May 2018: *A review of the FTSE100 for 2017 year ends*

Shaping the tax transparency debate

Trends in voluntary reporting

Fifth edition

www.pwc.co.uk/ftse100reporting

Overview

The fifth edition of 'Trends in Tax Transparency', reviewing tax disclosures in the FTSE100, reveals an increase in tax transparency over the last 5 years. A few companies are making innovative disclosures and shaping the debate. Others are developing a strategic response to the changing tax transparency landscape.

How have companies responded to the new mandatory requirement for a public tax strategy?

Tax strategy statements ranged from a brief summary, covering the legislative requirements, to more in-depth disclosures. 25 companies made a reference to low tax jurisdictions and a third to transfer pricing. The leaders are shaping the transparency debate with fourteen companies publishing a standalone tax report in 2017.

Are public statements followed in practice?

A fundamental issue for companies making tax disclosures is to ensure that any public statements are supported by operational practice and strong systems of internal governance and control. Almost all of the FTSE100 are referring to governance over tax, compared to just 37 companies five years ago. 71 companies referred to risk frameworks or controls.

Country-by-country reporting (CbCR)?

31 companies provided some breakdown of their taxes around the world, largely extractive and financial services companies following legislative requirements. Four companies voluntarily expanded this disclosure to include a form of public CbCR. Companies provided further context on their tax affairs with 37 companies providing detail on taxes other than corporation tax and 24 companies explaining why the tax charge and tax paid differed.

Are there new areas of focus this year?

With unprecedented changes to the tax environment, companies are providing detail on the resulting risk with explanations on the impact of US tax reform, the EU's investigation into state aid, the UK's decision to leave the EU and the OECD BEPS initiative.

How should companies decide what disclosures to make?

We suggest companies should develop a strategic response: 'Transparency to whom and for what purpose?' Who are your stakeholders and what do they want to know? What are you required to disclose? What additional information would be useful to help with that understanding? We're not suggesting that companies should disclose more. But a strategic response will identify where additional disclosures could create value and be helpful.

Approach to tax

2017
95
+29
2016
66

The approach to tax was disclosed in some way by 95 companies, almost all of the FTSE 100. This is an increase of nearly 50% from 2016 when 66 companies made this disclosure. This is unsurprising given the Schedule 19 FA 2016 requirements for a public tax strategy. The 5 companies without this disclosure were either not required to publish a strategy (e.g. investment trusts) or their year-end means they had not published by March 2018.

Of note this year however is the more extensive detail provided by some companies on transfer pricing and low tax jurisdictions. Transfer pricing disclosures (33 companies) ranged from a statement of compliance with OECD principles to details of benchmarking activity and the mechanics of transfer pricing. Narrative around low tax jurisdictions (25 companies) included details of the number of subsidiaries in low tax jurisdictions and why they exist.

One question often asked is whether disclosures of company tax strategies are bland, boilerplate statements, or include more detailed commentary, providing insight into how tax is managed in the business.

A more comprehensive review of tax strategies begins to answer that question. Of these 95 companies, 41 companies went further than the legislative requirements, while 14 provided a significant amount of depth and narrative explaining their approach to tax, how their tax strategy is aligned to the wider business, commenting on reputational issues and some also show the link between tax and the business model.

A coherent disclosure of a company's approach to tax is vital, without which it is difficult to put other disclosures into context. Companies developing their public strategy disclosures are working with corporate responsibility teams, investor relations and developing a broader briefing document for the board.

Benefits of disclosing an approach to tax?

For companies seeking to:

- Address interest from stakeholders in the principles the company applies.
- Demonstrate how their tax strategy aligns with the wider business strategy.

Tax governance

2017
98
+32
2016
66

Tax governance refers to the company's approach to risk management and the responsibility for oversight of tax affairs. There is a significant increase of 32 this year with 98 companies now explaining that there is governance over tax at the highest levels in the business e.g. board or audit committee. Again, this increase is unsurprising since tax risk management and governance arrangements is a feature of the legislative requirements.

