



Total Tax Contribution Framework

What is your company's overall tax contribution?*

A PricewaterhouseCoopers discussion paper

*connectedthinking

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1. Introduction and purpose of paper

1.1 Introduction

This paper discusses the tax contribution made by large companies.

The amount of corporate tax paid by large businesses is coming under increasing scrutiny and public debate. Despite this, there is little information in the public domain about precisely what taxes and how much tax companies pay.

There are also polarised views. On one hand concerns have been expressed that large businesses are not making an adequate contribution to public finances. For example, the UK Government has suggested that some corporate tax planning arrangements entered into by companies, although legal, are 'morally' unacceptable.¹ Finance Act 2004 hailed the introduction of new rules, requiring companies to make early disclosure to the Inland Revenue of certain tax planning arrangements. In the US companies which have entered into certain tax planning arrangements are debarred by legislation from being eligible for government supply contracts.² At the extreme, international tax avoidance has been compared to terrorism and organised crime.³

Key points

- The amount of taxes paid by large companies is coming under increasing public scrutiny.
- But the only information in the public domain is generally the information in the annual report on corporate taxes on profits.
- A better measure of a company's contribution in taxes could be their Total Tax Contribution in business taxes.
- Companies should think about communicating their Total Tax Contribution to interested stakeholders.
- The Total Tax Contribution could be included in companies' corporate responsibility reports.

¹ Extract from Inland Revenue press release (2 July 2004) regarding new clauses tabled by the Government to the Finance Bill containing anti avoidance provisions on Manufactured Payments.

Commenting on the measures Paymaster General Dawn Primarolo said:

"We will not tolerate the efforts of the tax avoidance industry to undermine the will of Parliament, and to help a small minority of businesses and individuals abuse the tax system at the expense of the vast majority who pay their fair share. We are determined to stamp out abusive tax avoidance and create a level playing field for all."

² Section 835 of the Homeland Security Act of 2002 (Public Law 107-296, 6 U.S.C 395 prohibits the Department of Homeland Security from contracting with certain US companies who have reincorporated overseas (corporate inversions). The US House of Representatives recently passed legislation (HR 4567) that includes a provision to expand this prohibition. The US congress is also considering legislation (HR 4520 and S1637) that includes a provision to modify the tax treatment of US companies that reincorporate overseas.

The US congress has also considered legislation regarding US companies moving business operation overseas (offshore outsourcing). The US Senate has passed legislation (S1637) that includes a provision to prohibit offshore performance of government contracts.

³ Announcing the [joint Australia, Canada, UK and US] international taskforce, John Healey, Economic Secretary to the UK Treasury, makes it clear just how seriously the four countries involved are taking the matter.

"Tax avoidance and the industry that drives it are increasingly an international phenomenon and it is vital that we have effective international co-operation to tackle it, as we do for tackling terrorism, organised crime, money laundering and fraud", he says. Accountancy Age, 3 June 2004.



The debate in the UK and the US has highlighted the perceived lower rates of corporate tax paid by some large companies, which has been attributed to objectionable corporate tax planning. These findings imply that large companies are not making an adequate contribution to tax revenues and hence there is an increased tax burden on others, including individuals, to fund spending on social investment.

“Enron, Tyco and Worldcom scandals have heightened public concerns about organised corporate tax avoidance through the use of tax havens, clever financial engineering, transfer pricing and other tricks... Organised corporate tax avoidance may improve company profits and

executive salaries, but it also forces people on the minimum wage, nurses, pensioners and debt-ridden graduates to pay a higher proportion of their income in tax.”⁴

On the other hand a recent PricewaterhouseCoopers survey of the heads of tax of large companies highlighted that 99% of the respondents felt that there is insufficient understanding among investors, employees and stakeholders about the company’s economic contribution in taxes. Full details of the survey are given in section 2. Seventy companies participated, including 36 of the FTSE 100, so that the responses can be said to represent the views of large companies on the issue, particularly the FTSE 100.

“Enron, Tyco and Worldcom scandals have heightened public concerns about organised corporate tax avoidance through the use of tax havens, clever financial engineering, transfer pricing and other tricks... Organised corporate tax avoidance may improve company profits and executive salaries, but it also forces people on the minimum wage, nurses, pensioners and debt-ridden graduates to pay a higher proportion of their income in tax.”⁴

⁴ The Guardian, 17 November 2003.



Companies are subject to an array of different taxes on their profits. In the UK alone companies can be concerned with up to 25 taxes, duties and other payments to governments including customs duties, VAT, stamp duty, business rates, climate change levy, air passenger duty and others.

Business groups have mounted campaigns designed to highlight the perceived threat to their competitiveness posed by, what they see as, a rising burden of business taxes. For example, a Confederation of British Industry (CBI) report⁵ has argued that:

- UK business taxes are no longer a source of competitive advantage when compared to those in other (developed) countries; and
- the burden of business taxes has increased significantly since 1995; and
- the increasing complexity of the UK tax system has added to the regulatory burden facing firms.

Individual companies have also echoed these concerns. A FTSE company CEO quoted in *The Sunday Telegraph*, February 2004 said “Like a tide, the level of taxes seems to be forever rising. The water is now above our waist: our national insurance, property and employment taxes are now over 50% of our profits.”

A contributory factor to these conflicting points of view may be the lack of transparency about the taxes paid by companies. Companies are subject to an array of different taxes on their profits. In the UK alone companies can be concerned with up to 25 taxes, duties and other payments to governments including customs duties, VAT, stamp duty,

business rates, climate change levy, air passenger duty and others (see Figure 1, page 24). For some of these the company acts as collector on behalf of the government; but many are actually borne by the company.

Despite this, the only information on taxes in the public domain is usually that disclosed in the company’s financial statements within its annual report. These provide information on corporate taxes paid or provided on the company’s business profits, in the UK and overseas. Employers’ social security costs are also disclosed. But there is no information included on all the other taxes, duties and payments which are deductible in computing business profits and are often called ‘above the line’ taxes.

As a result, there is little data in the public domain on many of the taxes paid by companies. In addition, the disclosures on corporate tax are driven by accounting standards designed to ensure that the financial statements do not overstate the company’s financial results. They do not, for example, provide information on the calculation of corporate tax payments by a company in any particular period. This can provide scope for ill-informed conclusions to be drawn. For example, an Early Day Motion in the House of Commons (tabled but not debated) included a list of companies, which, it was alleged, had paid corporate tax at less than the UK statutory rate and

⁵ Is the tax system a help or a hindrance? CBI, October 2003. The report compared the UK’s business taxes in to those of its five major trading partners – US, Germany, France, the Netherlands and Ireland.

therefore deprived the UK treasury of billions of pounds of tax revenues.⁶

We have not seen the data or analysis on which these allegations are based. We assume however that the information was taken from the companies' published financial statements and a calculation made of current year tax payments to profits. This may not produce a meaningful result, since, for example, profits are adjusted for tax purposes and due to timing of tax payments.

In a series of two articles in the *Financial Times* in July 2004 on the impact of globalisation on corporate tax revenues, John Plender sought to analyse the accounts of a number of UK subsidiaries of foreign based multinationals and draw conclusions about their thin capitalisation and transfer pricing policies. Again the analysis shows the difficulties of using publicly available data (as acknowledged by Mr Plender).⁷ Interestingly a response to the articles in the *Financial Times* Leader column commented:

“National tax authorities may simply find they are unable to keep up with multinational companies' efforts to

move profits to low tax locations – short that is, of driving international business away, which the authorities cannot want to do. But there are increasing offsets to dwindling corporation tax revenues. The UK take from value added tax, income tax and national insurance contributions has surged by between 48 and 66 per cent over the past seven years. These too, are collected from business, and the bigger the company, the more that rolls in. Even if corporation tax dies, the Revenue will get its cut.”⁸

The changing environment and tax authority approach to corporate tax planning has also led to concern by investors. In July 2004 Henderson Global Investors wrote to the chairman of each of the FTSE 350 referring to the changing approach and asking them to answer a number of questions regarding their board's approach to tax.

In a report⁹ summarising the findings, the company concludes that “many boards are not giving tax sufficient strategic attention. Fewer than half the boards of companies responding to the survey have reviewed tax strategically in the last year or adopted a formal tax policy...

“The challenge for boards is to determine how best to achieve the goals of legal compliance, shareholder return, and corporate responsibility. [We] believe it is good practice to formalise the response to this challenge into a documented tax policy and to keep this up to date through regular board-level reviews...

“It is right and proper for investors to seek assurance that risks in this area, just as any other, are being appropriately identified, assessed and managed.”

Increasingly therefore, tax is being regarded as a corporate governance matter for the board rather than as solely a financial or operational matter for the finance director and the head of tax. This clearly creates a challenge given the size and complexity of tax law.

But governments and tax authorities seem increasingly concerned to engage with the board to ensure they understand the company's tax positions and the risks these could carry. The US Senate, for example, recently passed and then dropped a measure which would have required the CEO to personally sign the company's tax return. In the UK, David

⁶ The key elements of Austin Mitchell's two Early Day Motions tabled on 18 May 2004 are as below.

“That this House urges the Government to investigate the activities of Alliance & Leicester, Allied Domecq, Amersham, Barclays, BOC Group, Compass Group, Dixons, GlaxoSmithKline, Hanson, Kelda Group, Lloyds TSB, Northern & Shell, Portland Enterprises, NewsCorp, Prudential, Rolls Royce, Sage Group, Severn Trent, Shell, Virginia Atlantic, Virgin Trains and WPP, all of whom consistently pay considerably less than the 30 per cent rate of corporation tax, thus depriving the UK Treasury of billions of pounds of tax revenues; and further suggests that each company be required to publish a full explanation of why it pays tax at less than the standard rate of corporation tax, as well as listing the tax avoidance schemes used to this end and the sources they acquired the schemes from.”

“That this House urges the Government to investigate the activities of banks and major accountancy and law firms in devising, marketing, promoting, implementing and concealing aggressive tax avoidance schemes which have no commercial substance and whose sole purpose is todeprive the UK Treasury of billions of pounds of tax revenues which in turn forces the Government to curtail social investment and shift the tax burden onto ordinary individuals.”

Mr Mitchell also tabled two Early Day Motions, in very similar terms, on 26 November 2004.

⁷ Counting the cost of globalisation: how companies keep tax low and stay within the law. *Financial Times*, 21 July 2004. A big squeeze for governments: how transfer pricing threatens global tax revenues. *Financial Times*, 22 July 2004.

⁸ Leader column, *Financial Times*, 23 July 2004.

⁹ Tax, risk and corporate governance. Findings from a survey of the FTSE 350. Henderson Global Investors, February 2005.

Garlick, head of HM Revenue and Customs Large Business Service, which deals with the tax affairs of the UK's largest businesses, has looked to the experience of the Internal Revenue Service in the US and the Australian Tax Office and is running a project called 'Tax on the Boardroom agenda'. This includes meeting with senior executives to discuss companies' tax positions. Chris Tailby, who heads the anti avoidance units of HM Revenue and Customs, has suggested that the department will be more inclined to litigate in future and that finance directors could be called to give evidence before the tax tribunal.

Tax is also being seen as a corporate responsibility matter. Companies do of course have a responsibility as good corporate citizens to contribute to the communities in which they operate. Many strive very hard to fulfil these obligations. What is new is the growing link being made between a company's corporate responsibility and their payments of tax.

In a special report in the *Financial Times* on 29 November 2004, Roger Cowe says:

"Now a new issue has emerged which challenges every company, especially multinationals with complex financial structures...

It is tax avoidance – the entirely legal practice of arranging corporate



structures and activities to minimise the tax bill...

But now the Tax Justice Network has put the issue firmly in the context of corporate responsibility...

But this is not an argument about legality, it is an argument about responsibility. And it is intrinsic to corporate responsibility thinking – for example on labour conditions, diversity action or community support – that it is not enough simply to operate within the law.”¹⁰

Companies also have a primary responsibility to their shareholders to manage the business efficiently and to maximise business profits. In this

“In an increasingly global world businesses often have the choice over which countries they carry out their activities in – tax cost is often an important component of that decision.”

John Whiting, tax partner,
PricewaterhouseCoopers

context tax is a business cost and the company has a responsibility to manage their tax costs efficiently. The difficulty may be to reconcile this with the call by campaigners (and to some extent by the Inland Revenue with the new approach of legal but objectionable avoidance) for companies to pay more than is required legally.

¹⁰ Tax avoidance is rising up the ethical agenda. A network of campaigners is arguing that companies should pay what they owe, where they owe it, writes Roger Cowe. Leader column, *Financial Times*, 29 November 2004.

An earlier article in the leader column, *Financial Times*, on 22 November 2004, by the recently appointed Taxation Editor, Vanessa Houlder, reported on the views of the OECD:

Tax avoidance is now firmly on the agenda of the “corporate social responsibility” movement, according to the Paris based organisation for Economic Co-operation and Development.

The OECD's Mr Owens thinks that the emergence of non-governmental organisations intent on exposing large-scale tax avoiders could eventually achieve a change in attitude comparable to that achieved on environmental and social issues. “Tax is where the environment was 10 years ago.”

Leader Column, *Financial Times*, 22 November 2004.

1.2 Purpose and outline of paper

The aim of this paper is to stimulate an informed debate regarding the tax contribution made by companies. Our proposition is that this contribution should be looked at from the point of view of all the taxes to which a company is subject and not just corporate tax on its profits. We call this a company's 'Total Tax Contribution'.

In section 3 of this paper we look at the concept of the Total Tax Contribution, why we believe it better represents a company's tax costs than the disclosures in their annual report and why it may be seen as an appropriate measure of a company's fiscal contribution to the economy. We consider the taxes to which a company is subject, in the context of their economic effects, and take a view on where they fit into a company's economic contribution in taxes. We draw a fundamental distinction between business taxes paid by the company and charged to its profit and loss account, which we believe are the core of its Total Tax Contribution, and business taxes collected by the company on behalf of government, which we consider to be part of its wider economic impact in respect of taxes.

In section 4 we look at the key principles to be decided in calculating the Total Tax Contribution. Aside from corporate tax, information on business taxes paid may not be separately recorded in the company's financial systems and may be difficult to get at. However, we suggest that, if only for internal management purposes, companies should know what they pay.

We seek to provide a broad and consistent framework which companies can use to calculate and communicate their Total Tax Contribution. We believe that it would be helpful to have greater transparency about the types of taxes, as well as the amount of tax, paid by companies and that a common language or framework for this would be useful. This paper discusses the form that such greater disclosure might take and suggests a reporting and communication framework. We recognise that greater transparency can have some drawbacks, not least the amount of work involved in collecting data and reporting on business taxes paid, and that it may lead to greater scrutiny. Nevertheless, we believe that the advantages outweigh the disadvantages. We suggest that the Total Tax Contribution concept could provide a framework for companies to satisfy the desire of stakeholders for more information on taxes and to promote a greater understanding of the taxes companies pay among analysts, investors, financial journalists and employees as well as governments, politicians and tax authorities.

There are a number of different reasons why we believe greater disclosure to be advantageous and there are a number of ways in which a company may wish to report on its Total Tax Contribution; both of which are discussed more fully in section 6. One way to achieve greater transparency and to communicate to socially responsible investors and community stakeholders would be to include information on a company's

Total Tax Contribution in its corporate responsibility report which is increasingly published at the same time as, and forms part of, the annual report. The PricewaterhouseCoopers survey suggests that a small but significant percentage of FTSE 100 companies (14%) currently provide information on the main business taxes paid in their corporate responsibility or sustainability reporting and we expect this trend to grow. 40% of respondents felt that the single most important driver for measuring their company's Total Tax Contribution was, or would be, corporate social responsibility reporting purposes.





“There is room for confusion and misinterpretation over a company’s tax bill, particularly if you look only at the corporate tax. Businesses face a huge array of taxes over and above the tax on their profits. Their contribution to the economy in taxes paid needs to be better understood.”

John Whiting, tax partner,
PricewaterhouseCoopers

The purpose of lobbying the Government, the Inland Revenue and others on this issue would not be to campaign for lower taxes, but to make sure that there is proper understanding of the taxes paid by business so that when decisions are taken on taxes they are taken on the basis of full information.

Another reason for greater transparency would be to counter the worst of the media allegations about corporate tax planning and to promote a more balanced view of a company’s tax contributions. The purpose of lobbying the Government, the Inland Revenue and others on this issue would not be to campaign for lower taxes, but to make sure that there is proper understanding of the taxes paid by business so that when decisions are taken on taxes they are taken on the basis of full information.

Interestingly, there are also emerging pressures on governments to provide clearer disclosure of tax receipts. The OECD’s (Organisation for Economic Cooperation and Development) objectives include high standards of transparency and effective exchange of information on tax matters.

The principles discussed in this paper are of international application. However, tax rules are still specific to each tax jurisdiction and the taxes to which a company is subject will differ from country to country. Therefore, as a starting point, this paper will discuss the principles in the context of the UK tax rules and the UK taxes impacting companies. A next step is to extend the work to taxes in the US, Europe and beyond.

Large companies will often operate in a number of different countries and be managed on a regional or global basis. UK listed groups may well have significant operating activities outside the UK. A company’s Total Tax Contribution is likely to be heavily influenced by the countries in which the company has its major business

operations and this may be more significant in this context than the location of its head office or the country, or countries, in which its shares are listed. The location of the company’s real property and fixed assets, intellectual property, human capital, transaction flows and customers are likely to be more influential in the make up of its Total Tax Contribution. A UK listed company for example, which has a major part of its business assets, operations and employees outside the UK, could have a UK Total Tax Contribution which is smaller than a foreign based company with very significant business assets, operations and employees in the UK.

Business taxes are of course a significant factor in the choice of business location. However, international comparisons, in terms of the Total Tax Contribution, are difficult because of the lack of data. At present there are no reliable data on the total contribution of large businesses to the UK Exchequer tax receipts. Information is simply not kept in this format either by companies or by the UK Exchequer. However what is clear is that the business contribution to UK tax receipts is far greater than the approximate 8% which represents corporate tax.

