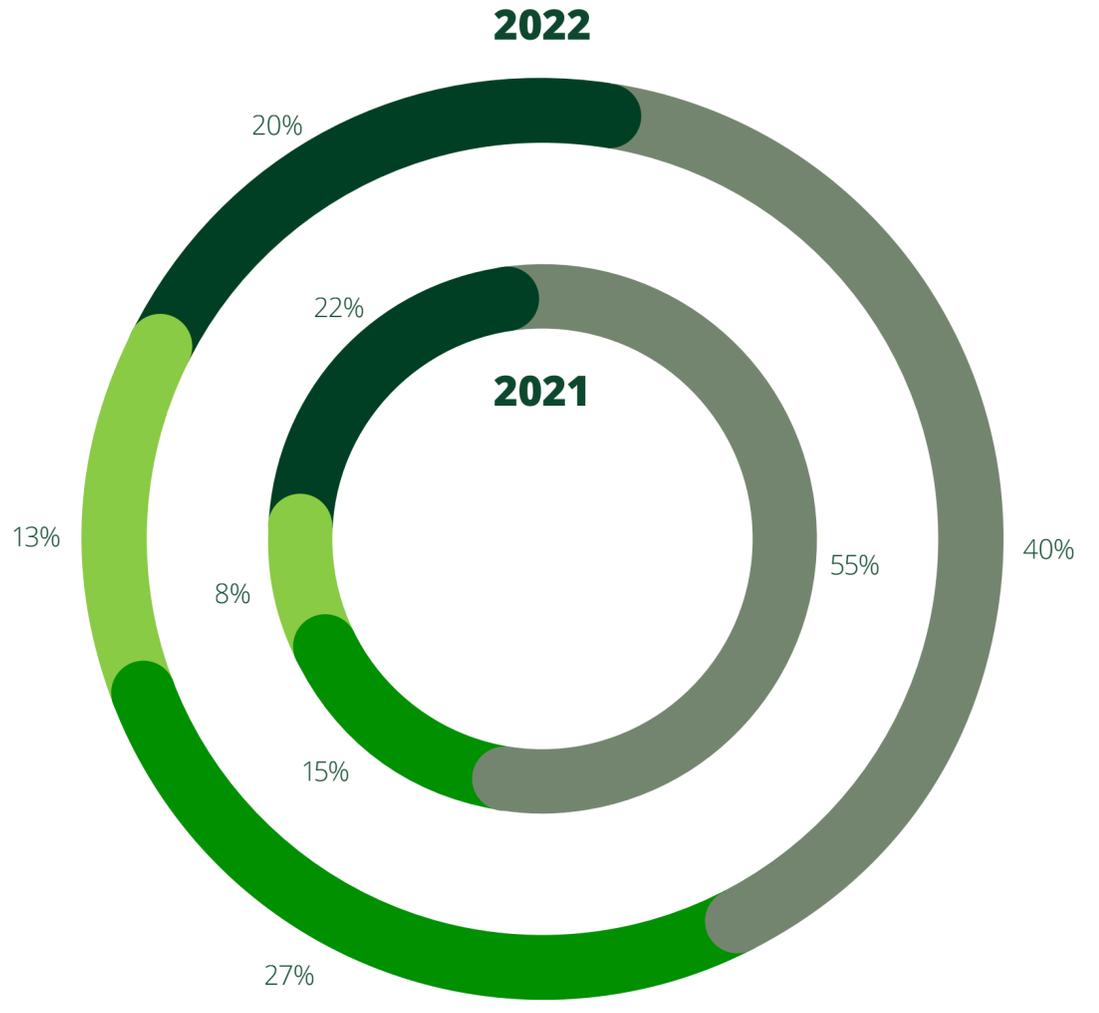
"My group expects to align its external communication in relation to its tax performance with a transparency standard"

No
 Yes – GRI 207
 Yes – World Economic Forum
 Yes – Other



Overall results

No
 Yes – GRI 207
 Yes – World Economic Forum
 Yes – Other



Country Perspective – Australia

Key external drivers – existing Australian Tax Transparency regime

Australia has a voluntary Tax Transparency Code (the Code). The Code was developed by the Board of Taxation, at the request of the then Government, and was subsequently endorsed as part of the 2016-17 Federal Budget.

