Building Public Trust Through Tax Reporting

Creating clarity or confusion?

Launch

https://www.pwc.co.uk/services/tax/insights/building-public-trust-through-tax-reporting.html

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Foreword

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Tax Transparency and Total Tax Contribution Leader

PwC UK

Today's tax professional operates in a challenging world, characterised by uncertainty, complexity and increasing scrutiny. Governments continue to balance the need to raise revenues with the desire for a tax regime which attracts and retains business and encourages it to grow. A broad range of stakeholders are asking whether companies are paying their 'fair share of tax' and there has been a decline in public trust, particularly in large business.

Speaking recently on the topic of tax transparency at an international forum for tax professionals, I was struck by the different views in answer to the question "is greater public transparency over tax needed?" The ensuing debate focused on two areas: the international perspective and the purpose of greater tax transparency – would it rebuild trust in large business?

Looking at the international perspective, we see some countries, such as the Nordics, at the forefront of transparency. In Norway, for example, details of personal income and taxes are published on the internet in 'tax lists'. In Sweden and Finland, it is possible to request such details from the tax authorities. At the corporate level, an asset manager[1] operating in Norway recently published a paper on 'tax and transparency' indicating that 'public country-by-country reporting is a core element of corporate tax disclosure'. The Australian Tax Office issued a voluntary 'Tax Transparency Code' consisting of a set of principles and minimum standards to guide businesses on public disclosure of tax information. In the UK, we have seen the introduction of the requirement for a public tax strategy. However, contrast these countries with, for example, Germany and the US, where there is much less of a focus on tax transparency. The tax landscape differs around the world and the international perspective must be navigated with care.

Turning to the second area, of whether transparency will rebuild trust in business, it's helpful to consider some of the reasons for the decline in trust in large business. The surge of populism in recent years (which some would argue contributed to Brexit and the election of President Trump) is a reaction to the events of the last ten years, reflecting the varying impact of globalisation and the associated issue of inequality. The long held belief that future generations will be better off no longer holds true. Some people feel worse off, insecure and do not see that their children's future will be better than theirs. Large business is sometimes seen as 'out of touch' and having little relevance to the communities in the countries where they operate. This, together with the financial crisis and what the media describes as tax scandals has damaged trust in business.

"No amount of transparency over tax will make us the 'good guys!'"

This comment, by a Head of Tax, expresses a view of the tax transparency debate. One interpretation of this might be that companies should say as little as possible about tax given it's not possible to influence the public debate and the more that is said about tax, the greater the scope for misunderstanding.

Can greater transparency rebuild trust? It is clearly important to consider the strategic response to this challenge and this will differ between companies. For some, further narrative explanation of the approach to tax will enhance relationships with stakeholders which will help to build trust in their tax affairs, particularly where there are operations in developing countries or where the business has government contracts or well known brands. For others, the complexity of tax and the risk of confusion due to data being misunderstood or misused is a concern. It's important to consider the question of "Tax transparency to whom and for what purpose?"