The CBI report (*Is the tax system a help or a hindrance?* October 2003) looked at two categories of business taxes. ‘Main business taxes’ comprised corporate tax on profits, employers’ social security payments, business property rates, half of road fuel duties and non household vehicle

excise duties. The CBI analysis showed main business taxes as 9.9% of GDP in 2000 and as 34.4% of 'would be profits' (defined as profits gross of depreciation plus taxes unrelated to profits). The CBI report compared the main business tax burden in the UK with that of its five major business partners – the US, Germany, France, the Netherlands and Ireland – both as a percentage of GDP and relative to profits. They found that the burden in the UK was noticeably higher than in Ireland,

a little higher than the US and the Netherlands, broadly on a par with Germany and significantly lower only than France.

'Minor business taxes' comprised stamp duty on business property, landfill tax, one-third share of insurance and air passenger taxes, and regulator fees (which count as taxes on the OECD basis). The CBI analysis shows total business taxation (including minor business taxes) as 10.2% of GDP in 2000.

In the PricewaterhouseCoopers survey we asked respondents what would be the estimated tax rate of their company if this was calculated as the total business taxes paid as a percentage of profits (before these taxes). 57% estimated that their 'total' tax rate would be in excess of 40% and 30% estimated that it would be in excess of 50%. These results should be treated with caution, since we did not provide respondents with a formula to apply and in many cases they might not have full information on their business taxes paid. Nevertheless, the results indicate that the majority of respondents consider their payments of business taxes to be considerably in excess of the corporation tax rate of 30% on profits.

The research for this paper has been carried out by a team made up of specialists from different parts of the PricewaterhouseCoopers business, including the PwC Economics Unit, the Sustainability Business Solutions team (which assists clients on corporate responsibility matters, including reporting), as well as the Tax practice. Our thinking has been informed by our survey of the heads of tax of 70 of the largest companies doing business in the UK. We have also had the benefit of insight and assistance from a smaller group of companies, both in discussing the principles and also seeking to apply those principles to their own tax positions.

In writing this paper it is our aim to bring the concepts to a wider group of interested stakeholders and to stimulate debate.



2. Survey of the heads of tax of large companies

2.1 Introduction

This section summarises the responses to a PricewaterhouseCoopers survey of the heads of tax of some of the largest companies doing business in the UK, which was carried out between October and December 2004.¹¹ Participants were asked to complete a questionnaire. The survey was designed with the aim of being quick and easy to complete whilst not requiring time consuming extraction of data. Therefore, although the conclusions are high level, they do show how the issue of a company's Total Tax Contribution is viewed by some of the UK's most influential companies.

A copy of the questionnaire used is shown in Appendix 1.

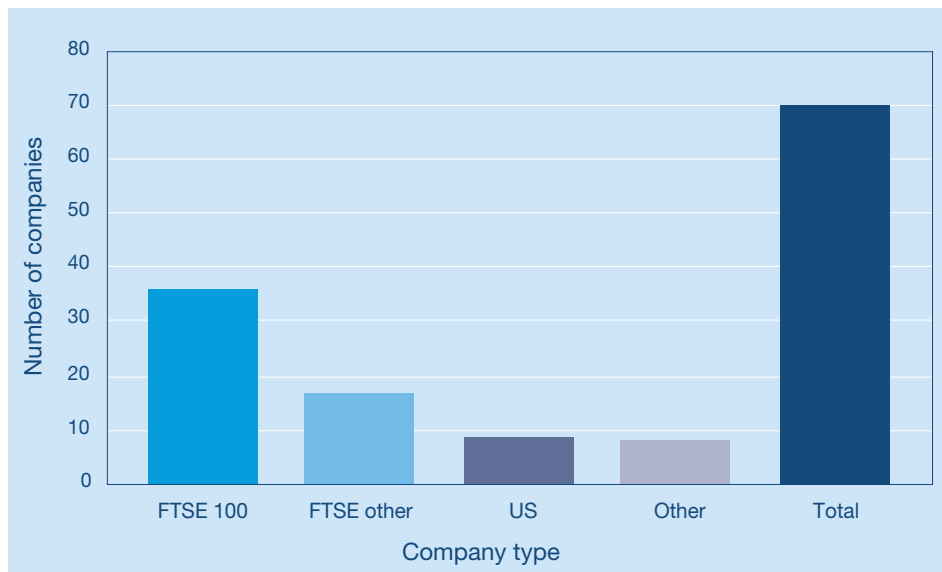
Key points

- 70 companies completed the survey, including 36 FTSE 100. The responses can therefore be said to represent the views of large companies on this issue, particularly the FTSE 100.
- 99% of respondents feel that there is insufficient understanding among investors, employees and stakeholders about a company's economic contribution in taxes.
- 97% of respondents would be concerned about negative press coverage of their company's corporate tax planning.
- About a quarter of companies responding (26%) do not pay corporation tax in the UK. Therefore, if the company's contribution to the public finances is measured only by corporation tax, these companies are not contributing.
- 80% collect some data on other business taxes paid (i.e. apart from corporation tax). However there is no widespread or systematic collection of data.
- A small but significant percentage of FTSE 100 companies (14%) provide information on the main business taxes paid in their corporate responsibility or sustainability reporting.
- 74% of respondents feel it would be helpful to have greater visibility around the business taxes paid by their company.
- 57% of respondents estimate their Total Tax Contribution including the main business taxes, as in excess of 40%. 30% estimated it as in excess of 50%.
- 64% of respondents feel that the development of an accepted framework for reporting the company's total tax bill would be a positive step.

¹¹ This section incorporates aggregated data from various respondents. PricewaterhouseCoopers LLP ("PwC") has not independently verified, validated, or audited the data received from such third parties. PwC makes no representations or warranties with respect to the accuracy of the information contained in this section, and in no event will PwC, its related partnerships or entities, or the partners, agents or employees thereof be liable to the user (subject to any agreement with the user to the contrary) or to any third party (including any of the user's clients) for any inaccuracy of information contained in this section (including any errors or omissions in its content, regardless of the cause of such inaccuracy, error or omission), for any usage of, decision made or action taken in reliance on the section, or for any consequential, special or similar damages even if advised of the possibility of such damages. This section is not intended to give legal, tax accounting or other professional advice. No user should act on the basis of any matter contained in this section without considering and, if necessary, taking appropriate professional advice on their individual requirements.

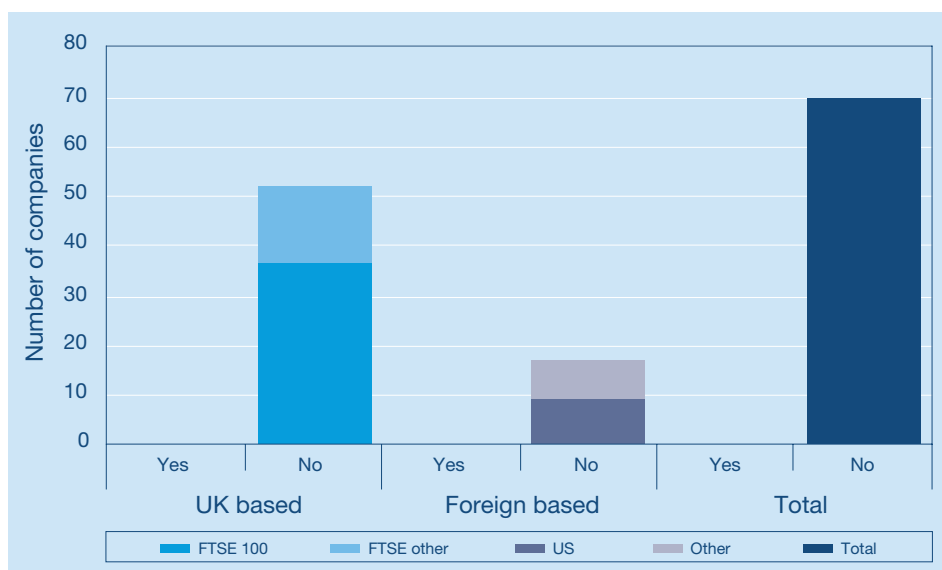
2.3 Summary of survey responses

Number of responses by company type



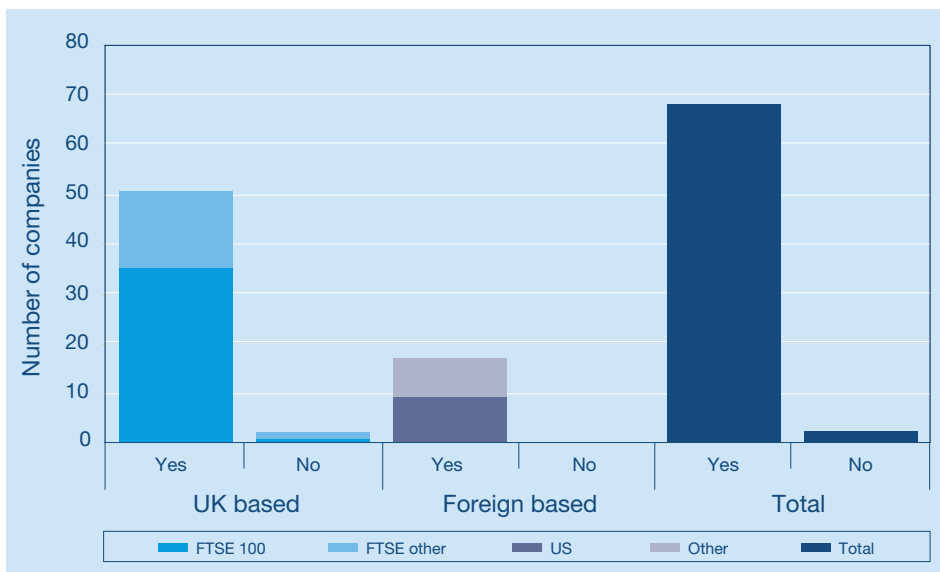
A total of 70 companies responded to the survey, showing the high level of interest in this issue. Of these, 53 are UK based (including 36 FTSE 100 companies) and 17 are foreign based. The responses can therefore be said to represent the views of large companies on this issue, particularly the FTSE 100. A consistent colour code has been used throughout this section, in order to analyse the data by company type.

Is there a sufficient understanding amongst investors, employees and stakeholders about the company's economic contribution in taxes?



All but one of the companies (99%) felt there was insufficient understanding among investors, employees and stakeholders about the company's economic contribution in taxes. One company said they had no view on the issue.

Would you be concerned about negative press coverage of your company's corporate tax planning?



Only two companies would not be concerned about negative press coverage of their corporate tax planning. One of the two commented that they would only be concerned if they avoided all taxes since some planning should be acceptable. The other commented that they would be concerned if they were caught in tax evasion, or a failed tax avoidance scheme, but would not be greatly concerned if they received publicity for successful tax planning.

Of the companies who were concerned about negative press coverage (97%), two commented that negative coverage would not change their approach to tax planning. Another commented that this concern is what the Inland Revenue and the UK Government are banking on and deliberately playing on in their 'name and shame' campaigns on tax planning.

Does your company pay corporation tax in the UK?

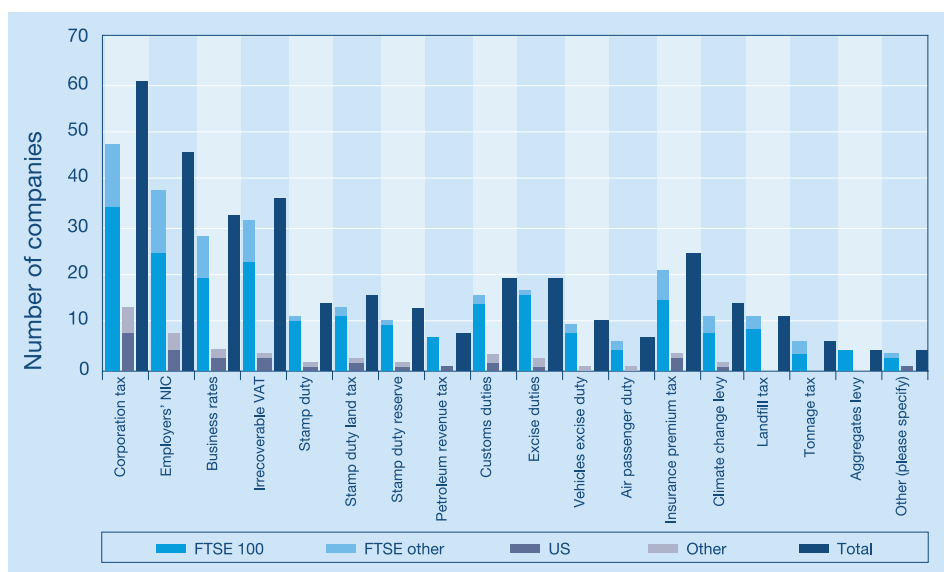
About a quarter of companies responding (18 companies, 26%), do not pay corporation tax in the UK. Of these, 12 are UK based and six are foreign based. It is not possible to tell from the responses whether this is due to commercial operating losses or tax losses arising from, for example, interest deductions.

If the company's contribution to the public finances is measured only by corporation tax these companies are not contributing.

Does your company collect data on the amounts of business taxes paid in the UK?

Seven of the companies responding (10%) do not collect any information on any business taxes paid in the UK.

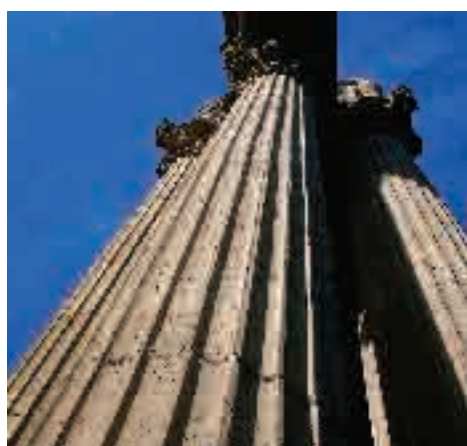
Breakdown of business taxes for which data collected



There is then a decrease in the number of companies collecting data on stamp duties, indirect taxes (customs and excise duties, air passenger duty, insurance premium tax) and sector taxes and environmental taxes (PRT, landfill tax, tonnage tax, aggregates tax and climate change levy). Some decrease might be expected since these taxes are not always applicable. Note that some companies responded with an overall 'yes' without indicating which the applicable taxes were. The responses on these 'smaller' taxes might therefore be overstated in our summary.

Five companies mentioned other industry specific taxes.

Overall, therefore, there appears to be no widespread or systematic collection of data on business taxes paid.



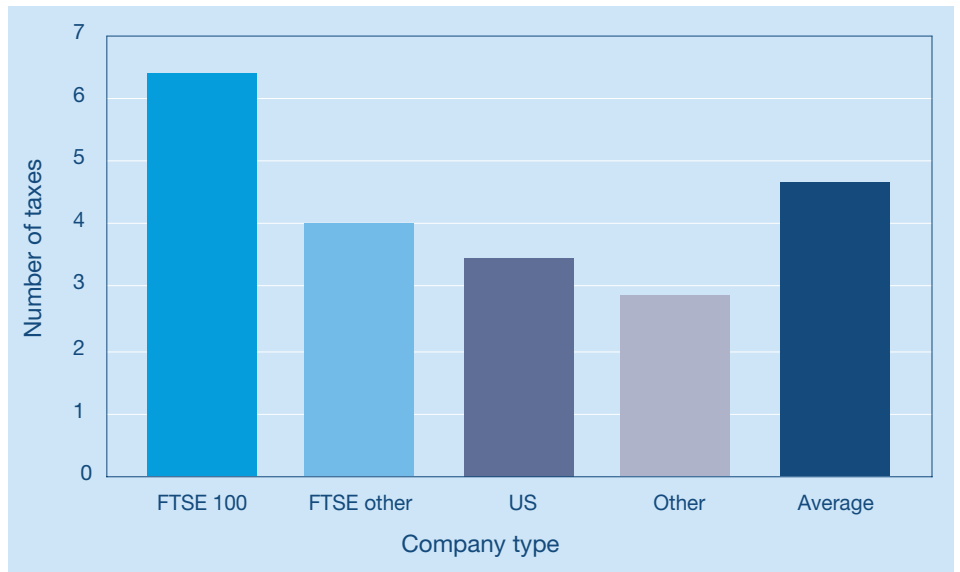
A further 10% of the companies responding (seven companies) only collect information on corporation tax paid.

Of the 56 companies (80%) collecting data on other business taxes, 46 (66% of the total responding) collect data on employers' NIC, 36 (51%) on irrecoverable VAT and 33 (47%) on business rates. These percentages might be felt to be low given that these three and corporation tax were most frequently mentioned as the most important business taxes.

A further breakdown of the responses suggests that it is the largest UK based (FTSE 100) companies which collect data on the 'smaller' taxes. As above, this assumes that our reading of responses on these 'smaller' taxes is accurate.