The Code is intended to encourage greater transparency by the corporate sector and enhance the community's understanding of the corporate sector's compliance with Australia's tax laws. However, the voluntary nature of the Code has given rise to relatively low take-up by companies (which is even more pronounced for foreign companies).

Current disclosure requirements

The minimum standard of information required under the Code depends on the size of the business. Information disclosed under the Code is divided between Part A and Part B content. It is recommended that:

- medium businesses adopt Part A
- large businesses adopt both Part A and Part B.

Corporations will generally publish their tax transparency report on their website. There is no prescribed template or format for TTC content.

Minimum standard of information to disclose – Part A and B requirements

TTC Disclosure	Who	Minimum standard of information
Part A	Large and medium businesses	<p>A reconciliation of accounting profit to tax expense and to income tax paid or income tax payable</p> <p>Identification of material temporary and non-temporary differences</p> <p>Accounting effective company tax rates for Australian and global operations (pursuant to AASB guidance)</p>
Part B	Large businesses	<p>Approach to tax strategy and governance</p> <p>Tax contribution summary for corporate taxes paid</p> <p>Information about international related-party dealings</p>

Reaction to date and direction of travel

At the time of writing, there are approximately 203 signatories to the Code (to put that number in context, there are 2,600+ companies listed on the Australian Stock Exchange), and of these, around 198 have published at least one report in accordance with the Code.

In August 2022, the recently elected Australian Federal Government released the Government election commitments: 'Multinational tax integrity and enhanced tax transparency – Consultation paper' (the Paper).

The Paper recognises international developments in tax transparency including a shifting attitude towards MNEs voluntarily sharing more information about their tax affairs, moving away from strict taxpayer confidentiality. The European Union's recent public CbC reporting Directive and the emergence of the Global Reporting Initiative's Tax Standard (GRI 207) are referenced as examples of schemes that enhance corporate tax transparency.

Country Perspective – Australia

Country-By-Country Reporting

Currently, MNEs which are CBCR reporting entities are required to report CBCR information to tax authorities (including the ATO) on a confidential basis (in accordance with Australia's commitments under Action 13 of the OECD Inclusive Framework's BEPS Action Plan). The ATO uses the CBCR data to inform its risk and compliance work.

CBCR disclosures under this OECD Inclusive Framework regime are subject to strict confidentiality. This confidentiality has been a key feature to encourage taxpayer compliance with increased reporting requirements. The EU's move to mandate public CBCR reporting reflects shifting public expectations on MNE tax transparency. The (Australian) Senate Economic References Committee's Inquiry on Corporate Tax Avoidance has previously recommended that the Australian government publish excerpts from the CBCR reports, using the EU's standards as a guide.

GRI 207

While the GRI is voluntary, the information reported is similar to the data points listed in the OECD Inclusive Framework CBCR regime. Proponents of the GRI tax standard claim that the GRI reporting data is more accessible for the public compared to the OECD Inclusive Framework's CBCR regime.

