Tax Transparency
Trends in voluntary tax disclosures

May 2015

Launch

www.pwc.co.uk/ftse100reporting
The UK’s biggest companies remain under pressure to respond to the various stakeholders who are interested in their tax affairs. This increased attention, alongside the proposed country-by-country legislation, has helped to drive the trend towards increased tax transparency, as shown by the findings in this publication. In this current environment, it’s important for companies to be confident in their internal communication strategies and public disclosures on tax.

In the first four months of 2015 there have been two cases of questionnaires being sent to the whole FTSE100 group – one by a Civil Society Organisation (CSO) and the other by an investor – with questions around tax governance, country-by-country payments and tax risks. While companies decide the best approach for responding to these requests, many have seen value in being able to direct the interested parties to their existing public disclosures.

Large companies are focusing on complying with the requirements of country-by-country reporting under the OECD’s BEPS Action Point 13. In the UK, this will apply for accounting periods beginning on or after 1st January 2016, and will require disclosure to tax authorities.

With the likelihood that – with CSO and media pressure – some form of public disclosure around these numbers will be required in the future, companies are starting to consider how best to explain their approach to tax, and whether further commentary will enhance transparency and stakeholder understanding of the numbers.

While the public debate around tax has been prominent in the UK for a number of years, we are now seeing the issue become more international. In Spain, IBEX35 companies are responding to new requirements around tax strategy and governance procedures, whilst in Australia, work is being done on a code for corporate transparency.

In this context it is noteworthy that we have seen significant increase in the number of companies disclosing their approach to tax governance and their Total Tax Contribution.

In our view, there is no ‘one-size-fits-all’ for the extent of public disclosures around tax. However, what is clear, is that the level and variety of voluntary disclosures around tax are helping to shape the tax transparency debate.

We hope you find the second edition of our tax transparency review of the FTSE100 helpful. I would be interested in hearing your thoughts on how tax reporting should develop.

Andrew Packman
Tax Transparency and Total Tax Contribution Leader

Our methodology

• We reviewed the annual reports for financial years ending between January and December 2014, for all companies listed in the FTSE100 at 31 March 2015. 2013 figures are for all companies listed in the FTSE100 at March 2014; therefore trends represent the FTSE100 group and are not on a like-for-like basis.

• We reviewed the most recent corporate and social responsibility report available. We explored each company’s website, searching for additional tax reporting information.

• Our review is strictly limited to publicly available information and uses our Tax Transparency Framework, a set of more than 30 broadly defined tax transparency indicators.

• Five of these areas are discussed in detail in this publication.
Approach to tax

The approach to tax was disclosed in some way by 56 companies, over half of the FTSE100. This has increased from 2013, when the number disclosing their approach to tax was 49.

Roughly half of these disclosures were found in the annual report, with the rest coming from a variety of sources. Almost 20 companies have included this disclosure on a webpage or as a separate statement of tax policies, a handful can be found in corporate responsibility reports, and three companies have published standalone tax reports.

These disclosures tend to set out the main tax principles of the group, and often include a discussion around relationships with tax authorities. Many companies state their attitude towards tax planning, with some going into further detail of their views on low-tax jurisdictions and transfer pricing.

A number of companies refer to the CBI’s statement of tax principles, the Code of Practice on Taxation for Banks, and achieving a ‘low-risk’ tax status from HMRC.

Who discloses their approach to tax?
Companies that seek to:
- Address interest from stakeholders in the principles the company applies
- Demonstrate how their tax strategy aligns with the wider business strategy.

Tax governance

Tax governance refers to the company’s approach to risk management and the responsibility for oversight of tax affairs. We identified 50 companies providing some details of tax governance procedures, which is an increase of 13 compared to the 37 who disclosing this in 2013.

Stakeholders tell us that they are increasingly looking for confirmation of whether companies have appropriate governance systems and controls in place. They are interested in whether tax strategy and risks are discussed outside the tax department – this may be in the form of a board-reviewed tax policy or that tax has been discussed by the Audit Committee during the year.