1 https://www.nbim.no/en/responsibility/risk-management/tax-and-transparency/

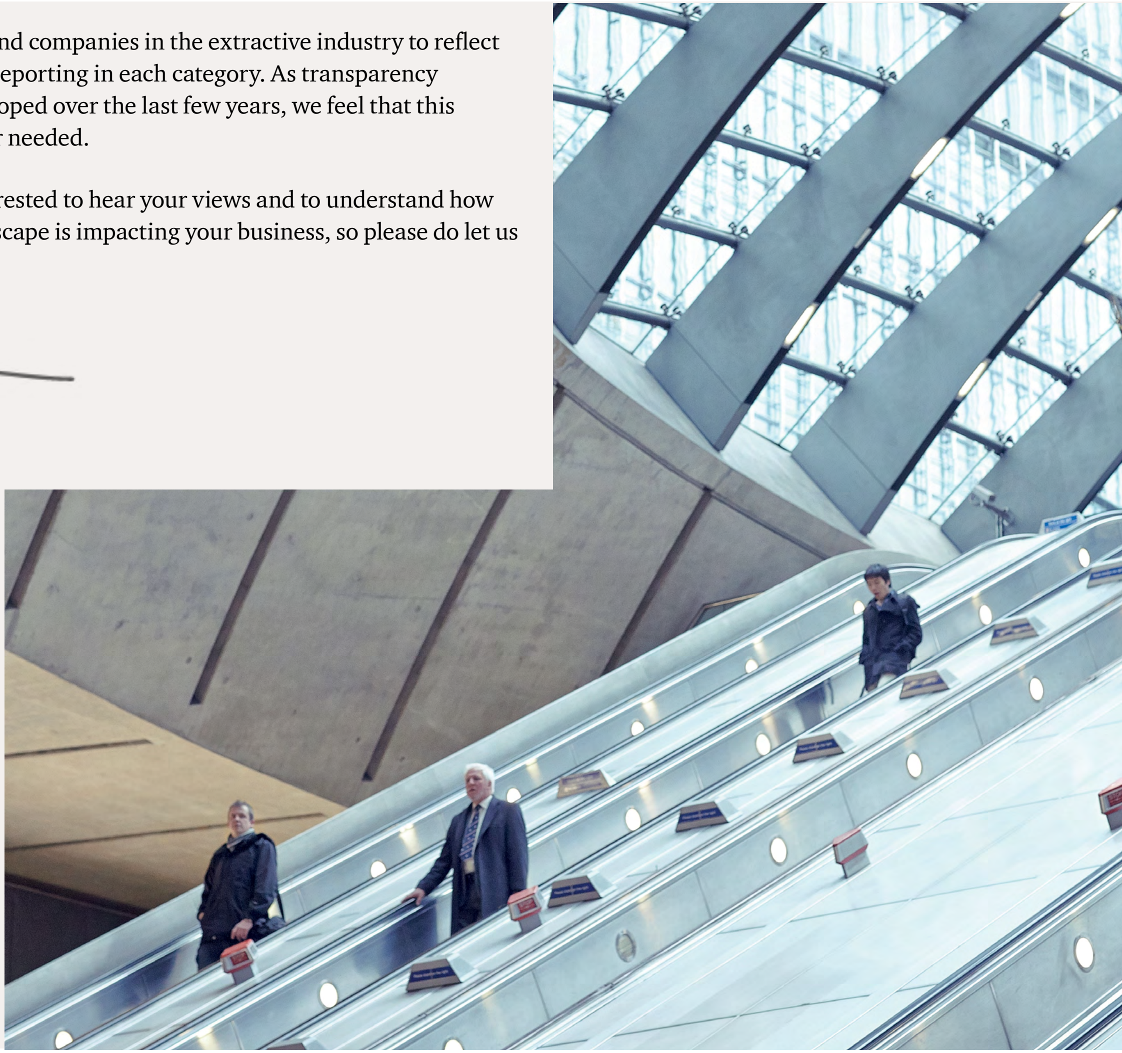
As our report shows, the trend towards greater voluntary transparency continues. In part, this is driven by increased legislative requirements, both for a public tax strategy and for country-by-country reporting to tax authorities. We explore developments in both these areas in the report, but tax transparency is more than a legislative requirement. A successful society is needed for a business to thrive and tax revenues support the broader society of which the company is part. This year, the report explores the links between tax and the business model and then between tax and corporate responsibility, bringing in the broader economic, social and environmental contribution.

The debate is complex. The last year has, however, seen a more informed conversation, assisted in part by the leaders highlighted in this review and it is against this backdrop that we present this insight into voluntary reporting. We summarise the background to the mandatory requirements for tax transparency and then provide examples of how companies are responding, using voluntary tax disclosures to tell their story. As always, there is a range of approaches and it's important to consider the value that increased transparency will bring. For some companies, where the business case is insufficient, there will be little activity in this area. Others, however, have dedicated time and energy into developing voluntary disclosures and are driving the debate on tax transparency; we applaud their efforts while recognising that for others this is simply not a priority.

Our review of public disclosures uses a range of criteria, broadly divided into tax strategy, tax governance and risk management, tax numbers and performance and Total Tax Contribution and the wider impact of tax. We use a detailed scoring matrix and this publication provides examples of good practice identified through that process. In previous years, we have separated the extracts into examples from multinational corporations, UK-focused business and companies in the extractive industry to reflect the different levels of reporting in each category. As transparency disclosures have developed over the last few years, we feel that this distinction is no longer needed.

As always, we are interested to hear your views and to understand how the changing tax landscape is impacting your business, so please do let us know your thoughts.

Andrew Packman



The UK requirement for a public tax strategy

The UK requirement for a public tax strategy

The requirement to publish a tax strategy as it relates to UK taxation was introduced in the 2016 Finance Act. The Financial Secretary to the Treasury at that time acknowledged the increasing number of UK businesses making a public statement about their approach to tax but alongside these, the small number of businesses 'persistently engaging in tax avoidance or highly aggressive tax planning, and not engaging with HMRC'. The legislation was introduced as an attempt to 'level the playing field for all'.

Who is within scope of the legislation? It applies to both groups considered 'qualifying' under Senior Accounting Officer (SAO) thresholds (£200m turnover or £2bn assets) with parent companies inside and outside the UK. It also includes UK companies with a parent subject to OECD BEPS Country-by-country (CbCR) reporting or which would be subject to CbCR in the UK if their foreign parent were UK resident.

What should the strategy cover? There are four areas: the approach of the UK group to risk management and governance arrangements in relation to UK taxation; the attitude of the group towards tax planning (so far as it affects UK taxation); the level of risk in relation to UK taxation that the group is prepared to accept; the approach of the group towards its dealings with HMRC.

When is first disclosure required? The deadline for first publication, which should be on the internet, is before the end of the first financial year commencing after 15 September 2016. There is a penalty regime for non compliance with fines of at least £7,500.