Publication of a tax strategy is not a simple exercise and companies need to build trust with their key stakeholders that the strategy reflects how the business operates. The level of detail, which can provide stakeholders with further comfort that their tax affairs are properly managed, varied between companies. Thirty-eight companies discussed the delivery of the tax strategy.

The format for tax governance disclosure is evolving; companies are now disclosing the processes used in the tax department to ensure compliance and effective management of tax risk. This can reassure stakeholders that the company recognises tax compliance as a priority and is conscious of its tax risk appetite.

One particular area of the **FRC's** thematic review was around the disclosures companies are making as regards their uncertain tax positions. For 2017 year ends, we found that 34 companies discussed their uncertain tax positions with 23 quantifying those uncertain tax positions. Eleven companies expanded further on these and provided insight on how these uncertain tax positions were determined.

Benefits of disclosing your tax governance?

For companies seeking to:

- Give comfort to investors that tax affairs are overseen at an appropriate level.
- Provide insight into the controls in place to manage the tax risks.

***71** Companies disclose details of risk frameworks or controls*

***38** Companies discuss delivery of the tax strategy*

Cash tax reconciliation

2017
24
+5
2016
19

Reconciliation of cash tax to the tax charge is a voluntary disclosure which sets out the differences between the tax charge disclosed in the financial statements and the corporation tax paid by the group. It's a disclosure that is less common but is provided by companies seeking to explain to stakeholders how the tax charge in the accounts relates to the tax paid to the Government.

Our review shows that 24 companies in the FTSE100 provided an explanation of the differences between these two numbers; 10 companies disclosed this by means of a table and the other 14 by way of discussion. The total number of companies disclosing this year is an increase from the 19 companies reporting for 2016 year-ends.

This disclosure can help to enhance the understanding of the impact that the payments on account regime and deferred tax have on the tax paid by the company.

Benefits of disclosing a cash tax reconciliation?

For companies seeking to:

- Explain how actual tax paid to revenue authorities relates to the financial result of operations.
- Give greater visibility over corporation tax paid.

Total Tax Contribution

2017
37
-1
2016
38

Companies are liable to pay many other taxes in addition to corporation tax. **Total Tax Contribution** quantifies the total amount of taxes generated by a company and contributed to the public finances. Our framework clearly distinguishes between taxes borne by companies and taxes collected from others on behalf of Government.

For 2017 year ends, 37 companies provided some information about their Total Tax Contribution, often analysing this amount by the types of taxes paid. This is more prevalent in the financial services and extractives companies, where public disclosure of information on a country-by-country basis is already required. The small decrease from 2016 year-ends is due to changes in the make up of the FTSE100.

Some companies disclose this figure as part of a discussion, but others show the contribution using pie charts and graphs.

Breaking down Total Tax Contribution by the type of tax paid is particularly effective in highlighting the sector-specific taxes faced by some groups – such as business rates for retailers, irrecoverable VAT and the bank levy for banks and royalties for extractives – emphasising the importance of other taxes as well as corporation tax, where there would otherwise be little visibility.

Total Tax Contribution is increasingly being used as a measure of a businesses' wider contribution to the economy. Almost half of the FTSE100 include tax in some form of economic value added discussion.

Our survey of the 100 Group explores the Total Tax Contribution and wider economic impact of the UK's largest listed companies. *www.pwc.co.uk/100group*

Benefits of disclosing Total Tax Contribution?

For companies that are seeking to:

- Highlight the breadth and amount of taxes generated by the business.
- Explain tax as part of an economic impact measurement disclosure.

Geographic reporting

Geographic reporting remains on the agenda for governments and regulatory bodies worldwide. There is increased focus on whether tax provisions and payments made by large multinationals reflect their commercial operations in each jurisdiction where they operate. The current discussions on public country-by-country reporting are focused on this area of disclosure.