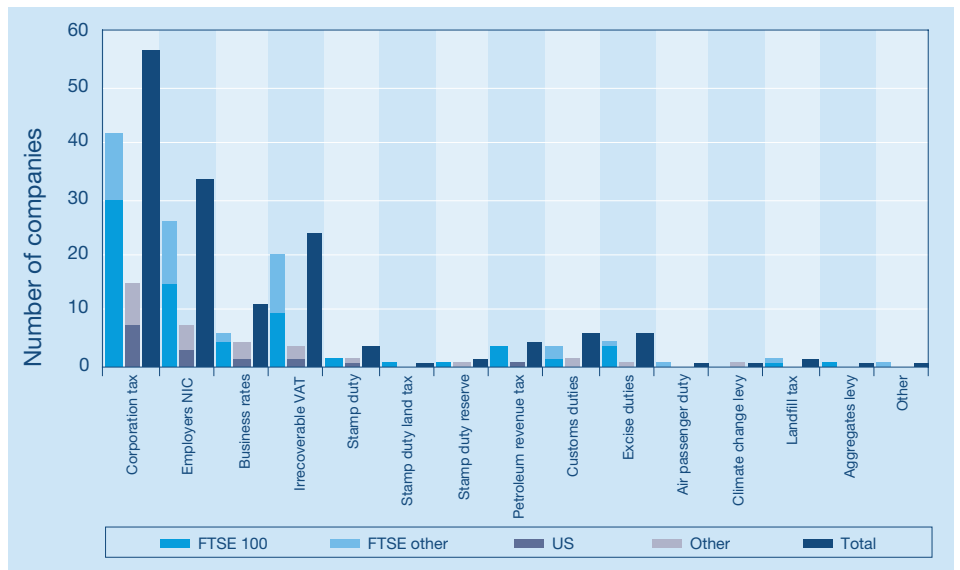
Average number of taxes by company type

On average, FTSE 100 company respondents collected data on 6.4 taxes, other FTSE companies collected data on 4.0 taxes, US based companies collected data on 3.4 taxes and other foreign based companies collected data on 2.9 taxes.

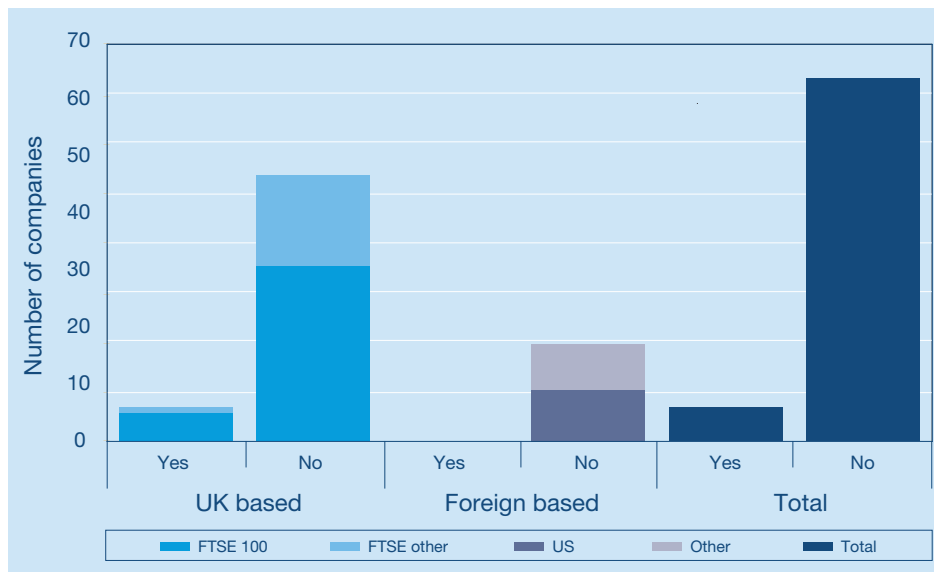


Which business taxes are the most important for your company?

Corporation tax was given as an important business tax by 57 (81%) out of the 70 companies responding (not withstanding that 10 of these 57 do not pay corporation tax). After corporation tax, the most frequently mentioned were employers' NIC (34 companies, 49%), irrecoverable VAT (24 companies, 34%) and business rates (11 companies, 16%).

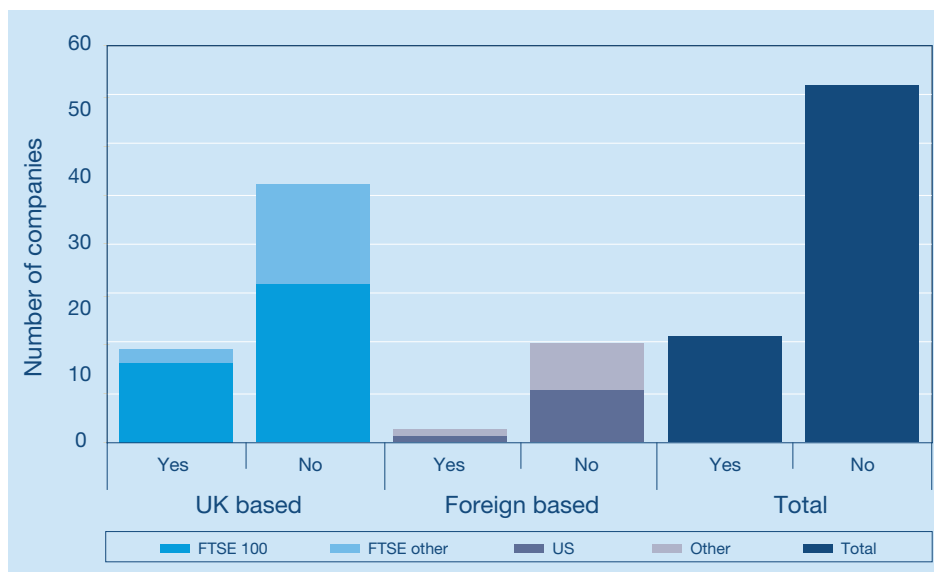


Does your company include information on the main business taxes paid (including corporation tax) in its corporate responsibility or sustainability reporting?



Six companies (five FTSE 100 and one other FTSE) provide information on the main business taxes paid in their corporate responsibility or sustainability reporting. This represents a small but significant percentage (14%) of the FTSE 100 responding. One further FTSE 100 company commented that this is currently being considered.

Does your company provide information in any form on the main business taxes paid to investors, employees, government or other stakeholders?



Around a quarter of companies (16 companies, 23%) provide information in some form to investors, employees, government and other stakeholders with a variety of uses being mentioned.

In addition to corporate responsibility reports, other responses specifically mentioned providing information in the annual review (as opposed to financial statements), when tendering for Government contracts, briefing the board and press office, providing information to overseas industry bodies and governments, and briefing the Inland Revenue.

This relatively small percentage of companies and the different ways in which the information is being used,

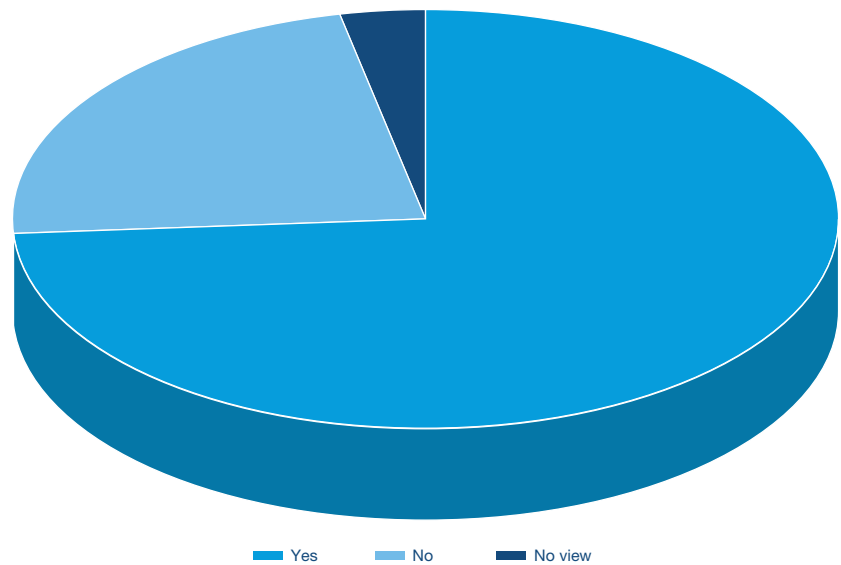
reinforces the lack of information in the public domain on the amounts of tax large companies pay.

Note that a further six companies responded 'yes' to question seven but then referred to the information being given in the financial statements. These have been reclassified as 'no'.



74% felt it would be helpful to have greater visibility around the business taxes paid by the company.

Would it be helpful to have greater visibility around the business taxes paid by the company?



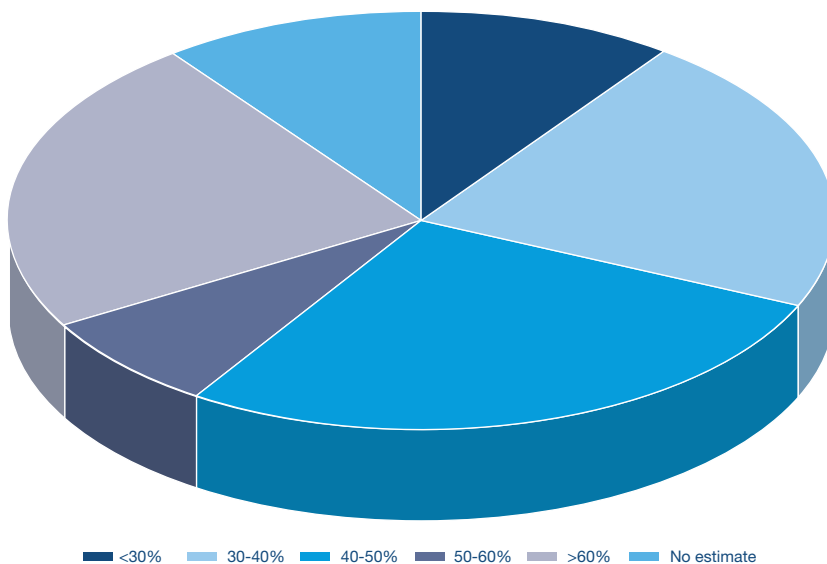
Fifty two companies (74%) felt it would be helpful to have greater visibility around the business taxes paid by the company. Sixteen thought it would not be helpful and two had no view. Specific points mentioned by the 'nos' were the difficulty in getting data (two companies), the worry that greater visibility would highlight planning for business taxes and thus be counter productive (one company) and the view that tax is a private matter for the taxpayer provided that they comply with the law (one company).

What would be the estimated tax rate of your company if this was calculated as the total business taxes paid as a percentage of profits (before these taxes)?

Sixty two companies (89%) gave an estimate of their tax rate (calculated as the total business taxes paid as a percentage of profit before these taxes) using the complete range provided (from <30% to >60%). Forty companies (57%) estimated their tax rate as in excess of 40% and 30% estimated it as in excess of 50%. Eight companies (11%) did not provide an estimate.

These results should be treated with some caution since we did not provide respondents with a formula to apply and, from the responses to earlier questions, many respondents do not have full information on their business taxes paid. Nevertheless, the results indicate that the majority of companies responding consider their payments of business taxes to be considerably in excess of the corporation tax rate of 30% on profits.

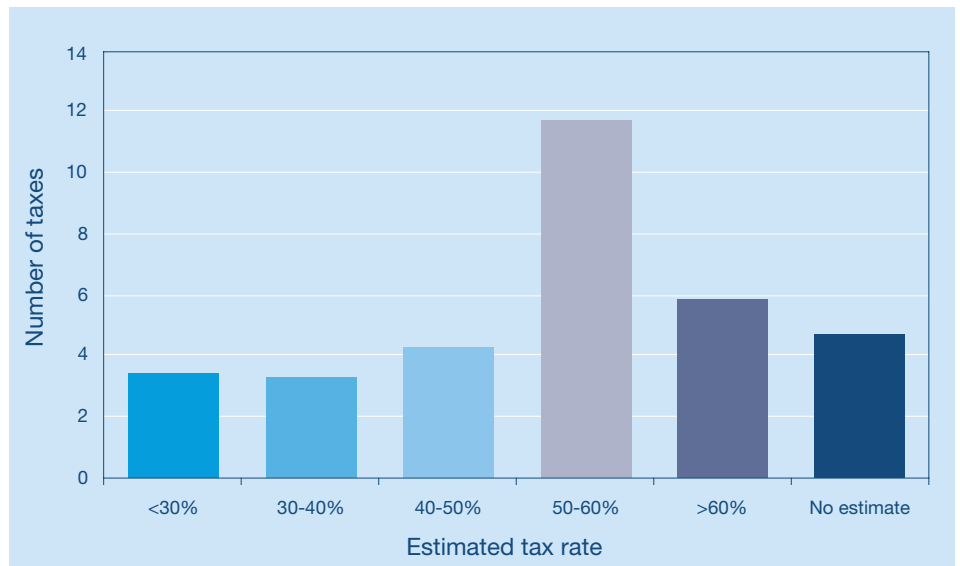
18 companies responded that they do not pay corporation tax in the UK. Of these, five felt unable to estimate their total tax rate (three referring to losses). Of the remaining 13, four estimate the total tax rate as <30%, two as 30-40%, two as 40-50%, one as 50-60% and four as over 60%.



Forty companies (57%) estimated their tax rate as in excess of 40%

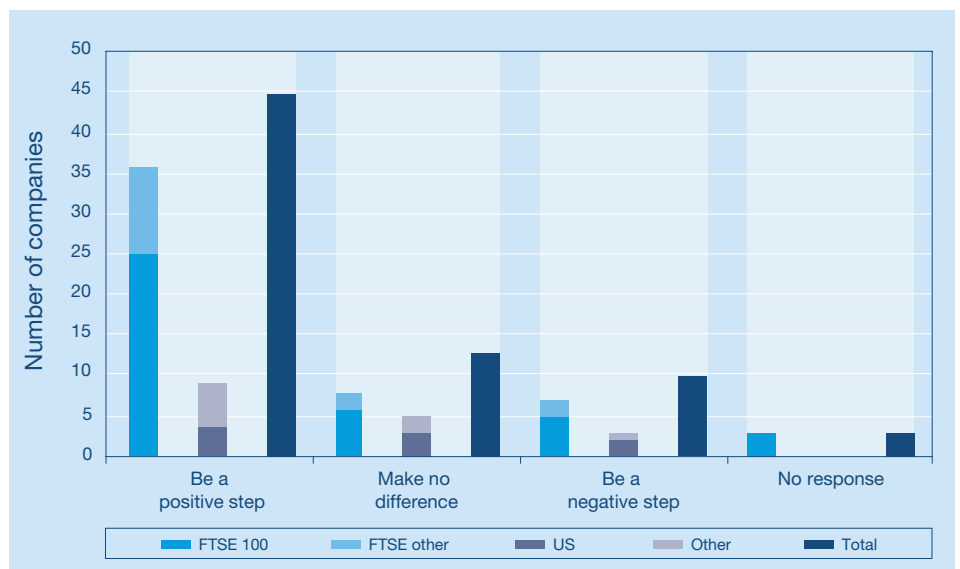
Average number of taxes for which data collected per company in each tax bracket

There appears to be a correlation between the collection of data on business taxes paid and the size of the estimated tax rate. On average, the 21 companies estimating their tax rate at >50% (50-60% or >60%) have data on more business taxes paid than those who estimate their total tax rate below 50% (<30%, 30-40%, 40-50%). This could suggest that, in the absence of data, companies are underestimating their payment of business taxes.



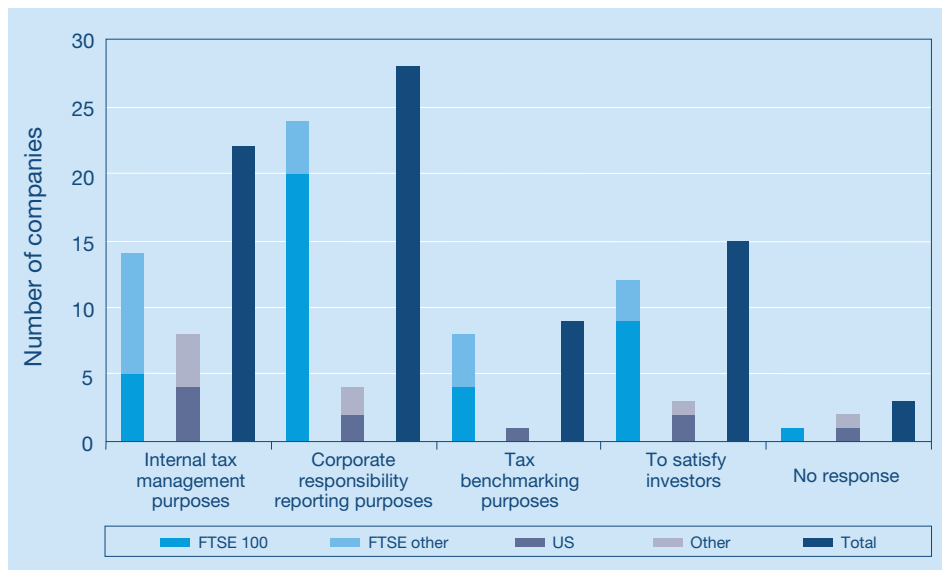
Would the development of an accepted reporting standard for your company's Total Tax Contribution be a positive step, make no difference or be a negative step?

Forty five companies (64%) thought that the introduction of a reporting standard for a company's Total Tax Contribution would be a positive step. Only 10 (14%) thought it would be a negative step. Of these, three were opposed to another set of reporting rules and three were concerned about the amount of work involved. One company which felt it would be a positive step commented that it would make no difference to the view of the Inland Revenue in targeting planning structures it did not like.



64% thought that the introduction of a reporting standard for a company's Total Tax Contribution would be a positive step.

In your view, what is/would be the single most important driver for measuring your company's Total Tax Contribution?



The single most important driver for measuring a company's Total Tax Contribution was given as 'corporate responsibility reporting purposes' by 28 respondents (40%), including 20 FTSE 100 companies. 'Internal tax management purposes' was given by 22 respondents (31%). (Note: five companies gave more than one as the most important driver.)



Other comments

Fifteen of the companies responding provided additional comments. These included:

- Concern that the Government is portraying a negative image of corporate Britain as tax avoiders in order to support their own political agenda and ultimately to justify increasing business taxes.
- If the CBI or other bodies wish to press the political case for lowering the tax burden on companies, the data should be collected for that purpose.
- The competitive pressures on business and the need to continue to plan for taxes, whilst improving the public image.
- Whether a company economically bears the business taxes or whether they are simply an administrative burden.
- The role of a company in collecting taxes on behalf of Government such as PAYE, employees' NIC, VAT and where these fit into Total Tax Contribution.
- The indirect benefit of, for example, employee taxes and output VAT arising from a company's activities and where these fit into the Total Tax Contribution.
- Other payments to government (not strictly speaking taxes) and where these fit into Total Tax Contribution.
- Concern over the difficulty and the amount of work involved in collecting and publishing data on business taxes paid.
- A suggestion that information would need to be on an international basis to be most useful.