Practical implications

While it is still early days (October 2017), we've seen a range of responses to the legislative requirements

Common Questions	PwC insight
Should I prepare a UK or a global tax strategy?	While the requirement is for a UK tax strategy, overseas tax authorities will be able to review the UK disclosures and query whether (and why) the strategy in their territory differs.
Is an internal strategy document required to back up external statements?	A longer, internal strategy document can be helpful to provide more content and backup for the external statement. It might cover areas such as specific links to the broader business strategy statement, guidelines for how the strategic tax objectives will be delivered, the organisation and roles of the tax team, and the detailed governance framework supporting public statements.
Should I publish evidence that the strategy is being applied?	There is no direct requirement although the legislation requires a statement of the group's approach to risk management and governance arrangements. HMRC may ask to see evidence of the processes in place to ensure the strategy is being applied and some groups are preparing 'tax risk and governance' framework documents to summarise their processes.
Is there a case for including additional voluntary disclosures around the tax strategy, eg transfer pricing and low tax jurisdictions?	Consider the question 'transparency to whom and for what purpose?' Greater disclosure may not be appropriate but if it would create value in terms of enhancing reputation or building trust with stakeholders, then there is a stronger case for including additional voluntary disclosures.

The UK requirement for a public tax strategy

How have companies responded?

To date (October 2017), we are aware of around 250 public tax strategies on the web. These are from a range of entities, including UK and foreign based businesses both public and private and a number of different approaches have been adopted.

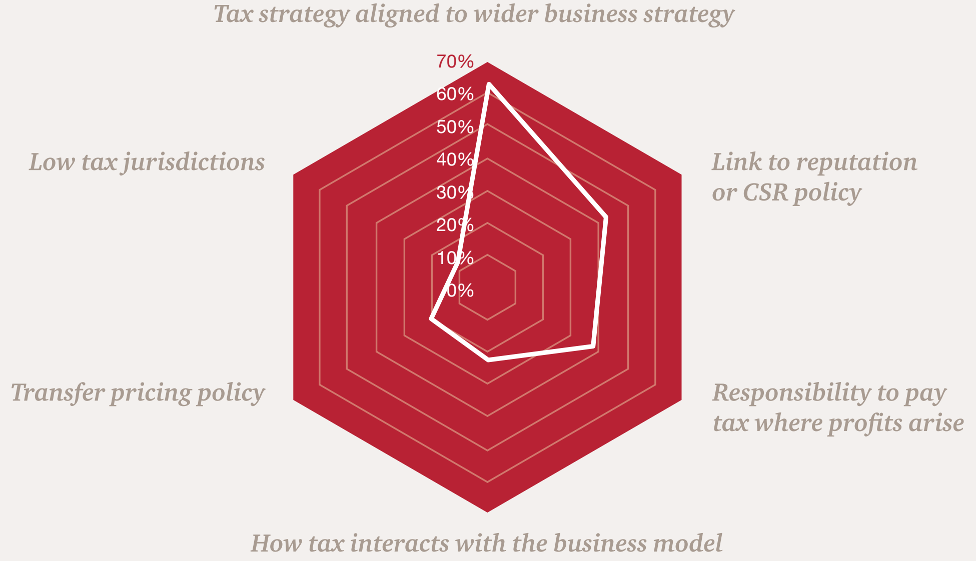
Compliance with legislation

The strategies reviewed cover the four areas of the legislation described although some are more explicit than others around the 'level of acceptable risk that the group is prepared to accept' which is one of the requirements of the legislation. Even if the group has no defined 'level of acceptable risk', a reference to that phrase provides a signpost for the reader that the particular area is being addressed. HMRC has issued guidance on the legislation, highlighting areas to be covered within the four legislative requirements. While this is only guidance, a number of companies specifically address these areas.

Broader voluntary disclosures

In addition to disclosure in the areas that HMRC has identified in its guidance, our review covered disclosure in other areas. Figure 1 shows the percentage of companies with disclosures in the areas described.

Voluntary tax disclosures included in publicly available strategies, October 2017



Source: review of 100 publicly available tax strategies in October 2017

Tax strategy aligned to wider business strategy: this disclosure highlights that the tax strategy is aligned and consistent with the wider business strategy.

Link to reputation/corporate responsibility: companies making this disclosure highlighted that tax is considered to be a reputational issue, making a link between paying tax and corporate responsibility.

Responsibility to pay tax where profits arise: linked to the value chain, some companies explicitly refer to a responsibility to pay tax where profits arise.

How tax interacts with the business model: understanding how value arises in a company's business model and the resulting tax flows can be challenging and some companies are making voluntary disclosures to aid understanding.

Transfer pricing: often a misunderstood area, some companies refer to their approach, following the terms of double taxation treaties and relevant OECD guidelines. Others explain in more detail how and why transfer pricing arises.

Low tax jurisdictions: a small number of companies referred to their operations in low tax jurisdictions and the rationale for locating business operations there.

The UK requirement for a public tax strategy

Source:
1. Vodafone: Taxation and our total economic contribution to public finances 2015-16
http://www.vodafone.com/content/dam/sustainability/pdfs/vodafone_2016_tax.pdf
2. Legal & General: 2016 group tax supplement
https://www.legalandgeneralgroup.com/2016fastread/files/2016_group_tax_supplement.pdf

Extracts – tax strategies including additional voluntary disclosures

1.