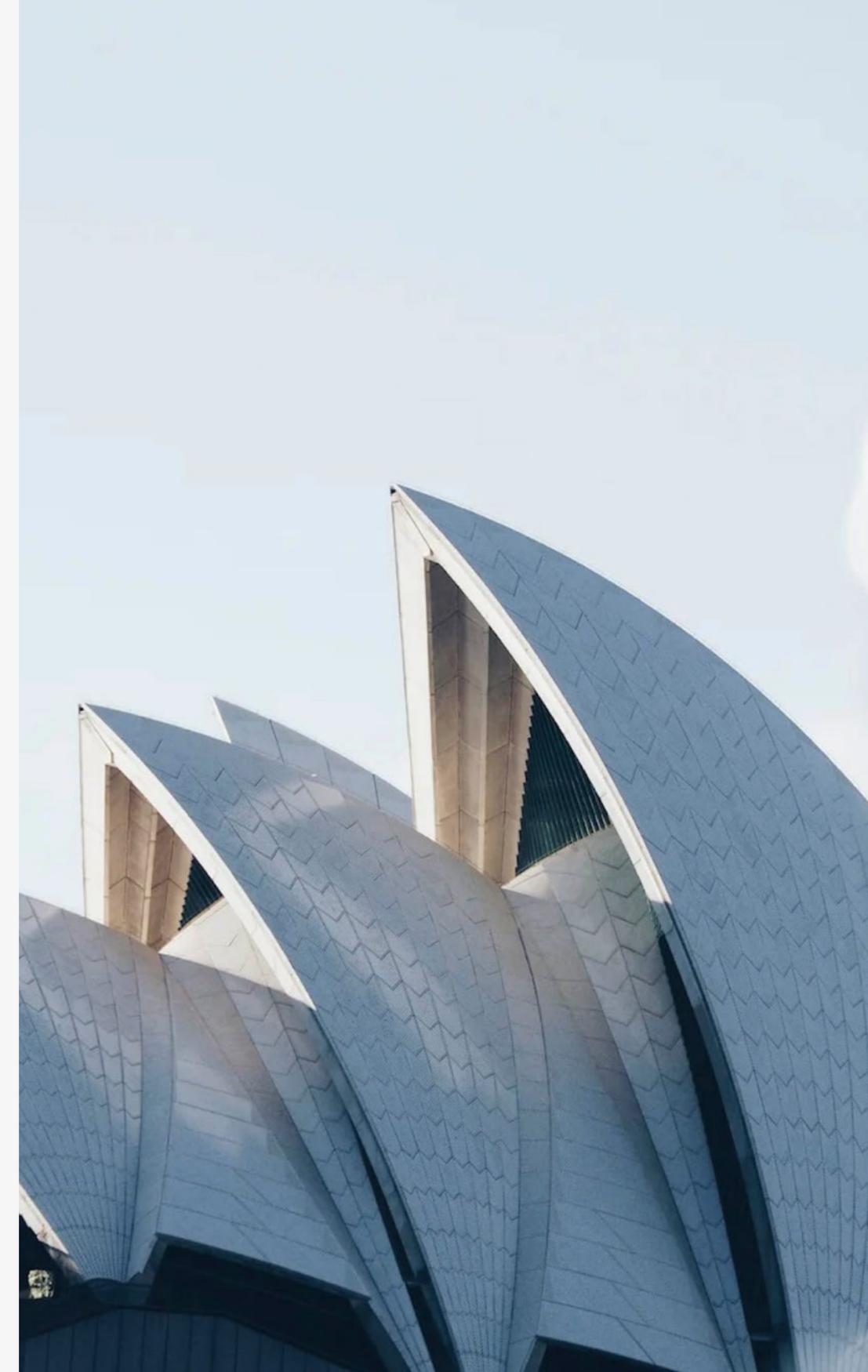
Amongst other proposed integrity measures, the Paper seeks feedback regarding enhancements to the existing Tax Transparency regime including:

- making the currently voluntary Code mandatory;
- adopting the EU's approach to public CBCR reporting;
- proposing additional tax disclosures that MNEs should be required to report, such as related party expenses, intangible assets, deferred tax and effective tax rate (ETR) per jurisdiction.

The Australian tax transparency report

A further element of Australia's tax transparency framework is the Corporate Tax Transparency report, published annually by the Australian Taxation Office (ATO). The information in this report is sourced from tax return information and excludes various tax return label items, including tax losses information, from being disclosed.