3. What do we mean by the company's Total Tax Contribution?

3.1 Introduction

Companies pay corporation tax on their profits. But corporation tax (or its equivalent in other countries) is not the only tax that is levied on companies. Social security contributions (national insurance in the UK) are a feature of all developed countries' tax systems and add significantly to business tax costs. In the UK, the contribution overall in employers' NIC is comparable to that of corporation tax (or was until the recent downturn in corporate profits and increase in NIC rates). But in countries such as Germany and France, the contribution is vastly higher.

This is by no means the end of the story. When considering the tax burden on business we also have to look at such things as business property rates and road fuel duties (a significant proportion of which are paid by business). There will also be irrecoverable VAT for many businesses and other more specific business sector taxes such as petroleum revenue tax. Attempting to add the figures together to calculate the total business tax contribution is difficult and the data is not easily available. There are also arguments as to what exactly should be included. But the result should be that there is a clearer picture of what a company contributes in taxes. It will also show that the questions of whether a country has a low tax rate when compared to others, or whether an individual company has a low rate when compared to the statutory rate, are far more complex than simply comparing headline rates.

Key points

- There are many taxes that a company is involved with.
- These can be categorised into taxes borne and taxes collected.
- Taxes borne will be the core of the Total Tax Contribution.
- The administrative burden of collecting taxes is significant and should be highlighted.
- Taxes collected should be included in wider reporting of the economic impact of tax payments as should other payments to government.

This section will look at the potential make up of a company's Total Tax Contribution. It will consider the taxes to which a company is subject and take a view on where they fit into the Total Tax Contribution. The economic impact of particular tax costs is likely to vary from company to company depending on such factors as the sector in which the company operates or the company's business model. Therefore each company will ultimately need to take a view on what elements of its own total tax costs it wishes to highlight. However, we seek to provide a broad and consistent framework, which companies might use. In section 6 we outline a possible reporting model.

Multinational companies obviously operate across a number of countries and in concept the Total Tax Contribution should be calculated on an international basis. However, as an initial step we will look at the principles in relation to the taxes imposed in the UK. This is partly for practical reasons as an international exercise would be much wider in scope. However, it should provide 'proof of concept' in relation to the principles. The next step is to extend the work to taxes in the US, Europe and beyond.

It is also worth bearing in mind that companies will wish to focus on different elements of their Total Tax Contribution. Any focus on tax paid in an individual country will need to highlight the taxes paid there (UK taxes for highlighting to the UK for example). The wider, global contribution will also need demonstrating to show (say) that



low UK taxes are balanced by high taxes elsewhere. Thus it would be wrong to proceed on the basis that, in using the Total Tax Contribution approach, only global tax data will be relevant.

3.2 What is a tax?

An initial question to consider is ‘what is a tax?’. Although that might seem obvious, there are many payments to government that a company may make that would in many ways fit the general working definition of a tax. That is, something that is paid by individuals or business to government (central or local) to fund government expenditure.

As a starting point, we suggest it may be appropriate to exclude payments to government which result in a return of value to the company or for a right or asset which is used in the business. This would include for example rents and license fees. We accept that in a general sense it could be argued that a company receives something of value (i.e. public services) in return for all its tax payments (e.g. vehicle excise duty for use of the roads). However another principle of taxes is that they are not generally hypothecated to particular expenditure or services. We do not, therefore, accept this extended argument.

In defining a tax, there is also an attraction in matching the definition with the UK Government’s categorisation of its receipts. Appendix 2 shows the UK Government’s projected receipts for 2004-05. What is noticeable is that there is a line drawn at net taxes and social security contributions of £425.5bn. Below this is a projected £25.5bn ‘other receipts’ to reach total projected receipts in 2004/05 of £451bn. This extra figure contains rents and licence fees. So, in line with the ‘value received’ argument, these are not ranked by us as taxes.

We therefore take the list of taxes included in the UK Government’s net taxes and social security contributions as our starting point for the Total Tax Contribution. However, we understand that in some cases other payments can be substantial and have a significant impact on the costs of the paying company and on government receipts. There is a need therefore for some companies to highlight in their reporting the economic impact of other payments to government. Our framework provides this flexibility and enables

a company to report on its impact in taxes under two distinct headings. Firstly, the company’s Total Tax Contribution, and secondly the company’s wider economic impact in respect of taxes.

In some cases, companies may also receive payments from governments by way of subsidiaries or grants. Such receipts do not meet our definition of a tax. However, we suggest companies should include these in the wider reporting of the economic impacts of payments to government.

We have considered whether environmental taxes, such as climate change levy, should be excluded from the company’s Total Tax Contribution. The argument here would be that these are taxes for ‘bad behaviour’ i.e. use of limited natural resources. However we do not think exclusion would be appropriate. Although the calculation method is based on environmental issues, environmental taxes meet our definition of taxes and the funds raised are not hypothecated to fund environmental expenditure.

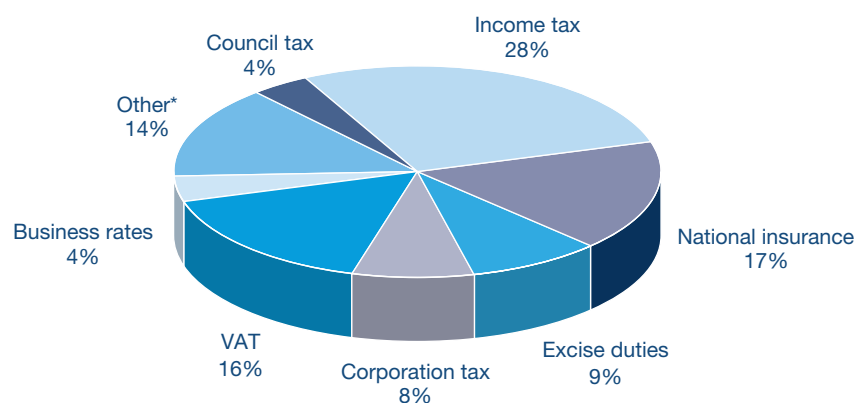
An initial question to consider is ‘what is a tax?’. Although that might seem obvious, there are many payments to government that a company may make that would in many ways fit the general working definition of a tax. That is, something that is paid by individuals or business to government (central or local) to fund government expenditure.

3.3 How much revenue do business taxes generate for the public finances?



Appendix 2 contains a listing of the UK taxes and their projected current yield. The Government's tax receipts are expected to amount to 38.7% of GDP in 2004-05. Figure 1 shows the projected breakdown of Government tax receipts by source as percentages. It is evident that corporation tax receipts account for only a small proportion of Government tax revenues (around 8%). Of the other taxes impacting business discussed in this paper, important sources of revenue include VAT (17% of receipts), NI contributions (employers' and employees' contributions are 18%) and business rates (4.5% of receipts).

Figure 1: Government tax receipts by source (% of receipts)¹²
Government receipts by function 2004-2005 (projected)

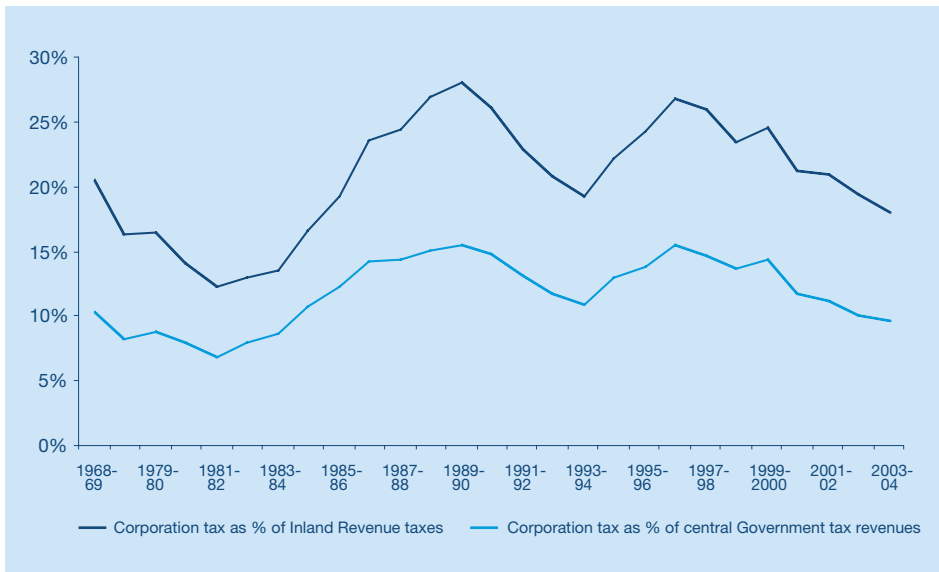


**Other receipts include capital taxes, stamp duties, vehicle excise duties, and some other tax and non-tax receipts – for example interest and dividends*

The importance of tax revenues from different taxes has varied over time. Many sources are cyclical in the sense that the revenues generated are closely linked to broad economic conditions. This is especially true of corporation tax where, as figure 2 (opposite) illustrates, the yield is highly cyclical since it depends on three factors: the pace of economic growth, the level of corporate profitability and the rate of corporation tax.

¹² Source: HM Treasury.

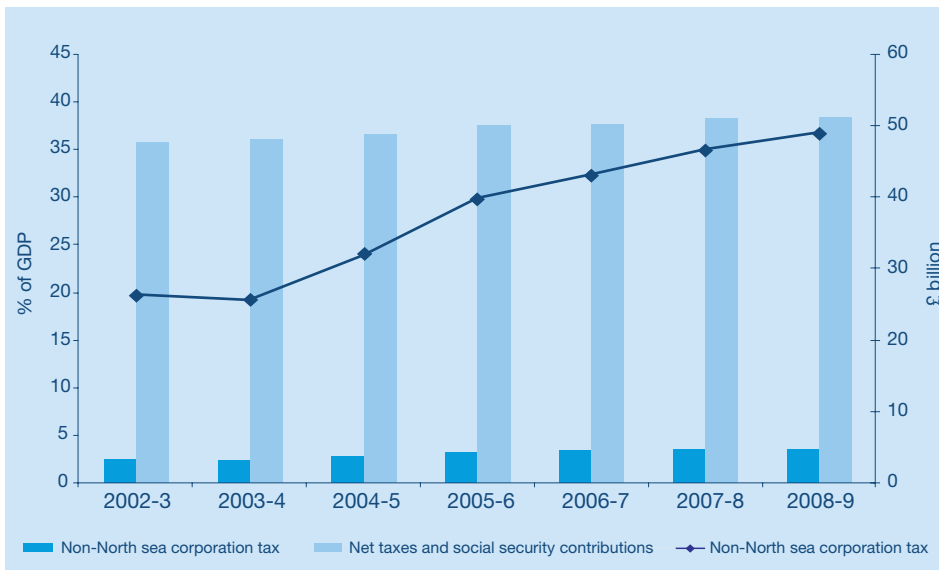
Figure 2: Share of corporation tax receipts in total Inland Revenue and Customs and Excise tax receipts (% , 1968-9 to 2003-4)¹³



Looking ahead, recent projections by HM Treasury indicate that they expect revenues from corporation tax to increase from the estimated 2.3% of GDP in 2003-04 to 3.4% by 2008-09 (see figure 3). This projected trend is significant because of its implications for the productivity and competitiveness of UK based business.

Looking more widely, the CBI report projected UK main business taxes as 8.9% of GDP in 2002-3, 9.1% in 2003-4 and 10.3% in 2004-5. Main business taxes comprised corporation tax, employers' NIC, business rates, half of road fuel duties and non household vehicle excise duties.

Figure 3: Projected corporation tax revenues¹⁴



¹³ HM Treasury.

¹⁴ HM Treasury.

3.4 What are the business taxes to be included in the Total Tax Contribution?

A fundamental issue which shapes the concept of the Total Tax Contribution is the ultimate incidence of the different taxes which companies pay to the Exchequer. Are these borne by the company or are they passed onto and borne by for example its customers and employees? This is a matter of great debate.

In its analysis of the business tax burden, the CBI has applied a wide ranging definition of business taxes which includes not only corporation tax but also other taxes on property (e.g. business rates and stamp duty), transport (e.g. vehicle excise duty and air passenger taxes) and employment (e.g. employers' NIC).¹⁵ This accords

with our proposition that in principle the Total Tax Contribution is just that – a total of all taxes paid by a company. However, it can be argued that the final incidence of many, if not all, of these taxes is passed on to the company's customers and employees rather than their owners. As such, it is questionable whether or not they should be regarded as business taxes.

As a starting point, most will accept that the scope of business taxes should extend to cover those taxes which are levied directly on the company's profits. These are corporation tax and other corporate taxes on profits, for example windfall taxes. These taxes directly affect



¹⁵ The CBI report categorises business taxes into main business taxes and minor business taxes.

the amount of profits available to a company after tax for re-investment or for payments to shareholders.

Further, the decisions of potential investors, including entrepreneurs, direct shareholders and those savers who invest in the corporate sector through the financial institutions, can be affected by aspects of the tax system. For example, investors' incentive to support (new) business activity and their willingness to reinvest in the UK business sector may both be affected by the impact of other business taxes as well as corporation tax (as may the decision on location of the investments).

As such, there is a case for treating those taxes which affect investors' behaviour as part of the broad definition of business taxes.

The case for extending the scope of the definition of business taxes beyond corporation tax to 'above the line taxes' is less clear cut once their final incidence is considered.

For example, some analyses include employers' NIC as a business tax on the grounds that, at least in the short-term, an increase is difficult to shift to employees through lower wages and salaries. Consequently, changes can affect business profits and, hence, investment decisions. It is argued by many, however, that in the longer term the incidence of an increase in employers' NIC is likely to shift to employees in the form of lower real wages and/or fewer jobs.

Likewise, the ultimate incidence of taxes on business property (e.g. business rates) can be expected to fall on the owners of the land, who need not be the business occupants (unless they also own the land). Similarly, it is questionable whether the taxes paid by business in relation to transport (e.g. road fuel duty and vehicle excise duty) are all ultimately

borne by the company or passed onto their customers.

This analysis can therefore extend to categorise the taxes paid by the company in relation to their argued final incidence as:

- those on capital (e.g. corporation tax);
- those on people (e.g. employers' NIC);
- those on the product (e.g. most duties);
- (possibly) other.

We recognise these possible categories and therefore include in figure 4 (on page 29) a suggested allocation of the taxes under the above headings. We take the view, however, that in looking at a company's contribution to the public finances it is appropriate to include in the Total Tax Contribution those taxes whether above or below the line which are paid by and immediately borne by the company regardless of their arguable final incidence.

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3.5 Taxes borne v taxes collected

When considering which taxes meet the criteria of those which are paid and borne by a company, we suggest it is appropriate to look at the taxes which are charged to the company's profit and loss account. In other words, taxes in the UK impact on the company in different ways:

- (i) Tax paid and borne, or tax suffered – the amount of tax that a company pays that becomes a charge to the profit and loss account.
- (ii) Tax collected/paid over – the taxes that the company in effect administers on behalf of the tax authority; in principle there is no tax cost to the business of paying these taxes, only an administrative cost of collection and management.

The first would form part of the company's Total Tax Contribution; the second would not, although we consider the administrative costs of collection below. The second would, however, form part of the wider reporting of the economic impacts of the company's tax payments.

It would be possible to consider taxes in a third way, namely tax related to the added value generated by the company's business. The argument would be that were it not for the company's business activities, these taxes would not arise. In some ways, this is a compound of the two categories above in that it could encompass tax on profits (e.g. corporation tax in the UK) as well as tax collected, for example VAT output tax less VAT input tax. The argument could be extended to PAYE collected by the company, on the grounds that without the company's business there would be no jobs and therefore no

employees' personal tax; or even to tax payment by suppliers, on the grounds that the company is supporting its suppliers' businesses.

In our analysis of the Total Tax Contribution, we prefer an approach which looks at taxes borne by the company and charged to the profit and loss account. However, we recognise that in wider reporting on the economic impacts of its activities, companies could include these indirect economic impacts and highlight this third way of viewing their tax payments.

We have also considered whether a distinction should be drawn between corporate tax on profits and the other 'above the line' business taxes, on the basis that above the line taxes are deductible in computing the corporate tax contribution. On this analysis above the line taxes would be included in the company's Total Tax Contribution on an adjusted net after tax basis (i.e. at 70%). We reject such a distinction. The concept of the Total Tax Contribution is centred on the company's payments of taxes and it would not be appropriate to distort payments in this way. In addition, the argument could be extended to say that if the above the line taxes were not deductible the corporate tax bill would be higher.



3.6 Categorising the taxes

The taxes under consideration can be categorised between tax borne (split: capital/people/product/other) and tax collected as follows:

Figure 4: Taxes paid and borne

	Capital	People	Product	Notes
Corporation tax	✓			
Irrecoverable VAT	✓*			
Stamp duties	✓			
Employers' NIC		✓		
PRT	✓			
Customs duties			✓	
Excise duties			✓	Own consumption – primarily fuel
Betting duties			✓	
Business rates	✓*		✓	
Vehicle excise duties			✓	
Air passenger duty	✓*			Own travel
Insurance premium tax	✓*			Own policies
Landfill tax			✓	
Climate change levy			✓	
Aggregates levy			✓	
Congestion charge	✓* ✧			

Notes

*These taxes are 'general business operations' so arguably 'other' rather than 'capital'. Some (e.g. air passenger duty) are arguably partly at least allocable to 'product taxes'.

✧ Not included in Government receipts, so arguably not a tax.

Although, following the analysis in 3.4 we have shown a possible allocation of the taxes borne into capital/people/product, we do not consider this to be an essential element of the Total Tax Contribution.