Tax Value	To manage efficiently the tax cost to the Group of doing business, including the Group's cash taxes and effective tax rate, within the ambit of all applicable laws
Risk and Reputation	To control and manage tax risks and the Group's reputation through appropriate policies, communication and robust defence
Business Partnering	To be recognised as a vital business partner by our stakeholders and to facilitate the growth and development of the Group's business activities in a tax efficient manner
Influencing	To influence governments and tax authorities constructively and positively in the interests of all our stakeholders
People	To develop and enhance our people professionally and personally as part of a world class international tax team
Compliance	To ensure the integrity of all reported tax numbers and timely compliance with all relevant statutory tax obligations
Customer Experience	To act where possible in meeting the above objectives in a way that will enhance our customers experience

Vodafone sets out clear tax principles which form the foundation of its approach to tax.

2.

Tax strategy

Our tax strategy supports our group strategy and the way we do business.
It is clear about what we will and will not do on tax.

We have a responsibility to deliver value for our shareholders and we recognise that paying taxes arising from our activities is an important part of how our businesses contribute to the societies in which they operate.

We aim for our tax affairs to be sustainable, well governed and transparent.

To achieve this we will:

- Meet all legal requirements, making all appropriate tax returns and tax payments accurately and on time
- Always consider the group's reputation, brand and corporate and social responsibilities when considering tax
- Consider tax as part of every major business decision
- Not undertake transactions whose sole purpose is to create a tax benefit which is in excess of what is reasonably understood to be intended by relevant tax legislation, or which are outside of the group's risk appetite, or are not in line with our Group Code of Ethics
- Work with HMRC and other relevant tax authorities co-operatively, collaboratively and on a real time basis
- Operate appropriate tax risk governance processes, including Board oversight
- Contribute to the development of UK and international tax policy and legislation where appropriate

Our tax strategy applies to UK taxation and taxes of all other countries in which we operate, in respect of businesses we control. Where we have material interests in businesses but do not have control of them, we will, where possible, exercise our influence as shareholder to ensure that those businesses' tax strategies are aligned to ours.

Our tax strategy is regularly reviewed and approved by our Audit Committee. This tax strategy for the year ended 31 December 2017 was approved by the Audit Committee on 7 December 2016.

This document published by Legal & General Group Plc on 8 March 2017, complies with its duty under Paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish a group tax strategy for the year ended 31 December 2017.

Legal & General sets out their overall aim and then details how that aim will be achieved.

The UK requirement for a public tax strategy

Source:
3. Barclays plc: Country snapshot 2016 https://www.home.barclays/content/dam/barclayspublic/docs/InvestorRelations/ResultAnnouncements/2016FYResults/20170223_Barclays_PLC_Country_Snapshot_2016.pdf
4. Prudential: Contributing to public finances through a responsible approach to tax http://www.prudential.co.uk/~/media/Files/P/Prudential-V2/reports/2016/prudential-tax-strategy-2016.pdf

Extracts – tax strategies including additional voluntary disclosures

3.

Our governance

We are aware that tax is a complex area and we understand the importance of having strong governance in place in relation to our tax affairs. We have a set of documented standards and procedures that must be adhered to by all employees.

These are kept under continuous review and are revised in light of factors such as material changes to our business. Our Board oversees tax matters and tax risk and carries this out through Board level committees.

The formal procedures around governance of tax matters are consistent with the broader framework for risk management that operates across the wider Barclays Group. The procedures in place ensure that all significant tax related decisions are subject to review and approval by appropriately qualified and experienced people.

Tax department – manages Barclays' tax affairs

Approvals committees – ensure that tax is fully taken into account when making business decisions

Board – oversees tax matters and tax risk

Barclays provides detail on tax governance including the different levels of review and approval.

4.

Interaction with tax authorities

Our tax affairs are complex, reflecting a combination of specific or additional corporation tax rules for life insurance companies, the range of taxes that apply to our businesses and the cross-border dimensions that come from being an international group. When dealing with tax authorities we do so in an open and constructive manner that aims to bring matters to a timely conclusion. In the UK, we are committed to discussing all significant matters in real time with HMRC.

The complexity of the tax laws and regulations that relate to our businesses means that from time to time we may disagree with tax authorities on the technical interpretation of a particular area of tax law. Generally this is due to:

— Ambiguity in the law and its intent;

— Changes that occur over time in tax authority interpretation;

— Case law developments; and

— Tax law not keeping pace with product or wider commercial/regulatory developments.

Most of the time, these disagreements can be resolved through discussion. Sometimes, however, it is necessary for the matter to proceed to litigation to clarify the interpretation of the law.

Prudential highlights the complexity of tax legislation and how the company works with HMRC on applying the law.

Country-by-country reporting

Country-by-country reporting

What are the latest developments?

The focus on country-by-country reporting (CbCR), the requirement for companies to report tax and some financial information at a country (rather than global) level, has continued in 2017. There are a number of different CbCR regimes but the current priority for most groups is CbCR under OECD BEPS Action 13[2] which requires disclosure to tax authorities, and also the moves from the EU for public disclosure of CbCR data. Over 50 countries have now passed legislation requiring CbCR disclosures to be made to tax authorities and for many UK headquartered groups, the first reports should be filed by 31 December 2017.

In April 2016, the European Commission put forward a proposal for public CbCR disclosures. This was adopted by the European Parliament in July 2017 and the proposal moved to trilogue negotiations between the EU Commission, EU Parliament and the Council of Ministers, the next level in the EU's decision making process.