Companies may be challenged by stakeholders over the details of their tax governance. It is therefore important to ensure that there are underlying processes and controls which support public disclosures around governance.

Who discloses their approach to tax governance?
Companies that seek 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.

Cash tax reconciliation

Reconciliation of cash tax to the tax charge is a voluntary disclosure which sets out the differences between the tax charge and the corporation tax paid by the group.

Still relatively unusual, we found that 14 companies in the FTSE100 provided the differences between these two numbers, which is the same as the number of companies reporting for 2013 year-ends.

Six of these companies disclosed a numerical reconciliation using a table or a ‘waterfall’ chart, while the others gave a descriptive explanation.

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

Who discloses their cash tax reconciliation?
Companies that seek to:
- Explain how actual tax paid to revenue authorities relates to the financial results of the operations
- Give greater visibility over corporation tax paid.
Companies pay far more in taxes than just corporation tax. Total Tax Contribution quantifies the total amount of taxes generated by a company and contributed to the public finances. It clearly distinguishes between taxes borne by companies and taxes collected on behalf of others.

We found that 40 companies provided some information about their Total Tax Contribution, often analysing this number by the types of taxes paid. This has increased by 16 companies from the 24 that disclosed this in 2013.

Some companies disclose this figure as part of a discussion, but many 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.

Total Tax Contribution data is compiled on a cash paid basis. The cash tax reconciliation explored above explains the difference between corporation tax paid and charged.

Geographic reporting

Geographic reporting remains on the agenda for governments and regulatory bodies worldwide. There is increased focus on whether tax provisions and payments of large multinationals reflect their commercial operations in each jurisdiction where they operate.

We found that 25 companies are currently providing some breakdown of their taxes around the world, either by region or country. This has increased since 2013 when the number reporting this was 22.

The small increase in geographic reporting disclosures isn’t surprising. With the country-by-country requirements under BEPS coming into force next year, many companies in the FTSE100 will have been gathering this data for the first time for 2014 year-ends. This would have allowed companies to assess their position internally while considering whether, and how, to make these disclosures public in future years.

Sixteen companies included some discussion around country-by-country reporting requirements in their public reporting – for eight of these, the discussion was around the upcoming requirements under BEPS, and for the remaining companies it was around existing initiatives, such as EITI for extractives and CRD IV for banks.

Of the 25 that reported, eight are extractive companies and four are banks. This reflects the mandatory reporting regimes (mentioned above) that already apply to these sectors.

It is worth noting that some companies operate their businesses almost entirely in the UK. As such, very little tax is generated in other countries, making this disclosure less meaningful.

Who discloses their Total Tax Contribution?

Companies that seek to:

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

Who discloses taxes on a geographic basis?

Companies that seek to:

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

Some companies are responding to scrutiny over their tax affairs by publishing increasing amounts of information – explaining more about their approach to tax, providing detail on their tax numbers and disclosing their Total Tax Contribution. In our experience, many more large UK companies are responding internally to the changing tax environment – by reviewing and updating their tax governance frameworks and their communication strategy for tax.

We see this move towards increased tax transparency as part of a trend which we expect to continue in 2015.
To find out more, please contact:

**Mary Monfries**
T: +44 (0) 20 7212 7927  
E: mary.c.monfries@uk.pwc.com

**Andrew Packman**
T: +44 (0) 1895 522 104  
E: andrew.packman@uk.pwc.com

**Giovanni Bracco**
T: +44 (0) 20 7804 4059  
E: giovanni.bracco@uk.pwc.com

**Janet Kerr**
T: +44 (0) 20 7804 7134  
E: janet.kerr@uk.pwc.com

**Duygu Turkoglu**
T: +44 (0) 20 7804 3634  
E: duygu.turkoglu@uk.pwc.com

**Lauren Sparks**
T: +44 (0) 20 7804 1982  
E: lauren.c.sparks@uk.pwc.com