Taxes collected

PAYE } NICs }	on employees' pay
VAT	a near universal tax
Excise duties	for producers
Air passenger duty	for airlines
Insurance premium tax	for insurers
Construction industry scheme	for construction companies
Interest withholding tax	for banks

3.7 The administrative costs of taxation

As noted above, there are two distinct ways in which tax impacts on a company. Whilst we are primarily concerned with the taxes that a company suffers and charges to its profit and loss account, we also need to consider the administrative cost to the company. In simple terms, tax costs include both the amount written on the cheque payable to the tax authorities and also the cost of working out how much to put on the cheque. The administrative costs will relate both to the taxes suffered by the company and to the taxes collected by the company.

The administrative costs for taxes borne by the company represent the cost of complying with the law in relation to the self assessment of its own tax affairs and will not form part of the company's Total Tax Contribution. However, there is an argument for saying that in collecting taxes on behalf of government, the company is defraying public expenditure. On this analysis, and providing the costs are significant and can be reliably measured, the administrative costs of collecting taxes will form part of the company's Total Tax Contribution.

In the 1990s, Bath University carried out a well-regarded study into the costs for employers of complying with their responsibilities to employees in terms of tax and NIC¹⁶. At the time, the costs for a large business were relatively modest and were accepted as balanced by the income generated on retained PAYE/NIC funds prior to their being paid over to the authorities (costs for small businesses were quite

significant and undoubtedly exceeded any payback from PAYE/NIC balances).

However, since then, further obligations and therefore costs have been imposed on companies, such as the introduction of self assessment and tax credits and a drop in interest rates. It seems likely therefore that the costs now outweigh the cash flow benefits. A recent Parliamentary Committee report recognised evidence that costs had risen and recommend that the Bath University study should be updated.¹⁷

Arriving at the cost of compliance for taxes collected for a particular company will inevitably involve a large degree of subjectivity. A probable approach to follow would be to look at headcount and try to estimate the proportion of each individual's time spent on administrative aspects related to the tax system. There will presumably be people involved in this work in both the head office and the operating companies in at least the following functions:

- tax
- accounts
- payroll
- various commercial departments (e.g. purchasing and invoicing functions)

Even within the tax department it will not be a case of simply calculating the costs of the entire headcount. At this stage we are looking for a UK figure and there would also arguably be a split between compliance and

planning. Within the accounts department there would have to be an estimate of time spent on accounting for taxes; within payroll, on time devoted to PAYE and NIC, as opposed to other aspects; similarly the various commercial departments may be able to estimate time spent.

The net result may be some estimates of time which could then be extrapolated by way of salary and overhead to give a rough figure for the administration cost for tax collection. There may then need to be some estimate of systems costs including the additional costs that go into running, or indeed creating, systems that are required for tax purposes. The obvious ones here are VAT systems, particularly in terms of calculating VAT and layout issues for documents. No doubt such matters are so ingrained in most companies that it would be difficult to arrive at any robust figures.

This is a subjective view and it is therefore questionable as to whether we can arrive at a robust methodology. Inevitably, where estimates are used it is harder to support the figures. However, it may be worth looking at this area further to outline an acceptable methodology for identifying administrative costs for tax collection. Since they are seen as a major burden on business, being able to respond to government proposed changes with some cost figures or at least a methodology for arriving at cost figures would be constructive. Some companies may have given thought to this following the new 1% employee's NIC higher rate.

¹⁶ The Bath University study was published by the Inland Revenue in 1998.

¹⁷ Treasury Committee report, June 2004. The administrative costs of tax compliance.

3.8 What about the shareholders?

One area of tax not covered so far is the position of shareholders. There is no withholding tax on dividends paid by UK companies; that gives a clear advantage in the eyes of many classes of shareholder. While there is still a dividend tax credit in the UK, the fact that it is now non-repayable means that non-taxpaying shareholders (including pension funds and charities) lose out by being unable to access part of the tax paid by the company and reclaim it from the Government. In any event, the tax credit does not nearly equate to the tax paid by the company, leading to some double taxation of corporate profits.

Should there be some adjustment to a company's Total Tax Contribution to reflect the imputed credits passed on to shareholders? Theoretically, the answer may be that there should be in some way but this would get us into more subjectivity and the issue, whilst being acknowledged, is not pursued further at this stage.



4. What are the principles for calculating the Total Tax Contribution?

4.1 Introduction

In the previous section we considered the business taxes which could legitimately be considered part of a company's Total Tax Contribution. In this section we look at some of the relevant principles for calculating the Total Tax Contribution and discuss how the data might be collected and validated.

The approach to calculating the Total Tax Contribution should be fundamentally driven by the results that the process is planned to deliver. Collecting information of cash tax paid in a fiscal year may demand a different approach to collecting data regarding tax obligations (potentially) falling due within a reporting period i.e. an accrual basis.

Nevertheless, at the heart of any approach must be the ability to substantiate the results produced. This in turn leads to the natural conclusion that the financial accounts of a company must be the primary data source and that any results should, in some way, relate back to and be validated against those financial statements.

Key points

- The approach should be driven by the planned use of the output.
- An accruals basis will enable the output to be validated against the company's financial statements.
- An 80:20 approach should ensure that the exercise remains manageable.
- In addition to reconciliations and reasonableness checks of the data, benchmarking and an overall sense check should inform conclusions.
- There is value in having at least two measurement periods.

Beyond the issue of data validation is the methodology itself. For example, if an accruals basis is the stated measure, then the measurement parameters need to be determined. For example in relation to corporation tax:

- How should adjustments from prior years be dealt with?
- How should items disputed with Government authorities be reflected?
- How should deferred tax be dealt with?

Another aspect is comparability. Again, using the example of corporate tax on an accruals basis, the figures produced will be potentially vulnerable to distorting effects, which may make it difficult to interpret a single year's data in isolation. For example, these distorting effects may be due to the availability of losses brought forward, material timing differences or other exceptional events. Of course these measurement issues and potential distortions are likely to be more relevant to corporation tax than other 'above the line' business taxes.

In order to arrive at meaningful results, measurements should be taken on a consistent basis across a number of reporting periods. A corollary of this is that there may be a need to ensure a clear understanding of trends in the data. For example, where there is an upward trend in irrecoverable VAT is this due to increased business volume, change in cost base or changes in legislation?

Understanding these trends could be important for two reasons:

- The internal need to explain the trends to assess whether there is a cost management exercise to be undertaken; and
- Substantiation of any public statement.

As well as pulling together the data it may be useful to benchmark it against other organisational results (turnover, profit, employment costs) or against some other external metric (comparable organisations, contribution as measured against GDP). The issue here to ensure that the benchmarks used have a comparable basis of computation, for example, the validity of measuring cash tax against financial profit may be questionable.

When communicating the output, it is essential that the data is robust, defensible and presented in a way that makes sense to the potential readers. As far as possible, the ability for the reader to develop alternative hypotheses, in respect of the data, should be minimised.

Finally, there is the issue of the administrative costs of tax compliance. This is not dealt with in the data collection exercise because its computation is highly subjective and organisation specific. (See section 3 in relation to the administrative costs of collecting taxes.) However, this does not invalidate the idea that there is a cost and that cost should not be lost sight of in the Total Tax Contribution debate.

Within these over-arching issues, the remaining discussion in this section deals with the process of data collection and how best to do it.



4.1 Effective data collection and validation

(a) Setting parameters

As noted already, the approach to data collection depends on the planned deliverable and will benefit from clarity on the issues at the outset. This has to be balanced with keeping the collection exercise manageable. To assess the scope of the exercise the following questions need to be addressed:

- *What is the planned use of the output?* If it is to deliver a message to government, a cash basis could be considered - perhaps measured on a fiscal year basis. If it is to report to shareholders or the board then perhaps an accruals breakdown for the company's financial year is more appropriate. The measures chosen should provide a meaningful basis for reporting and should, in the main, relate back to the organisation's financial performance. Picking out core trends in the data should also add credibility to the results.
- *What are the measurement standards?* In other words are the 'raw' financial accounts' tax figures to be used or should account be taken of the impact of prior year true ups? If a sensible trend analysis is to be performed, then almost inevitably adjusting items would have to be understood. Using the UK current corporation tax figure (i.e. deferred tax not included) as an example, the main reconciling items are:

Tax item	£'m	£'m
Current tax charge per P&L account*		X
Adjusted by:		
B/f losses utilised	(X)	
C/b losses utilised	(X)	
Current tax taken to the STRGL**	(X)	
		X

* Including interest and penalties
** Statement of total recognised gains and losses

- *What taxes should be included?* This is both a practical and a ‘technical’ issue. From a practical perspective, there is certainly merit in taking an 80:20 approach based on the (perceived) organisational importance of the tax and the difficulties of obtaining the data. This may require a preliminary assessment of previously un-quantified taxes by developing proxy measures of the potential cost of those taxes. The technical issue is one of determining which taxes should be included in the data collection exercise. In section 3 we have drawn a distinction between taxes borne and taxes collected which follows the primary obligation to pay the tax. So for example PAYE and employees’ NIC could fall in the category of tax collected even if, say, salary sacrifice planning meant that the employer’s employment cost was reduced. On the other hand annual payroll settlement agreements are generally treated as a tax borne by the employer.
- *What are the data sources?* The preferred starting point is the statutory accounts with adjustments being made to those figures to derive the accrual. This is a sensible approach where the tax is a P&L item in its own right or is an aggregated number embedded in another P&L figure. Taking this approach means that the derived figures can be easily reconciled back to the accounts. However, if the data are not represented as an aggregated figure in the P&L (e.g. VAT not recovered on employee expenses), then this approach is unlikely to be the most effective way to collate the data. In situations where the P&L is not the starting point, two alternatives exist:
 - (1) Extracting data from accounting systems. It may be possible to create the required reports directly from the company’s accounting systems. The issue here is testing the reasonableness of the output; or
 - (2) Developing proxy measures for the tax accrual. Here P&L figures would again be used as the starting point for the proxies. In addition, this exercise could be run where figures are derived from accounting systems as a reasonableness check.
- *What are the benchmarks?* Finally there may be a need to compare the data to other organisational financial data. In doing this, the same methodologies as described above in ‘measurement standards’ should be applied to ensure that the data are truly comparative. The benchmark of turnover, profit before and after exceptionals split between continuing and discontinued operations could be a reasonable starting point.
- *What is the collection period?* Clearly the more extended the measurement period is the more informed the trend analysis will be. However, recognising the practicalities of analysing historic data, an initial two year comparison period may be appropriate. This could be achieved by collecting data for the last historic year and at the next year-end.



(b) Process

After the parameters have been set the process of data collection can start. During the process of data collection, it may be necessary to amend the approach to take account of any practical issues that may arise. There is also an investment decision as to whether standing processes are set up to facilitate collection year on year, or whether the project is taken as a discrete exercise. If the decision is to create a standing process, then the following issues may be worth considering:

- Is there any possibility of wrapping up the exercise as part of the year-end process?
- Are there extraction protocols and programmes that could reduce the amount of manual work required?
- Are there any changes to internal procedures that could help better track costs (which may in its own right have cost management benefits)? Clearly this is potentially quite an involved issue, so it may not be appropriate to do this in year one.
- Is it possible to create a reporting platform that, if desired, could be rolled out to other territories?

(c) Wrapping up the collection exercise

Apart from the reconciliations and reasonableness checks of the data, an overall sense check would also be appropriate. This overall sense check requires knowledge of the drivers of the business. For example in a substantially people based business, does it make sense that irrecoverable VAT exceeds employer's NIC? The sense checks will clearly be a more subjective assessment of the data but may help create a better explanation of the data.



5. How is tax reported in an annual report?

5.1 Introduction

Run an Internet search for a copy of an annual report for a FTSE 100 listed company and include the word tax and a large number of hits will appear, seldom less than 80¹⁸. This is not to say, however, that a clear picture of a company's tax payments is evident from reading its annual report. A large number of the hits refer to 'profit before tax' or 'profit after tax' and the instances where information is given about the company's tax burden are far fewer. There are six specific areas where tax information is given.

- The operating and financial review
- The cash flow statement
- The profit and loss account with further detail in the tax note to the accounts
- The statement of total recognised gains and losses (STRGL)
- The balance sheet notes 'creditors due in less than one year' and 'provisions for liabilities and charges'
- The 'employee costs' note (employers' national insurance contributions)

As noted in the introduction to this paper, the purpose of the financial statements is to give information to the reader about the financial position of the company on which to base decisions. Accounting disclosures (including tax disclosures) are driven by the Companies Act and Accounting Standards and reference has been made to guidance issued

Key points

- Disclosures in the financial statements on corporate tax on profits can be detailed.
- There is little disclosure of 'above the line' taxes.
- There is a lack of transparency in the financial statements about a company's Total Tax Contribution.
- A new Exposure Draft on the Operating and Financial Review makes no detailed reference to tax disclosures.

by the Accounting Standards Board (ASB) and contained in the Financial Reporting Standards (FRS).

In the current climate where taxes paid by large businesses are under scrutiny, an information gap has developed between, on the one hand, the requirements of Accounting Standards regarding tax disclosure and on the other, the expectation of the reader of the accounts regarding the tax contribution of the company. This section reviews the information that is typically disclosed on tax in a UK company annual report.

Particular points made in this section refer to specific annual reports. Selection of these reports as examples has been on an entirely random basis; they have been chosen to illustrate the points discussed and, in each case, many other companies could have been substituted in their place. The accounts used have been obtained from company web sites.

In the current climate where taxes paid by large businesses are under scrutiny, an information gap has developed between, on the one hand, the requirements of Accounting Standards regarding tax disclosure and on the other, the expectation of the reader of the accounts regarding the tax contribution of the company.

¹⁸ For example, BP 2003 Annual Report has 222 hits, Diageo 2002 Annual Report has 128 hits, Boots 2003 Annual Report has 86 hits.

5.2 Tax disclosures in the financial statements

In the six sections below, each area of the financial statements where tax is disclosed is addressed.

The Operating and Financial review

In January 2003, the ASB issued revised guidance on the Operating and Financial Review (OFR). This states that the principal aim of the financial review is to; 'explain to the user of the annual report the capital structure of the business, its treasury policy and the dynamics of its financial position'. Tax is not explicitly mentioned in the guidance, however, and a range of tax disclosures is seen in practice.

Some companies do not refer to effective tax rates (the corporation tax charge for the year as a percentage of profit before tax) at all, highlighting instead particular significant tax items¹⁹. Others refer to the effective tax rate but not the underlying tax rate²⁰ (the effective rate before exceptional items and goodwill) whilst others guide the users of the financial statements further by giving an underlying tax rate²¹.

There is rarely mention of any tax other than corporation tax and users of the annual report must look to other areas of the annual report for further information.

At the end of November 2004, the ASB issued an Exposure Draft (RED1) on the Operating and Financial Review, following a Department of Trade & Industry (DTI) consultative document issued in May 2004. This Exposure Draft specifies that OFR should be a balanced and comprehensive analysis prepared to assist investors in assessing the strategies adopted by the entity and the potential for those strategies to succeed. There are no detailed references to tax disclosures in the document.

Cash flow statement

FRS 1 is the accounting standard relating to the preparation of cash flow statements. On the subject of tax, it states that 'the cash flows included under the heading 'taxation' are 'cash flows to or from taxation authorities in respect of the reporting entity's revenue and capital profits.' Tax disclosure in the cash flow statement is often only one line entitled 'corporation tax paid' although some companies do analyse tax paid into 'UK' and 'overseas'²².

Tax disclosure in the profit and loss account and related notes

The face of the profit and loss account shows the corporation tax charge which is sometimes analysed

to show the tax attributable to exceptional items²³.

The tax note to the accounts expands the corporation tax charge further into its current and deferred elements. FRS 16 provides guidelines for reporting current tax and FRS 19 provides guidelines for reporting deferred tax. Since deferred tax is an accounting entry to recognise future tax liabilities and assets, it has been given limited consideration in this paper which focuses on current tax liabilities.

A second element of the tax note is the requirement to disclose 'factors affecting the tax charge' which includes a reconciliation of the entity's current tax charge for the period to an 'expected' charge - the charge that would result if accounting profits were taxed at the standard rate, together with narrative explanation of factors that will affect future tax charges. The reconciliation provides users of financial statements with a picture of the factors that influence the current tax charge for the period and a judgement can be made about the extent to which the reconciling items will recur.

In practice, the detail and descriptions given in reconciliations vary. For example, some companies list as many as ten reconciling items²⁴

¹⁹ Somerfield 2003 Annual Report: 'Taxation – Prior year tax provisions of £5.0 million have been released'.

²⁰ Woolworths 2003 Annual Report: 'Taxation – The effective tax rate for the 52 weeks to 1 February 2003 is 33.4 per cent...' (There is further information on prior year effective rates, but not on underlying rates).

²¹ Sainsbury 2003 Annual Report: 'Taxation – The Group's underlying tax charge (before exceptional items and amortisation of goodwill)...gives an underlying rate of 32.5 per cent (2002 33.5 per cent). The underlying rate exceeds the nominal rate of UK corporation tax principally due to the higher rate of tax incurred on US profits and the lack of effective tax relief on depreciation of UK retail properties.'

²² Lloyds TSB 2002 Annual Report: the cash flow statement has two lines relating to tax, one for 'UK corporation tax' and one for 'Overseas tax'.

²³ BSKyB 2003 Annual Report: the profit and loss account for 2003 is divided into three columns headed 'Before goodwill and exceptional items', 'Goodwill and exceptional items', 'Total'.