The proposal is still being discussed in Council by the EU-28 Member States and we understand that there is limited appetite for adoption of the proposal from a number of Member States. Furthermore it is currently unclear whether this will be treated by the European Council as a tax issue (which requires Council unanimity) or a legal and accounting issue (which allows Council voting by means of a qualified majority).

The proposed content of the disclosures is broadly the same as that required under OECD BEPS, although slightly narrower.

Content of EU public CbCR proposals

Who is in scope?

Undertakings with a consolidated net turnover of EUR 750m or more

Level of reporting for operations in Member States

Data to be reported on a geographical basis for each Member State (and certain jurisdictions which are regarded as having inadequate tax governance)

Level of reporting for operations outside the EU

Aggregated level data (apart from certain jurisdictions noted above)

Content of template

Brief description of activities; number of employees; net turnover; profit or loss before tax; tax accrued (excluding deferred tax and uncertain tax positions) in the year; tax paid in the year; accumulated earnings

Commercially sensitive information

To ensure fair competition, commercially sensitive information may be temporarily omitted if it is seriously prejudicial to the commercial position of the company

Availability

Publicly available on the company's website

How are companies responding?

A small number of companies are providing voluntary public disclosures of CbCR data. However in isolation, data may be misunderstood and misinterpreted, leading to more confusion, undermining public trust. The OECD has voiced concerns that public CbCR could lead to confusion not clarity. Additional narrative can be critical to help explain and interpret the data and we have seen companies developing innovative disclosures which contain relevant and understandable data.

Country-by-country reporting

Areas to consider

The focus on CbCR will continue in the future and we've outlined below some areas to consider as companies develop their thinking in this area.

	PwC insight
Consistency of purpose and implementation between regimes – there are a number of different CbCR regimes (EITI[3], EU Accounting Directive[4], CRDIV[5]) each with a different purpose and data requirement. In some cases, data requirements are inconsistent between different countries reporting under the same regime.	The assumption is often made that transparency is positive but with different regimes and without consistent analysis, there is a risk that transparency leads to data not information.
Interpretation of data – even within one regime, interpretation of data can be challenging. A comparison of ratios, for example, profit per employee, can be misleading, but more sophisticated analysis is time consuming and complex. The OECD has released a paper setting out how tax authorities should use CbCR data reported to tax authorities under BEPS[6]. This indicates that the CbCR report should not 'be used by tax administrations to propose transfer pricing adjustments based on a global formulary apportionment of income'. So, allocating expected profit based on factors such as proportion of sales, assets or payroll in a certain country should not be used as a basis for assessing tax due. The ability of a jurisdiction to obtain and use a CbCR report is conditional upon using the information appropriately, but if CbCR data was publicly available there would be no restriction.	Many companies who have prepared their CbCR data for submission to tax authorities have developed answers to the queries that may be raised. Some companies provide additional voluntary information to explain their tax affairs in their countries of operation more fully.
Commercial sensitivity – for some companies, release of public CbCR data could be commercially sensitive, leading to financial loss, or affecting the competitive position of a company.	An area that is still under debate - the EU public CbCR proposal identifies commercial sensitivity as a reason for excluding some CbCR data from the public domain.
International consensus – while all OECD and many non-OECD countries have signed up to the BEPS CbCR action point, there are diverse views on public CbCR. In the UK, in September 2016, an amendment was made to the 2016 Finance Bill, giving HMRC the power to make regulations requiring OECD CbCR disclosures to be made public although we understand that the legislation will only be put into effect when and if there is international agreement on public CbCR. Some countries, however, are understood to be opposed to public CbCR.	An area of debate which is challenging for a Head of Tax, as different territories adopt different approaches to CbCR and related transparency.

2 https://www.oecd.org/ctp/beps-action-13-guidance-implementation-tp-documentation-cbc-reporting.pdf
3 The Extractive Industries Transparency Initiative – https://eiti.org/
4 EU Accounting Directive, Chapter 10
5 Capital Requirements Directive IV – https://www.pwc.co.uk/tax/assets/a-practical-guide-to-the-uk-regulations-cbcr-under-crd-iv.pdf
6 http://www.oecd.org/ctp/beps/beps-action-13-on-country-by-country-reporting-appropriate-use-of-information-in-CbC-reports.pdf

Country-by-country reporting

Source:
1. Barclays plc: Country snapshot 2016 https://www.home.barclays/content/dam/barclayspublic/docs/InvestorRelations/ResultAnnouncements/2016FYResults/20170223_Barclays_PLC_Country_Snapshot_2016.pdf
2. Vodafone: Taxation and our total economic contribution to public finances 2015-16 http://www.vodafone.com/content/dam/sustainability/pdfs/vodafone_2016_tax.pdf

Extracts – country-by-country reporting

1.

