RESPONSIBLE TAX

TAX AS AN ESSENTIAL PART OF YOUR ESG AGENDA

Including Tax within your Environmental, Social and Governance (ESG) agenda

IDEAS | PEOPLE | TRUST

RESPONSIBLE TAX

Tax as an essential part of your Social Contract

INTEGRATING TAX WITHIN YOUR ESG AGENDA

Businesses are increasingly adopting and articulating tax principles, aligned to their broader Environmental, Social, and Governance (ESG) agenda. This is a critical element in providing them with their ‘social licence’ to operate which is ever more important to shareholders, investors and wider communities.

Tax is a key ESG metric: external stakeholders are interested in a business’s corporate income tax behaviours, and expect to see evidence of the level of tax responsibility it adopts in terms of aggressive tax strategies as well as the level of economic contribution the business makes to society.

In response, many businesses are publishing wider tax statements and also signing up to increasing transparency standards including the OECD/G20 Principles of Corporate Governance, the GRI (Global Reporting Initiative) for comprehensive tax disclosure and the International Business Council (IBC) of the World Economic Forum – Stakeholder Capitalism Metrics.

It is also important for finance and tax leads to be able to have informed conversations with stakeholders about taxation and wider economic contribution. This is vital in the M&A space where an investor’s ESG program will include evaluation of the investor’s and investee entities’ tax framework. We also see this as part of the Principles of Responsible Investment (PRI).

Our goal is to support businesses in being transparent about how they approach tax matters and tax payments. Greater transparency means providing relevant and meaningful insights about your tax strategy and tax contribution across all jurisdictions in which you operate.

“An increasing interest in societal impact is pushing firms to go beyond simply “playing by the rules” and demonstrate how their behaviour is consistent with the firm’s broader purpose…efforts to improve transparency around tax strategy to demonstrate a shift from reporting compliance towards articulating why an approach is appropriate.”

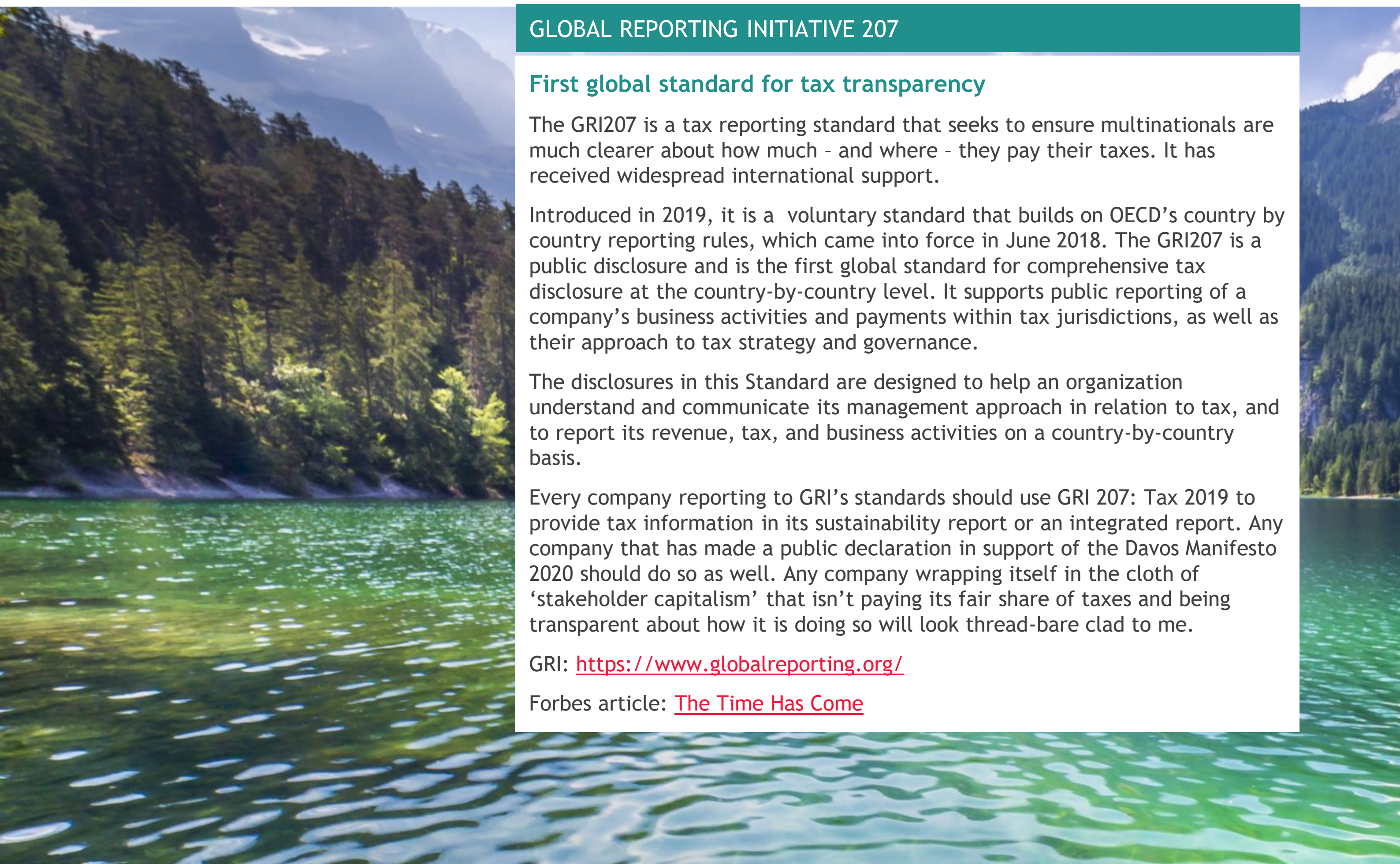
World Economic Forum

We want to help facilitate more informed conversations with our stakeholders about our contribution to economic development, the part we play in society, and the rigour of our tax practices

BP, Tax Transparency page

In-house tax policies are helping to direct Environmental, Social and Governance (ESG) outcomes to increase investment and limit reputational risks for large companies.