²⁴ Reckitt Benckiser 2002 Annual Report: reconciling items are Adjustment for higher/(lower) tax rates on overseas earnings, Allowance for tax risks, Unutilised tax losses, Allowance for merger costs, Withholding taxes, Intangibles allowances in excess of amortisation, Utilised tax losses, Adjustment in respect of prior periods, Other timing differences, Other permanent differences.

and others a less numerous five²⁵. Many companies consider that the level of disclosure in reconciliations (which is higher than many other jurisdictions) is high. An article in Accountancy Age quotes a spokesman for Barclays as saying that Barclays “reports a reconciliation of actual tax against the standard tax rates and goes into a great deal of granularity”²⁶, ²⁷. Tax reconciliations prepared for inclusion in US annual reports tend to contain less detail than their UK counterparts.²⁸

Tax disclosure in the statement of recognised gains and losses (STRGL).

Where a gain or loss is recognised directly in the STRGL, both current and deferred tax attributable to that gain or loss should also be recognised directly in that statement (FRS16 and 19).

Tax disclosure in the balance sheet and related notes

The face of the balance sheet often contains no reference to tax but accompanying notes contain more detail.

Tax payments due are included within ‘creditors due in less than one year’ (and greater than one year), tax repayments due are included within ‘debtors due in less than one year’ (and greater than one year) and both are normally disclosed separately as part of the notes to the balance sheet.



FRS 19 requires net deferred tax liabilities to be shown in ‘provisions for liabilities and charges’ and detailed information is given on deferred tax not recognised, discounting and the elements of the deferred tax assets and liabilities. Deferred tax assets are shown as debtors within separate sub headings where material.

Since the thrust of this paper is to assess tax suffered by companies, less emphasis has been placed on tax disclosure in the balance sheet and related notes.

The ‘employee costs’ note to the accounts

Schedule 4 to the 1985 Companies Act contains the following guidance in relation to employees. ‘In respect of all persons employed by the company during the financial year... there shall also be stated the aggregate amounts of ... social security costs incurred by the company on their behalf.’ This includes employers’ national insurance contributions which forms part of a company’s Total Tax Contribution.

²⁵ Imperial Tobacco 2002 Annual Report: reconciling items are Expenses not deductible for tax purposes, Non-deductible goodwill, Lower tax rates on overseas earnings, Current deferred tax, Other.

²⁶ Accountancy Age, June 2004.

²⁷ Barclays 2002 Annual Report: reconciling items are Prior year adjustments, effect of change in non-allowable general provisions, effect on non-allowable property write-downs and depreciation, Net effect of differing tax rates overseas, Net effect of overseas losses not available for relief in the UK, Other non-allowable expenses, Gains covered by capital losses brought forward, Goodwill, Other items.

²⁸ Merck 2002 Annual Report: reconciling items are Foreign earnings, Tax exemption, State taxes, Other.

6. Reporting and communicating a company's economic contribution in taxes

6.1 Introduction

Tax reporting within the financial statements in line with accounting standards is, clearly, a regulatory requirement, but many companies are reporting or communicating their tax contributions through a variety of other channels directed towards a range of different stakeholders. In this chapter we look at tax reporting in corporate responsibility reports, perhaps the most significant vehicle for innovation in tax reporting. We also consider tax reporting in the context of economic impact reports and other corporate communications.

Key points

- There is a growing trend to report, or communicate, tax payments through different media.
- Companies are taking a wide range of different approaches.
- Current reporting practice reveals a number of drivers for tax reporting.
- The demand for greater transparency over tax and wider economic reporting is likely to increase.
- The need to demonstrate corporate responsibility is emerging as a significant driver for greater tax transparency.
- There are costs and risks associated with greater tax transparency, but there are also significant reputational benefits to be gained.
- We suggest a reporting framework for enhancing tax disclosure.

6.2 Reporting on tax in corporate responsibility reports

(a) Introduction

Corporate responsibility (CR), or sustainability reporting, is a process for publicly disclosing an organisation's economic, environmental and social management and performance. Many companies find that financial reporting alone no longer satisfies the needs of shareholders, customers, communities, and other stakeholders for information about overall organisational performance. Through CR reporting, organisations report on how they manage risks, such as the handling of hazardous waste; minimise negative impacts, such as emissions of greenhouse gases; embed values and principles, through, for example, requiring suppliers to meet certain standards of employment; and create value, for example through good human capital management.

Tax reporting has arisen in corporate responsibility reporting as part of reporting on economic impacts. In the business context, the economic element of sustainable development is often equated to financial performance. However, although related, the financial and the economic are not equivalent. The financial focuses on the market value of transactions that pass through a company's accounts, whilst the economic takes a wider perspective extending beyond the boundaries of the organisation, taking into account the activities in, and outcomes for, wider society, through, for example, job creation. The reporting of tax payments, in relation to corporate responsibility, is considered in the same context; namely the implications for wider society of the tax paid by an organisation.

Corporate responsibility reporting is a growing trend. There are now over 1,500 companies globally producing these reports and many of them – 616 as of 21 December 2004 – use the Global Reporting Initiative Sustainability Reporting Guidelines to help shape their reports.

(b) Emerging guidelines on corporate responsibility tax reporting: tax and the Global Reporting Initiative

The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. Established in 1997, the GRI works in collaboration with the United Nations Environment Programme (UNEP) and the UN's Global Compact.

The GRI guidelines suggest that tax payments are reported as one of the economic impacts of a business on the public sector. The guidelines specify that companies should use the following standard indicator to report their tax payments:

- Total sum of taxes of all types paid broken down by country.

No detailed guidelines on what should be included in this 'total sum' have yet been produced; however a GRI working group note recognises that total tax payments may be difficult to calculate and that corporate tax would provide a starting point.

The GRI tax indicator is included in a section of indicators that denote the monetary flows to the public sector. One other indicator relevant to this paper is included in this section:

- Subsidies received broken down by country or region (e.g. grants, tax relief)

The inclusion of subsidies reflects the GRI's intent to encourage reporting of broad economic impact.

(c) Government regulations for CR reporting

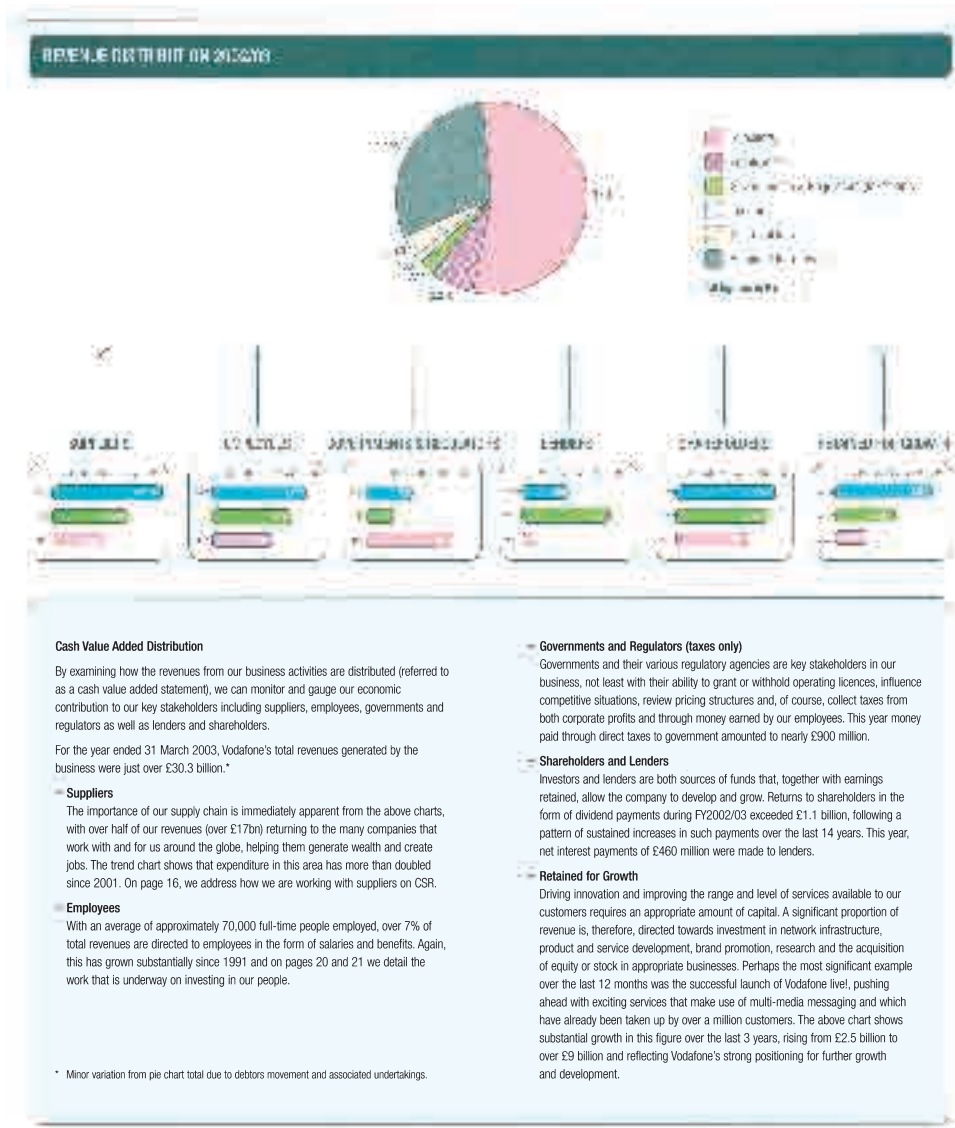
Interestingly, in countries where government regulations requiring the reporting of CR information are in place, requirements relating to the reporting of economic and tax aspects are absent. For example, the French reporting regulation covers social and environmental effects only and the Danish Financial Statement Act only requires the inclusion of disclosures on intellectual capital and the environment.

(d) How tax is currently reported in CR reports

The GRI guidelines have resulted in tax payments being established as a relatively common indicator for the economic impact of a company in CR reporting. Overall, however, CR reporting of economic, including tax, information is still in the early stages of development and the GRI specified geographical breakdown is generally not supplied:

- A number of companies have reported an intention to develop indicators in this area but have yet to produce figures;
- Other reporters mention that tax paid is covered in the financial report and do not reproduce or interpret further these figures in their CR report;
- There is less reporting of subsidies received from government, with a number of companies suggesting that the reporting of subsidies is not applicable to them, without, however, providing an explanation of why this is the case.

One method of reporting tax that is gaining currency is showing the distribution of the cash value added or revenue generated by a company to different stakeholder groups, including payments to suppliers, dividends to shareholders, employee wages and revenues to government (see chart opposite). This approach is useful as it puts tax payments in the context of the overall distribution of cash value generated.



Vodafone Group plc – Corporate Social Responsibility Report 2002-3

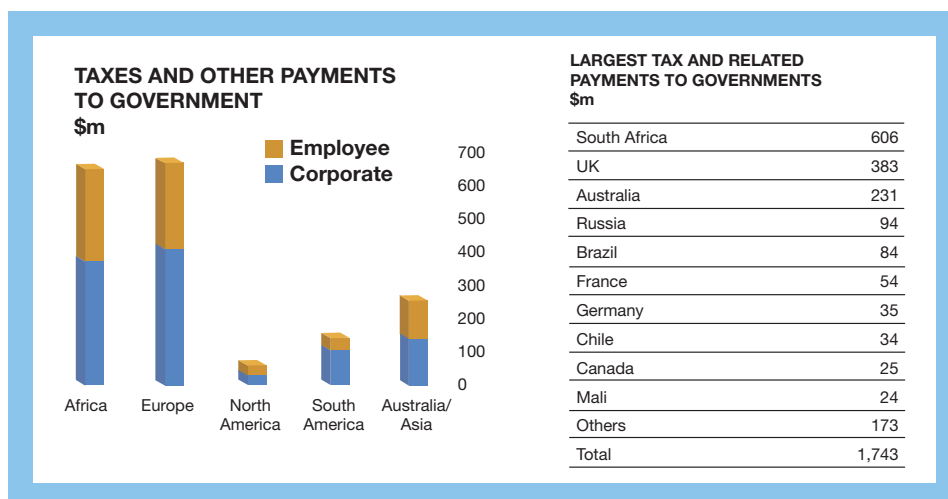
Some innovation and differentiation is taking place in the reporting of tax information, both in terms of the detail of the information which is being reported and the interpretation and comment that companies provide. For example:

- A geographical split of tax destination is provided by a small number of companies. Anglo American, for example, discloses geographical split for both employee and corporate taxes. Interestingly, they also disclose the governments to which they make the largest tax and related payments, emphasising in the text that these taxes make an important contribution to government revenue in countries where Anglo American has a significant presence, see the chart below.

Geographical disclosure can be regionally, rather than nationally, focused. Kesko, the Finnish food retailer, provides detailed disclosure of the economic impact of its operations across 20 Finnish regions, including analysis of real estate taxes paid by Kesko and taxes paid by K-retailers, franchisees operating K-branded retail stores.

- Some companies highlight specific types of taxes they pay, or that are paid by their customers, in their reports (e.g. environmental taxes paid by a pharmaceutical²⁹ company; excise taxes in the case of tobacco³⁰ and alcohol (disclosed as 'alcohol taxes'³¹). Diageo graphically discloses the proportion of the selling price of four of its big brands in the UK that goes in taxes.

- A number of companies report their tax payments in the context of total government revenues as a means of highlighting the significance of their contribution to the overall economy (e.g. Wal-Mart and Diageo). SABMiller includes a case study on its joint venture with the Tanzanian government developing Tanzania Breweries.³²
- Many companies contextualise their tax contributions as part of their overall economic impact. Some differentiate direct payments to government and tax generated as part of the indirect impact of their operations. BT, for example, discloses direct taxes paid in the UK and non-UK taxes; and indirect economic impacts arising from the income and employment created in businesses that supply goods and services to BT.³³



Anglo American plc - Report to Society 2003

²⁹ Novo Nordisk, Sustainability Report 2003.

³⁰ For example, BAT Social Report 2003/04.

³¹ Diageo, Corporate Citizenship Report 2004.

³² SABMiller, Corporate Accountability Report 2004.

³³ www.BTplc.com, November 2004.

6.3 Other published corporate reports disclosing tax information

Some companies publicly report tax information through communication channels other than their financial accounts and CR reports. An example is when a company produces or commissions a report on the economic impacts of its operations, where tax payments represent a key element. The target audience of these reports are generally government and other public sector stakeholders. Sometimes the report looks at the economic contribution of an entire sector, rather than an individual company.



We have reviewed a small number of such reports, resulting in the following observations:

- The reports are generally produced on a one-off basis responding to a specific situation, providing a snap-shot of the tax payments made at one point in time. They do not provide any indication of trends over time.
- Tax information is generally tailored to the specific context of the report. This may involve assessing taxes at a very local level (in relation to a new retail store)³⁴ or at a national level (as part of an assessment of the organisation's contribution to the national economy)³⁵;
- The tax information used may be modelled rather than based on actual data. This approach was recently adopted to calculate the contribution to government finances in a paper discussing the economic impact of the UK mobile telephony sector.³⁶
- The reports often include calculation of the indirect impact such as the tax revenues generated by employees in income tax and VAT on the goods and services produced.

6.4 Tax in informal communications

Tax is, of course, regularly featured in other communications in all manner of ways. The inclusion of tax data can be to support an argument about a technical issue (perhaps that an aspect of tax law is operating unfairly, or is not achieving its objectives), or as part of a discussion about wider issues (for example the overall burden imposed by a particular tax), or indeed as part of an effort to show the contribution made by a particular sector. In other words, there is evidence of all the uses of tax data suggested by the Total Tax Contribution approach being observed in communications other than the annual report.

Examples of these uses would be:

- Representations by professional bodies such as the CIOT on technical matters.
- The paper produced by the CBI on business' tax contribution (referred to in section 3).
- Work done by industry groups including the tobacco and alcohol industries to highlight their contribution to the economy.

³⁴ Wal-Mart.

³⁵ Economic Contribution to the UK Economy – BAE Systems.

³⁶ The Contribution of Mobile Phones to the UK Economy, mmO2 plc, July 2004.

6.5 Overall observations on the current reporting and communication of tax

For companies disclosing tax payments in published reports and other communications and, importantly, for users of the information disclosed, two key issues emerge from the review of current tax reporting and communication above:

- Lack of clarity as to which taxes are being reported. Reports frequently lack a definition as to the taxes included in the tax figures reported. However, as the GRI guidelines mention that corporate tax is a good starting point for reporting tax, it is likely that for many organisations the figures given refer to corporate taxes and not to their Total Tax Contribution.
- Confusion with regard to the scope of taxation that should be reported. A number of reports highlight that their business is indirectly responsible for generating income taxes paid by their staff and value added taxes paid by their customers buying their products; but currently practice is highly variable.

6.6 Why companies are voluntarily going beyond compliance in tax disclosure: business-related drivers

Our review of the corporate reporting of tax payments suggests that there are a number of different reasons why certain companies are paying more attention to their tax reporting than others. The most active tax reporters display one or more of the following characteristics:

- A desire to be a leader in CR reporting.
- Operations in specific sectors of activity.
- Operations in specific countries.
- Active management of their reputation, in particular with government.

Some companies that seek to be leaders in CR reporting are also leading reporters of tax payments, driven in part by good practice guidelines such as the GRI.

From a sector perspective, reporting of tax is occurring where there are significant product taxes levied by government, such as tobacco and alcohol. Both of these sectors make products where there is potential harm associated with use and taxes are levied to manage demand. Many companies producing these products comment at some length on the taxes that they pay as part of a discussion of the responsible use of their products.

Some companies with wide ranging geographical operations are also active reporters of taxes and are more likely to provide geographic breakdowns. This is particularly evident for those with headquarters in high income countries and operations in low income countries, where there may be concerns as to the destination of profits generated or pressures on business to contribute to local economic development in the country of operation. In some cases, companies reporting on geographic lines are also from high reporting sectors (e.g. extractive industries and alcohol) and a number have South African origins. In relation to the extractive industries sector, see later on the Extractive Industries Transparency Initiative.