Country Snapshot 2016		Audited	Audited	Unaudited	Audited	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
Country[a]	Commentary	Turnover £m	Profit/(loss) before tax £m	Total tax paid £m	Corporation tax paid £m	Social Security paid £m	VAT paid £m	Bank levy paid £m	Other taxes paid £m	Public subsidies received £m	Average number of employees
United Kingdom	We are one of the largest banks in the UK, with operations spanning all business units. Various factors mean that the profit we report as being earned in the UK differs from the profits on which we are subject to UK corporation tax. In particular, being a UK headquartered bank, the profit figure includes dividends received from overseas subsidiaries, which are not taxed in the UK as they have already been taxed in the local jurisdiction. In addition, during 2016 we disposed of a number of investments on which the gains are exempt from corporation tax. Our UK taxable profits in 2016 were reduced through the offset of tax losses brought forward from previous years. The amount of corporation tax we paid in 2016 was further reduced because we had overpaid in previous years and this overpayment was offset against our 2016 payments.	15,067	3,426	1,463	121	374	497	391	80	–	46,486

Barclays is within the provisions of CRDIV and alongside those mandatory requirements (which are subject to audit) Barclays highlights payments made in respect of employment taxes, irrecoverable VAT and bank levy. There is also commentary around its business activities in each country.

2.

Portugal

	Revenue (£m)	Profit before tax (£m)	Direct revenue contribution: Tax (£m)	Direct revenue contribution: Non-tax (£m)	Indirect revenue contribution (£m)	Capital investment (£m)	Direct employment
2015-16	716	23	26	23	78	257	1,483
2014-15	n/a	n/a	37	23	92	268	1,433
	We are one of the largest international investors in Portugal where we operate mobile, fixed-line and TV services with 5.3 million customers as of 31 March 2016; we also reach 1.6 million homes with our ultra-fast fibre-optic network and provide communications services to Portuguese businesses. We entered the market in 1999 following the merger with the AirTouch group under which we acquired Telecel. Tax contributions have decreased year on year as a result of a reduction in profits.						
Number of legal entities	3						
Legal entities	• Celfocus – Soluções Informaticas Para Telecomunicações SA • Oni Way – Infocomunicações SA • Vodafone Portugal Comunicações Pessoais SA						

Vodafone makes voluntary disclosures of payments to government by country and for the first time this year, included revenue and profit before tax. It also includes direct and indirect payments as well as fees paid for access to networks, capital investment and direct employment.

Country-by-country reporting

Source:
3. Prudential: Contributing to public finances through a responsible approach to tax: http://www.prudential.co.uk/~/media/Files/P/Prudential-V2/reports/2016/prudential-tax-strategy-2016.pdf
4. Pearson tax report 2016: https://www.pearson.com/content/dam/one-dot-com/one-dot-com/global/Files/about-pearson/tax/Pearson_Tax_Report_2016_final.pdf

Extracts – country-by-country reporting

3.

Figure 4: 2016 total tax contribution by country

	2016 (£m – other than employee numbers)							
	Total revenue net of reinsurance	Profit (loss) before tax[1]	Average employee numbers	Total current tax charge[2]	Corporation taxes paid[3]	Other taxes[4]	Taxes collected[5]	Total taxes remitted
UK	32,530	1,258	5,716	573	319	155	896	1,370
USA	22,718	526	4,450	502	305	83	535	923
Indonesia	1,873	424	2,119	108	118	41	21	180
Malaysia	1,263	183	2,196	34	24	9	27	60
Singapore	3,491	431	1,368	60	37	4	3	44
Hong Kong	7,112	153	1,459	53	41	2	–	43

Prudential discloses data for revenues, profits, employee numbers, tax charge and paid, and the broader contribution in taxes.

As well as providing data on total revenue, profit before tax, tax paid and the number of employees for the twelve largest territories, Pearson also includes a brief explanation of its activities in each country and, if applicable, why tax paid may appear unusual compared to profit levels.

4.

	United States	United Kingdom
	£11M	£14M
Key operations	**K–12 School; Higher Education and Professional** – Assessment – Online and blended learning – Curriculum resources – Professional development – Work-based learning – Clinical assessment – Testing	**School; Higher Education and Professional** – Assessment and qualifications – Online and blended learning – Curriculum resources – Professional development – Clinical assessment – Work-based learning – Direct delivery (Pearson testing)
Factors impacting tax in 2016	Pearson incurred a significant restructuring cost in 2016 in the United States as well as a goodwill impairment relating to the Higher Education courseware business, resulting in a loss before tax for the year. The majority of the cash tax payments made in 2016 were at a state level.	The UK is both our second-largest market by revenue and the location of our head office and central group functions. The UK also raises any external debt required by the group and this is used to fund overseas operations. Pearson also incurred a significant restructuring cost in 2016 in the UK and reported a loss before tax for the year. Tax was paid; however, some of this will be refunded in 2017.