The exclusion of label items can hinder the general community's understanding of the tax affairs of corporate tax entities, including MNEs, as the report does not provide a complete picture of an entity's tax position. For instance, the valid role that tax losses play in determining an entity's tax position. Further, non-corporate entity structures (such as large privately-held groups) are not included in the ATO's Corporate Tax Transparency report.



Country Perspective – US

Reaction to date and direction of travel

As 'Dodd-Frank' is the only current requirement, we are seeing interest in tax disclosures coming from oil and gas/ mining and minerals companies, who are required to disclose by 2024 (2023 Year End). Extractive companies are interested in assessing their readiness to report by 2024. Other groups with a focus on Tax Transparency are large multinationals with a focus on ESG.

Many large multinationals are focused on the OECD Inclusive Framework's Pillar Two CBCR proposals reporting to tax authorities and new minimum tax rules issued as part of the Inflation Reduction Act. Only a handful of US HQ companies are currently issuing tax transparency reports.

While many companies are not ready to issue a tax transparency report, many are looking to assess their tax transparency landscape.

This can include:

- ✔ Tax transparency education – Educating VPs of tax, tax leadership and sustainability leadership on tax transparency requirements and impacts
- ✔ Competitive Analysis – Looking at competitive landscape and regulators or standard setters that most impact their business

- ✔ Data Readiness Assessment – Validating data requirements for regulators and standard setters that most impact their business, mapping the data to the data sourcing, discussing quality and confidence in data
- ✔ Data Mapping and Visualization – Pulling all tax data into a data lake and completing a Power BI report mapping data and analysing red flags in data quality or narrative in existing tax payment amounts
- ✔ Tax Governance Maturity Assessment – Conduct surveys and interviews of tax and finance leadership. Assess current state
- ✔ RACI and tax process mapping, risk assessments – Assessing risk in tax processes and helping them improve processes. Complete current and future/ recommended RACI models and tax process maps
- ✔ Controls Testing – Test of design, test of control, and advice on improving controls framework

We anticipate an increase in services to help compile or audit tax transparency reports in the next two to five years as the market matures and more companies issue reports. However, these offerings are less frequent to date.



Country Perspective – Germany

Country-By-Country Reporting

Currently, Germany has no dedicated Tax Transparency regime in place, however, certain rules to strengthen tax transparency have been implemented in respect years in response to increased public pressure.

The German Government passed the German Anti-Tax Avoidance Act (Steuerumgehungsbekämpfungsgesetz/ StUmgBG). The aim of the law was to create transparency about controlling business relationships of domestic taxpayers with third-country companies (companies outside the EU or the European Free Trade Association) and thus make tax avoidance more difficult. Besides that, BEPS Action 13 on Country-by-Country Reporting was implemented through BEPS Implementation Act (BEPS-Umsetzungsgesetz) in 2016.



Notification of business relationships

According to Sec. 138b German Fiscal Code, certain entities are required to notify the German tax authorities of business relationships between domestic taxpayers and companies located outside the EU if certain requirements are met. The information to tax authorities is provided on a confidential basis.

DAC6/MDR Reporting

With the Act on the Introduction of an Obligation to Report Cross-border Tax Arrangements of 21 December 2019, Directive (EU) 2018/822 of 25 May 2018, (DAC6) was transposed into national law through Sec. 138d German Fiscal Code. Cross-border tax arrangements that meet the statutory hallmarks must be reported to the German tax authorities by entities or person that qualify as intermediaries, or, if applicable, by the respective taxpayer. The report must be submitted within 30 days of the relevant event (at the latest from the first implementation step). Failure to report, incomplete or late reporting may be punishable by a fine.

GRI 207

While the GRI 207 is voluntary, many leading German MNEs report under this standard tax transparency information in their financial statements.

Tax Compliance Management System

In the context of having an appropriate Tax Control Framework in place, there is a specific requirement in Germany to implement what is referred to as a Tax Compliance Management System (TCMS).