Those seeking to manage their reputation actively also report their tax revenues. It is this group of companies that tend to produce analysis of their total economic impact outside of a CR reporting mechanism and direct their analysis primarily at public sector decision makers and other key stakeholders. Examples of when they do this include:

- seeking planning consent to develop new sites (e.g. retailers);
- responding to criticism that the company has a dominant market position (e.g. privatised industries that were formerly monopolies, large retailers);
- building reputation with decision-makers (e.g. large public sector procurement projects, or regulated industries such as mobile phones).

6.7 External drivers for reporting and communicating tax

While companies may have internal reasons for wishing to disclose their tax contributions, there are also emerging external pressures. Some of the key sources of external pressure are outlined below.

(a) Tax Justice Network

The Tax Justice Network was formed in early 2003 and arose out of meetings at the European Social Forum (2002) and the World Social Forum (2003) to help reverse what it saw as ‘harmful trends in global taxation’. The network is aiming to promote, among other things, corporate transparency regarding tax payments and calls for public disclosure of the following information in all states and territories:

“all tax laws and treaties; detailed national statistics for financial services activity and public accounts data; audited accounts for all significant business entities and trusts, specifically disclosing turnover and tax paid with a breakdown for each entity and in each territory or tax jurisdiction, and other improvements to disclosure; beneficial ownership of all business entities, trusts, bank and investment accounts, property, and any other form of asset.”³⁷

While the Tax Justice Network appears to be largely the work of one or two individuals, it is nevertheless becoming effective in influencing opinion leaders in the CR community and beyond.

(b) Socially responsible investment

In July 2004, Henderson Global Investors wrote to the FTSE 350, citing the increasing scrutiny of companies’ tax affairs by the UK Government and elsewhere (e.g. the introduction of disclosure rules for certain tax schemes, the international tax avoidance task force involving the UK, US, Australian and Canadian tax authorities, and the OECD’s continuing work on tax havens) as evidence that the boundaries of risk relating to tax matters seem to be shifting. The letter included a request for information on the board’s approach to tax matters, in particular its tax strategy and assessment of risk. In relation to the setting of strategy, the fund manager specifically asked whether or not reputation implications with key stakeholder groups and the relationship between tax strategy and the company’s stance on corporate responsibility were taken into account.

In summarising the responses to this request Henderson Global Investors conclude that:

“With some notable exceptions, most companies do not appear to have considered systematically the relationship between their tax management and their approach to corporate responsibility. Given that the boundaries of corporate responsibility debates are extending to embrace tax matters, it would be beneficial for all boards to discuss the links between these areas in order to arrive at their own balanced judgement on the most appropriate strategy for their company.”³⁸

(c) Press attention

As discussed in section 1 there is significant press coverage of tax planning by companies with some companies being ‘named and shamed’. However we are now seeing the link being made with tax and corporate responsibility both in the CR press and the general press. In the November 2004 edition of *Ethical Performance*, John Christensen of the Tax Justice Network argues that there is currently a major disconnect between tax strategies and corporate commitments to ethical business conduct driven by the corporate responsibility agenda. “Tax avoidance,” he comments, “has become a problem for governments, particularly those of developing countries”. He then sets out an agenda for corporate action which includes companies disclosing in their corporate responsibility reports: the countries in which they trade, the profit derived in each, where these profits are booked for tax purposes, any special purpose vehicles used and the extent of tax avoidance.

Some investors now think corporate responsibility reports are (or could be) valuable sources of information on, for example, business risks, according to *The Economist*, in a recent article on non-financial reporting. The article goes on, however, to highlight the selective approach to reporting that companies currently seem to employ, interestingly using tax as an example. The GRI, as the most widely used reporting model, ask for a geographical breakdown, “Yet,” *The Economist* says, “only Anglo

³⁷ Annex 1, Tax Justice Network Declaration. www.taxjustice.net/e/declaration/index.php

³⁸ Tax, risk, and corporate governance. Findings from a survey of the FTSE 350. Henderson Global Investors, February 2005.



American attempts to provide such a breakdown. BAT, which goes through the GRI list methodically, bluntly states its tax data ‘are not reported by country’, and leaves it at that”.³⁹

(d) Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) is a UK Government initiative, the aim of which is to ensure that the revenues from extractive industries contribute to sustainable development and poverty reduction by increasing transparency over payments made by companies and revenues received by governments. The rationale behind the initiative is that revenues from oil, gas and mining companies should be an important engine for economic growth and

social development in developing and transition countries. However, the lack of accountability and transparency in these revenues can exacerbate poor governance and lead to corruption, conflict and poverty.

The EITI was formed partly in response to media and civil society attention, as exemplified by the non-governmental organisation (NGO) campaign called Publish What You Pay, which is a worldwide campaign calling for all natural resource companies to disclose their payments to governments for every country of operation, supported by, amongst others, Amnesty International, Transparency International and Friends of the Earth.

The EITI defines a number of different benefit streams provided to governments in its draft reporting framework, including production entitlement taxes on profits, license fees and royalties paid in cash and in kind.⁴⁰

At the Extractive Industries Transparency Initiative (EITI) Conference in June 2003, 23 companies and industry associations made statements supporting the initiative. Over the past 18 months the initiative has developed, gaining the support of the World Bank and EBRD; in addition, some member countries have established working groups or published results. A greater number of the institutional investors have also signed up to the initiative.

While the EITI is essentially a governance and accountability tool for use at the country-level by national governments, its success is reliant on reciprocal transparency by companies. As such, the EITI has perhaps influenced extractive industry companies to place more emphasis on reporting on tax contributions through their other communication channels; hence we see a number of extractive companies active in corporate responsibility reporting.

³⁹ “Non financial reporting: wood for the trees”. The Economist, November 2004.

⁴⁰ Revised Draft Reporting Guidelines Extractive Industries Transparency Initiative, 23 May 2003.

6.8 Why communicate a company's economic contribution in taxes?

The business drivers identified in section 6.6 have prompted some companies to report on tax; the external pressures outlined in 6.7 may well lead others to follow. Figure 5 summarises what these costs and benefits are from both an internal management perspective and an external perspective, considering issues such as confidentiality, reputation and relationships with stakeholders.

Figure 5: Costs and benefits of communicating a company's economic contribution in taxes

Internal	External
<ul style="list-style-type: none"> - Resource: time and cost - Lack of reporting mechanism Quantification difficulties and uncertainties Conflicting pressures – tax planning versus tax transparency and reporting 	<ul style="list-style-type: none"> Conflicting stakeholder interests and pressures Confidentiality issues Greater attention to lower payers
<ul style="list-style-type: none"> + Greater understanding – e.g. through trend analysis + Improved tax management Better-connected business decision-making 	<ul style="list-style-type: none"> General awareness of the tax and economic contribution of business Encouraging a balanced view of tax contributions Responding to information demands of key stakeholders and transparency initiatives Tailored stakeholder reporting and communication Longer-term reputation risk benefits

While there are certainly internal costs associated with developing systems to capture tax information, companies will also be wary of the potentially negative consequences of putting more tax information into the public domain. Companies will have to be aware, for example, of conflicting stakeholder interests and pressures. The main business driver will be to reduce tax payments through tax planning; however, with such practices coming under increasing government scrutiny, there will be sensitivities around reporting annual reductions in tax revenues. Tax reductions effectively equate to corresponding reductions in benefits to the jurisdictions where the tax is paid. Another concern relates to the release

of commercially sensitive information to competitors. A balance will need to be struck to ensure that tax information reported does not result in any competitive disadvantage.

Despite the issues, there appear to be considerable advantages associated with the collection and communication of tax information. This is, perhaps, particularly true for certain sectors, as the above analysis of current tax reporting practices has shown; but, as we have seen, there are emerging external pressures likely to drive enhanced tax reporting more widely across industry as a whole.

6.9 The future tax reporting and communications landscape

Looking forward, we expect one or more of the following features to combine to shape the future tax reporting and communications landscape:

- Increasing demands for companies to develop and disclose tax policy and strategy together.
- Growing stakeholder scrutiny of corporate tax practices coupled with a challenge to companies to define and adhere to a responsible tax strategy.
- NGOs, national governments and other stakeholders demand higher levels of disclosure around economic impact from multinationals. Pressure spreads from the extractive industry to other sectors, such as electronics and textiles, where there is heavy reliance on labour in emerging economies and where profits are taken elsewhere.
- The increasing migration of jobs from developed economies to emerging economies increases stakeholder expectations for disclosure on relative economic impacts, negative and positive, in the countries involved. As part of this trend, cross-border tax structures and effects of relocation are reported with increasing sophistication.
- More companies seek to capture and communicate the economic contribution that they make to local, regional and national economies.
- Continued attention from government and the media on corporate tax planning/avoidance resulting in regulatory requirements for greater transparency in tax reporting. Greater attention is paid to the service benefits that business derives from government expenditure, for example infrastructure provision and companies are increasingly asked to demonstrate that they 'pay' for what they get.
- A reciprocal increase in demands for and practice of transparency by governments in relation to expenditure and receipts, including tax receipts from business. There are already growing pressures on governments to provide clearer disclosure of tax receipts, one example being the Extractive Industries Transparency Initiative mentioned above. The OECD's work on tax⁴¹, seeks to achieve the objective of a global level playing field based on high standards of transparency and effective exchange of information in tax matters. Furthermore, the OECD supports the disclosure of tax payments by companies through its work on corporate governance and in particular the tax treatment of bribes.⁴²
- Greater discussion amongst opinion and policy formers of the knock-on effects of changes in taxation on business and other stakeholders.
- Specific changes in the fiscal framework encourage certain sectors to report more in relation to tax. The introduction or threatened introduction, for example, of a 'fat tax' leads the food manufacture and retail sectors to focus disclosure on their contributions to the public purse.
- Stakeholder pressure for hypothecation and/or use of the fiscal system to promote good business behaviour and discourage bad increases. Further examples, such as the use of revenue from landfill tax to enable an overall reduction in employers' NIC emerge, particularly, perhaps, in the local government context.
- An increase in private sector delivery in areas traditionally serviced by the public sector, such as health and education, leads more companies to use economic, including tax, reporting to position themselves against competitors.

⁴¹ 'OECD Releases New Provisions for Exchange of Information Between Tax Authorities' (www.oecd.org). This agreement is presented as both a multi-lateral instrument and a model for bilateral treaties or agreements. It sets out the information that should be provided in such documentation and illustrates the OECD's objective for high standards of transparency and effective exchange of information. New provisions for the exchange of information were agreed in July 2004 which lessen the barriers for non-exchange of information between treaty partners.

⁴² 'Tax Treatment of Bribes' (www.oecd.org). July 2004.

6.10 The PricewaterhouseCoopers Total Tax Contribution Framework

While it is unlikely that all the scenarios we have outlined will come into being, the very number and range of drivers that could lead to an increase in the incidence and sophistication of tax reporting and wider economic reporting indicates that there is both a need and an opportunity for the corporate sector to respond.

PricewaterhouseCoopers has developed a reporting and communication framework that we believe provides a good foundation for companies to respond appropriately to the increasing expectations for transparency in tax matters. In producing this paper, our aim is to share this framework as a basis for further discussion amongst key stakeholders who have an interest in improving corporate tax reporting and communications.

The Framework seeks to address the key issues identified in relation to current reporting practice (see section 6.5) as well as responding to the pressures for increased disclosure and anticipating the future trends in this area. In particular, our approach is designed to:

- Establish a logical, common structure for reporting tax that can, if desired, reflect the likely final incidence (on capital, people or product), thereby enhancing transparency and giving appropriate context to the contributions being made by companies, as well as providing an appropriate platform for linkage to financial performance and a company's wider economic reporting;



- Include indirect tax effects to enable companies to communicate the broad economic impact their business has, while at the same time, clearly distinguishing these types of contributions, so that the company's claims are firmly contextualised;
- Set out standard, accepted definitions for the tax payments made under each heading to drive greater consistency and comparability in tax reporting;
- Provide clear linkages to the financial statements and financial performance of business;
- Facilitate flexibility in reporting by distinguishing core disclosures from additional areas that certain sectors/companies may also wish to report, as relevant to their business model and/or geographical areas of operation, to some or all of their stakeholders.
- Build on and complement existing reporting frameworks such as the Global Reporting Initiative's Sustainability Reporting Guidelines.

Figure 6 illustrates typical measurements and outputs of the Total Tax Contribution Framework.

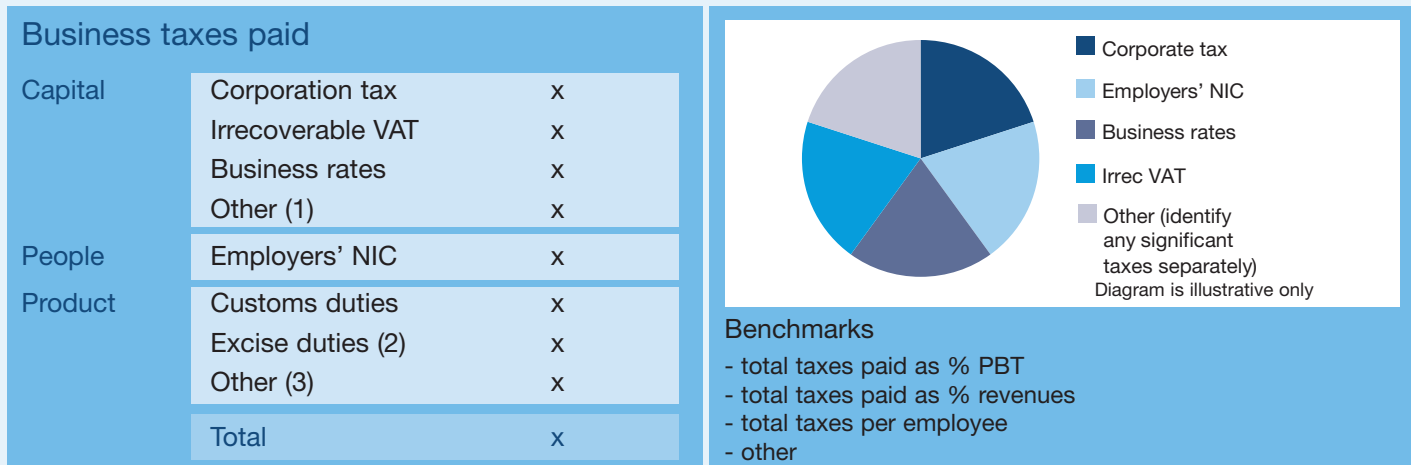
Figure 6: The PricewaterhouseCoopers Total Tax Contribution Framework

Our Framework draws a fundamental distinction between those business taxes paid by a company and charged to its profit and loss account, which we believe are the core disclosure in its Total Tax Contribution, and business taxes collected by the company on behalf of government, which we consider to be part of its wider economic impact in taxes.

Core disclosures:

Business taxes paid

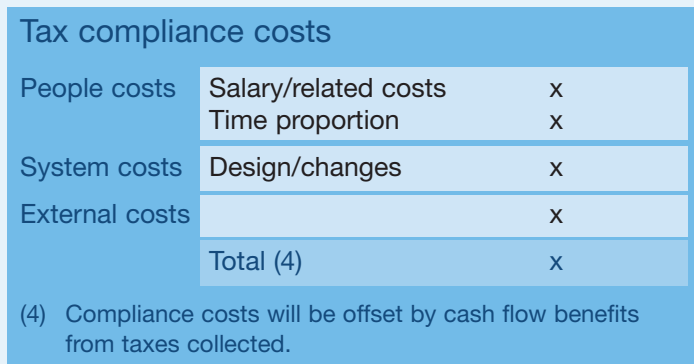
Business taxes paid by a company and charged to its profit and loss account will be the core disclosure in its Total Tax Contribution. Companies will want to consider what the appropriate benchmark measurements might be.



- (1) could include PRT, stamp duties, air passenger duty (own travel), IPT (own policies)
- (2) goods for own consumption
- (3) could include betting duties, vehicle excise duties, landfill tax, aggregates levy, climate change levy.

Tax compliance costs

Tax compliance costs are a cost to the company. These arise both from the company's own compliance but more importantly from the work done by the company in collecting taxes on behalf of the Government. These latter compliance costs could be said to defray costs from the public finances and therefore form part of the company's Total Tax Contribution.



Other disclosures: wider economic impact

Business taxes collected

Business taxes collected are not the company's own tax cost charged to its profit and loss account and are not therefore part of the company's Total Tax Contribution in the PricewaterhouseCoopers framework. However business taxes collected contribute to the company's wider economic impact and there is merit in including these in wider reporting of the company's economic contribution in respect of taxes.

Business taxes collected

People	PAYE	x
	Employees' NIC	x
Product	VAT	x
	Industry specific (5)	x
	Total	x

(5) could include, for example, excise duties for producers, air passenger duty for airlines and insurance premium tax for insurers.

Other payments

Other payments to and from Government will not be, strictly speaking, taxes. Nevertheless if they are significant, it may be appropriate to highlight them in the company's wider reporting of its economic impact in respect of taxes.

Other payments to and from Government

Payments for value (6)	x
Grants or subsidies	x

(6) An example will be fees for a licence to broadcast

Indirect economic impacts

There are also indirect economic impacts arising from the company's commercial activities. For example employees' income taxes and NIC arise from jobs created; net VAT (output tax less input tax recovered) from the company's activities; and even suppliers' tax payments could be said to relate to the company's purchase of supplies. Again these do not form part of the company's Total Tax Contribution but in some circumstances companies could wish to include them as part of wider reporting of its economic impact in respect of taxes.

Indirect economic impacts

Employees' taxes & NIC	x
Net VAT	x
Suppliers' taxes	x

In addition to the reporting framework set out above, consideration needs to be given to contextualising tax information into an overall framework showing the distribution of turnover amongst stakeholders. Such an approach might enable the company to demonstrate, for example, that while tax payments have gone down, distributions to other stakeholders have gone up. The distribution of cash value added or revenue model that has been used by companies to date would need to be modified to bring it into line with our Total Tax Contribution methodology, since our approach splits out other 'above the line' business taxes. As such, it would represent a fuller picture of the tax elements of the company's economic flows.