Country-by-country reporting

Source:
5. Schroders : http://www.schroders.com/en/about-us/corporate-responsibility/our-economic-contribution/
6. Rank Tax Fact File: http://www.rank.com/content/dam/rank-group/corporate/documents/Results_Reports_Presentations/2017/Annual%20report%20and%20financial%20statements%202017

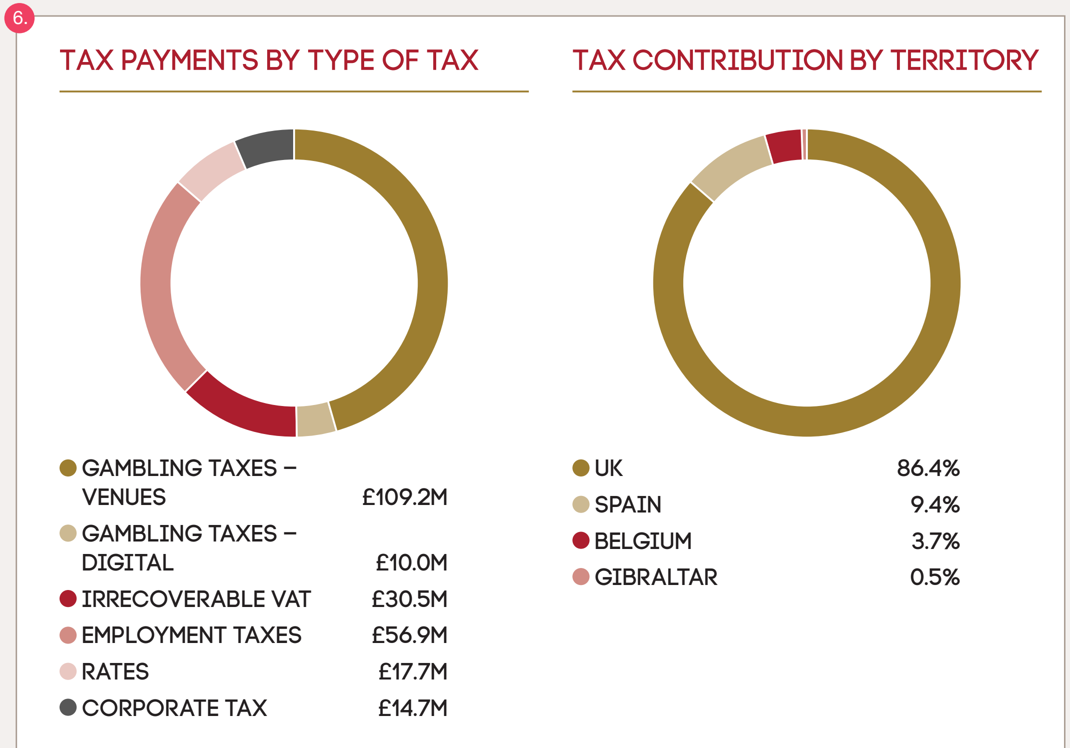
Extracts – Total Tax Contribution

5.

	UK	Americas	Asia Pacific	Europe	Total
	£m	£m	£m	£m	£m
Corporate income taxes	51.9	9.8	44.9	32.8	139.4
Employment taxes paid	43.6	3.1	4.8	11.0	62.4
Irrecoverable VAT paid	8.2	0.2	0.9	8.3	17.6
Property and other taxes paid	5.0	0.0	0.6	0.3	5.9
Total taxes paid	**108.7**	**13.1**	**51.2**	**52.3**	**225.3**
Employment taxes collected	136.9	27.1	21.5	10.3	195.8
Indirect taxes collected	3.1	0.0	15.0	4.6	22.7
Withholding and other taxes collected	1.6	0.1	0.5	8.1	10.3
Total taxes collected	**141.6**	**27.2**	**37.0**	**23.0**	**228.8**
Total taxes paid and collected	**250.2**	**40.3**	**88.3**	**75.3**	**454.1**

Schroders provides details of taxes borne and taxes collected by the group around the world, providing details of the different taxes.

6.



Rank shows details of its payments by type of tax and by territory in a chart format.

Country-by-country reporting

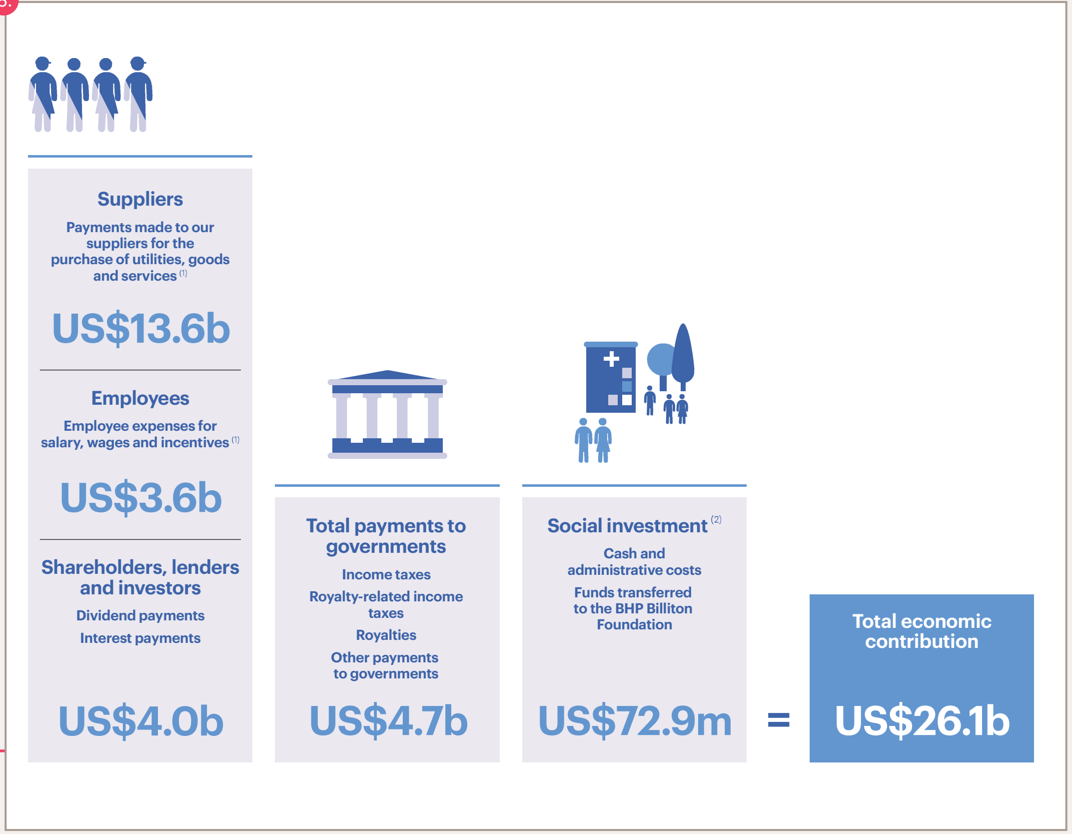
Source:
7. Rio Tinto Taxes Paid in 2016: http://www.riotinto.com/documents/RT_taxes_paid_in_2016.pdf
8. BHP Billiton Economic Contribution report 2017: http://www.bhp.com/-/media/documents/investors/annual-reports/2017/bhpeconomiccontributionreport2017.pdf