A robust TCMS should ensure that all relevant tax laws are complied with and that all tax obligations, such as the timely and correct filing of advance returns and declarations, are fulfilled.

Since July 2016, the content of the operationalization has been specified: IDW Practice Note 1/2016 defines the requirements for a tax compliance management system ('Tax CMS', also known as Tax ICS) in accordance with IDW PS 980.

The introduction of a tax compliance management system to ensure legally compliant behavior in the tax area is intended to minimize or completely avoid both financial risks (in the form of late payment penalties or penalties for late payment) and risks under criminal law and reputational risks that could arise from possible violations of the law.

Country Perspective – Netherlands

The Netherlands introduced the concept of Horizontal Monitoring in 2005. This form of monitoring is built on the assumption that the Dutch Tax Authorities can appeal to the responsibilities of civilians, organizations and establishments, resulting in a relationship of trust and transparency with the Dutch Tax Authorities. The benefit for the taxpayer is that it should be able to quickly obtain certainty about the tax position in exchange for the voluntary and up-to-date provision of tax-relevant information. The agreements between the tax authorities and taxpayer are laid down in a covenant.

An interactive process between taxpayers and the tax authorities ensures parties to know where they stand from a tax point of view more quickly. The focus of both parties is more on managing tax risks and preventing errors, rather than on checking them afterwards. This is in line with the overall political trend towards more individual responsibility for citizens and businesses that want to and can bear responsibility as well as the trend towards interactive and responsive interaction between tax authorities and citizens/businesses.

Over the last few years there have been multiple initiatives to improve Horizontal monitoring, amongst others by requiring a more empirical base by the introduction of the (Dutch) Tax and Customs Administration's Audit Approach. By the end of 2019 Horizontal Monitoring 2.0. was introduced, whereby existing conditions have been made more explicit but the fundament remained unchanged.

The main changes were:

1. Duration (limited to three years)
2. Introduction of three categories (Top, Large and Medium Size)
3. Shift from 'tell me' to 'show me'.

The expectation is that this will impact taxpayers who have not allocated sufficient time and focus on Tax Control or with a Static Tax Control Framework. With these changes the Dutch Tax Authorities expect to have even more insight in the manner in which taxpayers deal with tax, including their strategy, risk approach and policies around tax, whilst at the same time reducing their efforts of monitoring these tax payers.

The resources that will be freed-up can be dedicated to other activities of the Dutch tax authorities (including audits).

In May 2022, VNO-NCW (The Dutch Employer Association) released their Tax Governance Code. The goal to increase transparency on the tax position of Dutch listed companies and could, in future, be incorporated into the Corporate Governance Code.



Country Perspective – Netherlands

The intention has been to align the Code as much as possible with existing standards and disclosures with the aim of amplifying the rigorous work already done by standard-setters rather than reinventing the wheel. The Code aims at a broad commitment of companies to endorse the ambitions expressed in the Code and to comply with it. There are 40 Dutch large organizations which have already adjusted their own principles to reflect the code, and only differ in the fact that their code goes further than this one prescribes.

Although in first instance written for Dutch listed companies, non-listed companies are also encouraged to endorse the Code. VNO-NCW strongly believes that this Tax Governance Code will help to build trust and will serve as a meaningful answer to the public call to companies for more transparency and accountability on their tax position.

For the coming years, as the economic situation grows more uncertain in combination with high debts due to COVID measures, we expect an increased focus on public finance and the need to collect taxes.

Over the last year there has been an increase in action groups and media campaigns targeting large companies and applied pressure to them to demonstrate their contribution to society through tax and to justify the way in which they conduct their tax affairs. Windfall Taxes do not seem to be preferred since it is hard to estimate if and when circumstances change and what the adverse affect is. Boards are taking more interest in tax outcomes and demanding more of the tax function.



Country Perspective – Canada

Key external drivers

Currently, there are no formalized, broad sweeping tax requirements on tax transparency and governance in place in Canada.