As well as reporting on the numbers, companies should consider adding a statement regarding their policy and approach to tax, to put the numbers into context and provide some transparency over the company's tax strategy and how it links to the business strategy. This might include, for example; the company's overall approach to tax and how assertive it wishes to be in planning to reduce tax costs; how the company's business model and geographic locations drive their payments of business taxes; and the key elements of the company's tax strategy.

The Total Tax Contribution is a flexible model that, although currently populated in the context of the UK tax regime, is equally applicable to

other tax jurisdictions. In addition to providing a geographical breakdown of taxes paid, companies operating in more than one country may wish to extend their disclosure on tax policy and strategy to cover matters such as transfer pricing and tax structuring.



6.11 Reporting and communicating the Total Tax Contribution

Once collected, there are a wide range of ways in which a company might choose to report and communicate the Total Tax Contribution to different stakeholder groups, depending on their preferred or usual communication channels. Corporate Responsibility reports are currently the preferred vehicle for additional voluntary disclosure on tax and are seen as a key driver for enhancing tax transparency in our survey. Ultimately, however, we may see stand-alone CR reports disappearing and being replaced by a range of other reporting and communications mechanisms tailored to specific stakeholder audiences. To some extent this is already happening. As we have seen, companies/sectors that need to build and maintain strong relationships with government(s) produce economic impact reports that include details of their tax contributions and wider economic impacts. Detailed economic impact, including tax information, is also reported to socially responsible investment analysts.



We may soon see an expansion of tax disclosure in Annual Reports. The ASB's Exposure Draft on the Operating and Financial Review (OFR) only asks for specific disclosures on tax in relation to potential constraints on liquidity; however, there is a general requirement that any matter relevant to investors' assessment of the strategies of the business and their potential to succeed should be disclosed. If tax strategy and tax avoidance is increasingly seen as a key risk area, there may be an expectation that it is dealt with in the OFR, which will become mandatory for listed companies from 1 April 2005.

Figure 7 illustrates the communications channels available for reporting and communicating tax to a range of stakeholder groups.

Figure 7: Potential channels for reporting and communication

Communication vehicles	Annual report	Investor communications	Corporate responsibility reporting	Economic impact report (local / regional / national)	Other communications	Press statements / articles	Lobbying
Stakeholders							
Shareholders	(✓)						
Investors – mainstream	(✓)	(✓)					
Investors – SRI		✓	✓			✓	
Employees	✓		(✓)	✓			
Government (local/ regional/national)				✓		✓	✓
Inland Revenue	✓			✓			✓
Community stakeholders			✓	(✓)	✓		
Media (local/national)	✓		(✓)	✓	✓	✓	✓
Customers and suppliers	(✓)				✓		

Ticks in brackets indicate where the case for using the channel to communicate and report on Total Tax Contribution is currently less strong.

As well as being interested in different components of the Total Tax Contribution framework, stakeholders may be interested in a different cut of the information: Regional Development Agencies might, for example, be interested in Total Tax Contribution and wider economic impacts at a regional, rather than a national, level.

Tax information is already used in case making and to influence key government and public sector stakeholders. Greater understanding of tax data may enable companies to become more proactive in lobbying for changes to the taxation system. Better information on tax will facilitate a more coherent dialogue with governments on their tax proposals and provide a better understanding of the impact that fiscal changes have on business and competitiveness. Companies may wish to act together in this space; using a common reporting model would make such collective action more workable.

The key issue is that arguments would be based on more coherent, fuller data. Total Tax Contribution is not an attempt to lobby for lower taxes on business. It is all about making sure arrangements take place on the real situation. In particular, the wider contribution of business in taxes should become much more appreciated and dangers of knee-jerk reactions to an oversimplified and emotive picture painted of companies paying little (corporate) tax reduced.

In developing tailored tax communications, companies will want to ensure that they maintain an overall consistency of message. In an environment of increased press and stakeholder scrutiny, any inconsistencies are likely to be uncovered and could threaten both reputations and key relationships.

6.12 What is a responsible tax strategy?

This is the question that lies behind both the current 'beyond compliance' corporate tax disclosure and the increased stakeholder interest in and scrutiny of corporate tax affairs. It is a hard one to answer. In a recent article in the *Financial Times*, Roger Cowe noted that while the companies he had contacted in researching his piece all insisted that they operated 'responsible tax policies, not just legal ones', they found 'it impossible to define the line beyond which legal stops being responsible'.⁴³ The PricewaterhouseCoopers framework supports enhanced transparency around tax practices, contributions and impacts. Greater transparency will help stakeholders to answer the ultimate question: what exactly is a responsible tax strategy?

⁴³ 'Tax avoidance is rising up the ethical agenda', Roger Cowe, *Financial Times*, 29 November 2004.

7. Brief summary

The tax landscape is changing. Companies are coming under increasing scrutiny for their tax planning and wider groups of stakeholders are becoming increasingly interested in the company's tax payments. Tax authorities have suggested that some corporate tax planning arrangements, although legal, are 'morally' unacceptable and are calling for tax to be on the boardroom agenda as a corporate governance matter. At the extreme, campaigning groups such as The Tax Justice Network, are claiming that companies must make a 'morally acceptable' contribution in taxes in return for the human and physical resources they use.

The implication being put forward is that large companies are not paying their fair share in taxes and hence there is an increased tax burden on others, including individuals, to fund spending on social investments. Yet companies pay many other business taxes, apart from corporate tax, which also contribute to the public finances. Because of the lack of transparency over these other business taxes, there is generally little understanding of what business taxes and how much tax companies pay. In a recent PricewaterhouseCoopers survey of the heads of tax of large companies, 99% of respondents felt that there is insufficient understanding among investors, employees and stakeholders about the company's economic contribution in taxes.

The aim of this paper is to stimulate an informed debate regarding the tax contribution made by companies. Our proposition is that this contribution should be looked at from the point of view of all the taxes to which a company is subject and not just corporate tax on its profits. We call this a company's 'Total Tax Contribution'.

PricewaterhouseCoopers has developed a reporting and communication framework for the company's Total Tax Contribution that we believe provides a good foundation for companies to respond appropriately to the increasing expectations for transparency in tax matters. In our framework, we draw a fundamental distinction between business taxes paid by the company and charged to its profit and loss account, which we believe are the core of its Total Tax Contribution, and business taxes collected by the company on behalf of government, which we consider to be part of its wider economic impact in respect of taxes.



We believe that it would be helpful to have greater transparency about the types of taxes, as well as the amount of tax, paid by companies and that a common language or framework for this would be useful. We recognise that greater transparency can have some drawbacks, not least the amount of work involved in collecting data and reporting on business taxes paid, and that it may lead to greater scrutiny. Nevertheless, we believe that the advantages outweigh the disadvantages. We suggest that the Total Tax Contribution concept could provide a framework for companies to satisfy the desire of stakeholders for more information on taxes and to promote a greater understanding of the taxes companies pay among analysts, investors, financial journalists and employees as well as governments, politicians and tax authorities.

The principles discussed in this paper are of international application. Multinational companies obviously operate across a number of countries and in concept the Total Tax Contribution should be calculated on an international basis. However, as an initial step we have looked at the principles as applied to the taxes imposed in the UK. This is partly for practical reasons as an international exercise would be much wider in scope. However, it should provide 'proof of concept' in relation to the principles. The next step is to extend the work to taxes in the US, Europe and beyond.

It is also worth bearing in mind that companies will wish to communicate different elements of their Total Tax

Contribution to different stakeholders. Any focus on tax paid in an individual country will need to highlight the taxes paid there (UK taxes in discussions with the UK Government for example). The wider, global contribution will also need demonstrating to show for example the pattern of taxes across the countries where the company operates and how this relates to the business model. Thus it would be wrong to proceed on the basis that, in using the Total Tax Contribution approach, only global tax data will be relevant.

The research for this paper has been carried out by a team made up of specialists from different parts of the PricewaterhouseCoopers business, including the PwC Economics Unit, the Sustainability Business Solutions team (which assists clients on corporate responsibility matters, including reporting), as well as the tax practice. Our thinking has been informed by our survey of the heads of tax of 70 of the largest companies doing business in the UK. We have also had the benefit of insight and assistance from a smaller group of companies, both in discussing the principles and also seeking to apply those principles to their own tax positions.

In writing this paper it is our aim to bring the concepts to, and to share the PricewaterhouseCoopers framework with, a wider group of interested stakeholders who have an interest in increasing transparency over the contribution of large business in taxes.

8. Appendices

Appendix 1: Survey questionnaire

Total taxes – what is the economic contribution of large business in taxes?

- (1) Do you think that there is sufficient understanding among investors, employees and other stakeholders about the company's economic contribution in taxes?

Yes/No

- (2) Would you be concerned about negative press coverage of the company's corporate tax planning?

Yes/No

- (3) Does your company pay corporation tax in the UK?

Yes/No

- (4) Does your company collect data on the amounts of business taxes paid in the UK?

Please indicate yes/no/not applicable for each of the following

Corporation tax	Excise duties
Employers NIC	Vehicle excise duty
Business rates	Air passenger duty
Irrecoverable VAT	Insurance premium tax
Stamp duty	Climate change levy
Stamp duty land tax	Landfill tax
Stamp duty reserve tax	Tonnage tax
Petroleum revenue tax	Aggregates levy
Customs duties	Other (please specify)

- (5) Which of the above are most important for the company?

- (6) Does your company include information on the main business taxes paid (including corporation tax) in its corporate responsibility or sustainability reporting? (ie. as opposed to information on corporation tax provided in its financial statements)

Yes/No

- (7) Does your company provide information in any form on the main business taxes paid (including corporation tax) to investors, employees, government or other stakeholders?

Yes/No

If yes, please give brief details:

- (8) In your view, would it be helpful to have greater visibility around the business taxes paid by the company?

Yes/No

- (9) Please estimate what would be the tax rate of your company if this was calculated as the total business taxes paid as a percentage of profits (before these taxes). Would it be:

- a) < 30%?
- b) 30-40%?
- c) 40-50%?
- d) 50-60%?
- e) > 60%?

- (10) In your view, would the development of an accepted reporting standard for the company's Total Tax Contribution:

- a) be a positive step
- b) make no difference
- c) be a negative step

- (11) In your view, what is/would be the single most important driver for measuring your company's Total Tax Contribution?

- a) internal tax management purposes
- b) corporate social responsibility reporting purposes
- c) tax benchmarking purposes
- d) to satisfy investors

- (12) Please give any other comments:

Appendix 2: Brief overview of the UK's taxes (figures taken from December 2004 Pre-Budget Report)

Tax	Notes	Projected yield £bn 2004-05	% of tax receipts
1 Corporation tax (CT)	The main company profits tax in the UK.	32.4	7.6
2 Capital gains tax (CGT)	Companies pay corporation tax on chargeable gains but included here as a separate item.	2.0	--
3 Income tax (includes PAYE)	Paid by individuals and trusts; PAYE is the main collection mechanism. Worth bearing in mind that it is strictly a temporary tax! Figures are net of tax credits.	123.7	29.1
4 VAT	The UK's sales tax, governed by EU law so a common regime throughout the EU.	73.5	17.3
5 Stamp duty	Now only on share transfers @ 0.5%.	8.8	2.1
6 Stamp duty land tax	Introduced by Finance Act 2003 to replace stamp duty on land and property: rates reach 4% above £500,000.		
7 Stamp duty reserve tax (SDRT)	Levied on agreements to transfer chargeable securities, e.g. UK shares or rights relating to UK shares, for a consideration in money or money's worth.		
8 National insurance (NICs)	Paid by employees, employers and self employed to fund the national insurance fund though for practical purposes it is just part of tax revenues.	77.7	18.3
9 Inheritance tax (IHT)	Effectively death duties; very important for owners of businesses but not for the company.	2.9	--
10 Petroleum revenue tax (PRT)	Imposed on the profits of oil companies (broadly total receipts less specified deductions) from winning oil in the UK and certain other offshore locations.	1.5	--
11 Tonnage tax	An alternative regime for calculating profits and corporation tax on shipping companies.	--	--
12 Customs duties	Levied on goods imported into the UK/EU (which is of course a Customs Union).	2.1	--
13 Excise duties	Levied on the production of certain goods produced in the UK eg alcohol, cigarettes, hydrocarbon oil.	39.5	9.3

Tax	Notes	Projected yield £bn 2004-05	% of tax receipts
14 Betting duties	Previously levied on various types of gambling (e.g. bingo, on and off course betting, gaming licences and machines). General betting duty of 6.75% on stakes has been replaced by a 15% tax on bookmakers' profits, with similar changes for football pools and, from August 2003, bingo.	1.4	--
15 Business rates	Collected by local Government with the rate fixed by central Government.	19.0	4.5
16 Council tax	A local property tax levied on most private households to contribute to the cost of local Government and services.	19.7	4.6
17 Vehicle excise duty	The road fund licence or tax disc.	5.0	--
18 Air passenger duty	A departure tax levied on most air travel.	0.9	--
19 Insurance premium tax	Levied on general insurance contracts, with certain exceptions e.g. life assurance and certain long term insurance.	2.5	--
20 Landfill tax	Charged on the disposal of waste in landfill sites, levied on the operator of the site.	0.7	--
21 Climate change levy	Charged on the taxable supply of 'taxable commodities' for businesses e.g. electricity, gas supplied by a gas utility, liquid petroleum gas, coal, coke and lignite.	0.8	--
22 Aggregates levy	Levied on the commercial exploitation of sand, gravel and crushed rock extracted in the UK or imported into the UK.	0.3	--
23 Lorry road-user charge	A new levy, still under design following announcements in the 2002 Budget. In due course it will apply to all lorries on UK roads, with a significant reduction in VED to balance things out.	--	--
24 Congestion charge	The £5 levy for driving into central London introduced in February 2003. Durham also has a (much smaller) road charging scheme	(Not recorded as a Government receipt)	--
25 Other taxes and royalties		11.3	--
TOTAL TAXES		425.5	100%



John Whiting

John is head of tax policy for PricewaterhouseCoopers in the UK and has been a tax partner since 1984. He has been involved with employment taxes for many years; he also leads PwC's client tax training activities, which involves projects for many leading Plcs.

John is a frequent lecturer and writer on a wide variety of taxation topics; his views on tax issues are constantly sought by both broadcast and print media. A past president of the Chartered Institute of Taxation, John has regular high level contact with the Inland Revenue, Customs and Excise, Treasury and Ministers over tax developments and proposals and has appeared before Commons and Lords Committees to discuss taxation matters regularly in recent years. He has a continuing role within both PwC and the CIOT on tax policy.

1 Embankment Place,
London WC2N 6RH

Telephone: 020 7804 4422

Facsimile: 020 7213 3567

john.whiting@uk.pwc.com



Susan Symons

Susan is a senior client tax partner. She has more than 30 years experience of tax and works with leading groups to optimise their tax cost and enhance shareholder value.

As one of PwC's most experienced partners, Susan is well known in the market place and works with leading clients on global tax management and planning and dealing with tax authorities. Susan works with several groups of clients which have been formed to develop a constructive dialogue with key EU and Member States' tax policy makers to increase their understanding of business issues and the impact of tax policy on business. Susan also runs the PwC heads of tax development programme for the tax directors of the largest companies doing business in the UK.

Prior to joining Price Waterhouse in 1987, Susan spent 16 years with the Inland Revenue, including a spell in International Division.

1 Embankment Place,
London WC2N 6RH

Telephone: 020 7804 6744

Facsimile: 020 7213 2432

susan.symons@uk.pwc.com



Jennifer Woodward

Jennifer is a senior manager in the PricewaterhouseCoopers Sustainable Business Solutions practice. She has more than six years experience helping clients with corporate responsibility strategy, reporting and communications, and assurance. Her reporting work includes advising companies on responding to the new OFR regulations and assisting with development of reporting frameworks for corporate responsibility issues.

Jennifer's main focus is on the social dimensions of corporate responsibility: human rights, employee matters and responsible supply chain management. Increasingly her work also considers the socio-economic impacts of business and current projects include helping a technology company to develop a framework for reporting on the impacts of its products and services.

Prior to joining PwC's Sustainability team, Jennifer worked on secondment at Business in the Community (BiTC) where she researched and published: 'Business in Society: Assessing the Impact'. Jennifer has provided input to the initiatives of many leading corporate responsibility organisations including the Global Reporting Initiative, the WBCSD, FTSE4 Good and AccountAbility (AA1000).

1 Embankment Place,
London WC2N 6RH

Telephone: 020 7804 1871

Facsimile: 020 7212 3218

jennifer.woodward@uk.pwc.com



Andrew Boucher

Andrew is a director with PricewaterhouseCoopers, specialising in international tax structuring. Andrew has 17 years of experience, working in tax both as a professional advisor and in industry posts. Andrew works with organisations on long term tax planning and strategy development projects and also has substantial international tax planning experience.

Prior to joining PwC he held the post of European tax manager at Smith & Nephew plc and also established and headed the EMEA tax team at Andersen Consulting (now Accenture).

1 Embankment Place,
London WC2N 6RH

Telephone: 020 7213 1165
Facsimile: 020 7804 5086

andrew.boucher@uk.pwc.com



Janet Kerr

Janet is a senior manager who, as a Chartered Accountant and Chartered Tax Adviser, has experience in both the audit and tax practices of PricewaterhouseCoopers, advising international clients on a wide range of issues.

Janet is currently part of the PricewaterhouseCoopers WINS team, providing in-depth corporate analysis. She reviews companies' tax strategies, benchmarking their tax ratios in the context of a relevant peer group and has co-authored a report on tax benchmarking in the retail and consumer sectors. Specialising in shareholder value analysis, Janet links tax strategy to its impact on shareholder value.

1 Plumtree Court,
London, EC4A 4HT

Telephone: 020 7804 7134
Facsimile: 020 7804 4660

janet.kerr@uk.pwc.com