International Tax Review, February 2021



GLOBAL REPORTING INITIATIVE 207

First global standard for tax transparency

The GRI207 is a tax reporting standard that seeks to ensure multinationals are much clearer about how much – and where – they pay their taxes. It has received widespread international support.

Introduced in 2019, it is a voluntary standard that builds on OECD’s country by country reporting rules, which came into force in June 2018. The GRI207 is a public disclosure and is the first global standard for comprehensive tax disclosure at the country-by-country level. It supports public reporting of a company’s business activities and payments within tax jurisdictions, as well as their approach to tax strategy and governance.

The disclosures in this Standard are designed to help an organization understand and communicate its management approach in relation to tax, and to report its revenue, tax, and business activities on a country-by-country basis.

Every company reporting to GRI’s standards should use GRI 207: Tax 2019 to provide tax information in its sustainability report or an integrated report. Any company that has made a public declaration in support of the Davos Manifesto 2020 should do so as well. Any company wrapping itself in the cloth of ‘stakeholder capitalism’ that isn’t paying its fair share of taxes and being transparent about how it is doing so will look thread-bare clad to me.

GRI: https://www.globalreporting.org/

Forbes article: The Time Has Come

TAX TRANSPARENCY ENABLES BUSINESSES TO SHOW THAT NOT ONLY DO THEY 'TALK THE TALK' OF ESG, BUT THEY ALSO 'WALK THE WALK'…IT'S ABOUT ACTIONS NOT JUST WORDS

1. TALK THE TALK…

TAX POLICY, PRINCIPLES & RISK APPETITE

Disclosure of a tax policy, principles and tax risk appetite outlining the company's approach to taxation. This should demonstrate how the approach to tax is aligned with the business' ESG vision and its sustainability objectives.

2. …WALK THE WALK…

GOVERNANCE AND RISK MANAGEMENT

A governance and risk management framework provides comfort and assurance that there are the mechanisms in place to ensure awareness and adherence to tax principles. This should include clear procedures in relation to compliance and tax risk management.

3. …AND SHOW PEOPLE WHAT YOU'RE DOING

TRANSPARENCY

Shareholders, investors, regulators and increasingly the wider community expect transparency on tax-related risks, total tax contribution and country-by-country activities.

MANAGING YOUR TAX PROFILE

Many will remember large businesses and accountants being publicly quizzed by the Public Accounts Committee in 2014 regarding their tax behaviours. The resulting media backlash drove a public expectation that businesses should be paying 'the right amount of tax'. That expectation remains with us still today. HMRC continue to focus on eliminating tax planning involving aggressive tax avoidance schemes, and since 2016, businesses have to publish their tax strategies and approach to tax planning.

The financial turmoil arising from the COVID pandemic is the latest catalyst which is driving a heightened level of government and public attention. Paying the 'right amount of tax' and 'doing the right thing financially' is very much headline news once more.

Boards' of Directors are increasingly seeking to implement a culture of no surprises within their organisations when it comes to tax risk, and many multinationals are reporting concerns about meeting increased tax regulatory requirements. Not being aware if adverse media attention is around the corner is an increasing risk, one that is only heightened in the wake of the pandemic. Today's challenge for CFOs and Tax Directors is to determine how much they are at risk and how best to respond if challenged.

WHAT TO PUBLISH?

ESG is influencing what MNCs are choosing to disclose, with **OECD CbCR** rules and **GRI207** acting as a foundation for tax reporting and sharing KPIs. Many organisations are already setting a benchmark, with companies like Vodafone leading the way. At BDO, we have supported many businesses in advising on disclosures, including those winning tax transparency awards.

At the very least, organisations are publishing their tax principles. Increasingly however, they are seeking to demonstrate their wider tax contribution through publication of a Tax Report and Global Tax Footprint.

GLOBAL TAX TRANSPARENCY REQUIREMENTS

Many see the UK as 'ahead of the game' in encouraging responsible tax behaviours and introducing legislation over tax transparency. This not only includes the UK requirement to publish your Tax Strategy online, but other initiatives such as the recent consultation on Notification of uncertain tax treatments by large businesses.

Global businesses are also impacted by several other parallel tax transparency initiatives across many other jurisdictions as well as many multilateral requirements relating to tax transparency such as CRS, OECD BEPS and EU regulations (which is most likely to still impact global UK HQ organisations despite Brexit and downgrading of DAC6).

Some examples:

- OECD Common Reporting Standard (CRS)
- EU DAC6 reporting requirements
- EU votes on public CBCR reports
- GRI Sustainability Reporting Standards – GRI207 on Tax
- **Australia:** ATO public reporting to disclose taxable income
- **Canada:** Extractive Sector Transparency Measures Act
- **China:** Implementation measures for Special Tax Adjustments
- **Netherlands:** Horizontal monitoring
- **Nordics:** increasing peer pressure to disclose tax payments
- **Poland:** 2021 requirement to publish a Tax Strategy
- **South Africa:** Filing obligation for non-resident companies.
- **UK:** requirement to publish a Tax Strategy
- **United States:** Dodd-Frank act and FATCA.

FOR MORE INFORMATION:

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