However, external reporting requirements to stakeholders, which can include specific tax disclosure obligations, can arise from a variety of sources.

For example, under the Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy, a public registry was mandated to identify recipients.

Similar provisions are added for other tax credits, such as the digital news tax credit. Recently, Canada has seen more companies voluntarily choosing to disclose tax information related to tax transparency and sustainability as a result of a heightened focus on ESG-related initiatives.

Some companies have published their tax principles and governance framework while others have included tax contributions data in their financial reports. However, the format and content of reporting are not all consistent.

With the development of voluntary global tax transparency reporting frameworks, more and more companies have turned to these standards for guidance on best practices.



5. Horizon Scanning

Our research shows that 85% of multinational groups believe that public scrutiny of the tax behaviours and outcomes of large businesses will increase over the coming years.

We explore seven possible future themes:

1. OECD Inclusive Framework Pillar One and Pillar Two proposals

The OECD's Base Erosion and Profit Shifting ('BEPS') proposals for Pillar One and Pillar Two continue to be an area of tax focus for large multinational organisations.

The Pillar Two proposals very broadly introduce a 15% minimum effective tax rate in each jurisdiction and countries are currently drafting tax legislation to implement these proposals.

Groups within the scope of the new rules will need to consider how they will reflect the impact of the BEPS proposals in their tax reporting in the future.

2. Keep it simple

A common challenge across the world of ESG, including tax transparency, is the proliferation of standards. Many of these standards have similar but not identical expectations of reporting businesses which has contributed to some confusion amongst the businesses themselves and their stakeholders.

3. Quantum of Taxes

Traditionally the focus has been on the quantum of taxes paid by a business. Businesses that pay large amounts of tax are perceived to be better corporate citizens than those who pay low amounts of taxes. This position may be challenged in the future as more tax policy is designed to encourage better behaviours, particularly around environmental concerns.

The consequence of such policies must be that those who, say, invest heavily in renewables will pay less tax, and vice versa.

It is likely this will make the communication of a business' tax positions more challenging.

4. State by state

The upcoming requirement for certain large groups to publish their country-by-country tax information in relation to their operations in EU member states is likely, in combination with other developments such as GRI 207, to result in a greater level of overall reporting of country-by-country basis.

To make matters even more complex, in the UK and other countries we are seeing increasing pressure for an understanding as to how public revenues are shared between regions within a country.

Many mining groups already report at a state/local level and, as with other aspects of tax transparency reporting, they may lead the way for others.

5. Transparent countries

The origins of tax transparency were always as much about holding governments to account as business.

Over time, the focus and challenge appears to have fallen much more on the corporate sector but we can expect future pressure to be applied to governments in relation to the taxes they receive and, critically, how they spend it.

Some countries, like Australia, already try to provide a breakdown on what taxpayers' money has been spent on, across schools, defence, healthcare and other commitments.

6. Real-time reporting

Right now businesses reporting their tax information each year, typically on the financial year just gone.

As tax compliance becomes more of a real-time management matter, could we see the same being applied to tax transparency? Certainly this will be of interest to those in the capital markets who are looking to assess 'ESG credentials' as that would provide them with a much more up to date view on the position of a business.

5. Horizon Scanning

7. Due diligence

As it stands few tax transparency reports are subject to assurance checks.

We would expect that this will change in the future as measures such as the EU 'minimum safeguard' regime takes effect. In short, such regimes look to ensure that businesses which meet environmental targets are also compliant in other areas such as tax.

Tax 'failures' could then lead to the business losing its ESG credentials unless it can demonstrate that appropriate due diligence has been applied to its tax governance and risk management.

Given the high cost to a business of losing access to ESG driven capital and lending, we would expect there to be more demand for assurance over tax governance and compliance in the future.



Contact us

Our insights can help you take advantage of change. If you would like some guidance around your own tax reporting and transparency please do get in touch. We'd be happy to help.

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