We found that 31 companies are currently providing some breakdown of their taxes around the world, either by region or country, an increase of 1 compared to 2016.

Four companies have voluntarily expanded this disclosure to include a form of public CbCR, including revenue, profits and tax paid around the world.

Of the 31 that reported a geographic breakdown, seven are extractive companies and eleven are banks or related to financial services. This reflects the mandatory reporting regimes **(EITI, CRD IV)** that already apply to these sectors. It is worth noting that some companies in the FTSE 100 operate their businesses almost entirely in the UK. As such, very little tax is generated in other countries, making this disclosure less meaningful.

Benefits of disclosing taxes on a geographic basis?

For companies that are seeking to:

- Highlight their contribution to public finances in different territories.
- Supplement any corporate and social responsibility reporting around specific territories.

Transparency by sector

Transparency varies by sector. The utilities and extractive sectors are leading the transparency debate, and with operations in various communities they may wish to use their extensive transparency disclosures to engage with stakeholders.

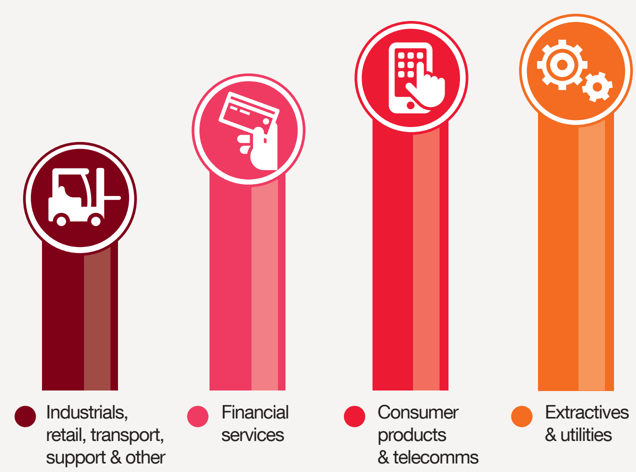
Similarly multinational companies with complex corporate structures such as consumer products and telecoms are using tax transparency to help explain their tax affairs more fully.

Following the financial crisis, the financial services sector provided more details around its tax affairs to explain its contribution in taxes. But other sectors are further behind on the transparency journey.

Our suggestion is that companies develop a strategic response to transparency, asking the question “Transparency to whom and for what purpose?”, providing additional disclosures where they add value.

Transparency by sector

Data is based on the average transparency score for companies in each sector.



Our methodology

- We reviewed the annual reports for financial years ending between January and December 2017, for all companies listed in the FTSE 100 at 31 December 2017. Figures for 2016 are for all companies listed in the FTSE 100 at December 2016, therefore the trends shown represent the FTSE 100 group at the time of review, and are not on a like-for-like basis year on year.
- We reviewed the most recent publicly available corporate reports, social responsibility reports, and additional tax reporting documents publicly available at 31 March 2018. We explored each company's website, searching for any other information that relates to tax reporting.
- Our review uses the PwC Tax Transparency Framework, a set of more than 40 broadly defined tax transparency indicators, to assess the disclosures made.
- Five of these indicators are discussed in detail in this publication.

The following tax developments occurred in 2017 which prompted companies to focus on communicating their tax affairs:

- ***Schedule 19 FA 16*** required many large companies to make a public disclosure of their tax strategy for accounting periods ending after 15 September 2017.
- ***The EU Council of Ministers*** continued to debate the draft directive of public country-by-country data.
- ***Comprehensive US Tax Reform*** was passed in December 2017.

The winners of our twelfth Building Public Trust Awards for Tax Reporting – recognising companies making leading voluntary tax disclosures – will be announced in November 2018. The publication shown contains over 50 examples of reporting from companies in the FTSE 350.

www.pwc.co.uk/ftse100reporting

How can we help you?

As this report shows, tax disclosures are changing. We can assist you in understanding how your current and proposed disclosures compare to your peers using a benchmarking report. Please contact one of the following for more details:

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