Extracts – The contribution beyond tax

7.

Together with a video on its website, Rio Tinto shows the distribution of its economic contribution, highlighting that 11% of the total is payable to governments.

8.



BHP Billiton provides a diagram setting out its value chain and total economic contribution arising from its business. It quantifies the amounts paid to governments and also to suppliers, employees and shareholders, investors and communities.

Linking tax to other areas of reporting

Linking tax to other areas of reporting

The world in which companies operate is increasingly complicated, and in all areas of the business, companies need to explain their strategy and performance and build trust with a range of stakeholders. There have been new regulations, not related to tax, which link to tax disclosures.

The strategic report

In 2013, regulations introduced the requirement for companies to prepare a 'strategic report' as part of their annual report. The strategic report has three broad categories, and there is a tax element to each.

Areas the strategic report should cover:	*Content*	*PwC insight – link to tax*
Strategic management	How the entity intends to create and maintain value, including strategy and business model.	Does the strategic vision for the business align with your public tax strategy? Does the business model identify where value is created and how does that link to transfer pricing documentation?
Business environment	The internal and external environment in which the entity operates including principal risks and uncertainties.	Is tax a principal risk in the business? If so, how has this risk been addressed throughout the report, e.g. in the narrative around tax provisions?
Business performance	How the entity has developed including analysis of performance and position at the year end.	Does the strategic report include guidance on the headline and underlying tax rate, and an explanation of the drivers for any movement?

Linking tax to other areas of reporting

Tax and the business model

Business model information helps readers of accounts to analyse and understand a company. The Financial Reporting Council's (FRC) guidance on business models[7] states that it should "set out how it generates or preserves value over the longer term, and how it captures that value. It should describe what the entity does and why it does it… a high level understanding of how the entity is structured, the markets in which it operates…". This disclosure is becoming increasingly relevant in the current tax environment.

In the days of straightforward supply chains, it was easier to understand the flows of tax in a business. Today, companies are increasingly global and complex and the basis on which companies are taxed is changing to reflect this. If a company holds intellectual property, or has a centralised structure, the tax implications of the BEPS project can be significant. Increased transparency over a company's tax affairs will provide more information than ever before, and how the business model is explained in the strategic report is an important area to consider. Does the company refer to 'paying tax where profits arise' and if so, does this align with the business model?

Tax as a principal risk

With the uncertain economic climate of Brexit and US tax reform, together with the changing tax landscape as a result of BEPS, tax is increasingly included in the strategic report as a principal risk. "Principal risks" are defined by the FRC as the key risks to the strategy that could render the business model unsustainable in future. In our review of tax disclosures in the FTSE100 for 2016 year ends, we found 39 companies that classified tax as an element of their principal risks. Some of these focused on tax alone, for others, tax risk was part of regulatory obligations, political or fiscal developments, operational efficiency and financial risks.

It is important to provide further explanatory detail on tax as a risk, the mitigating actions taken by the board to manage the impact and the links to management judgements and estimates around uncertain tax positions.

Tax and corporate responsibility

The purpose of a company extends beyond creating value for shareholders. It includes the company's role in society, the contribution it makes to the economy and to the lives of employees, customers and communities where it is located. We are in an age of "Responsible business" and public statements to comply with the Modern Slavery Act, the Gender Pay Gap and Corporate Governance Code articulate a company's approach to these areas.

Tax is a fundamental element of corporate responsibility, and an area where we see increasing disclosures often in corporate responsibility reports as companies seek to highlight their contribution.

There is now a new focus on the Sustainable Development Goals (SDGs)[8]. This set of 17 goals, developed in 2015 by the UN, saw countries "adopt a set of goals to end poverty, protect the planet, and ensure prosperity for all". Each goal has specific targets to be achieved over the next 15 years and every UN member state has unanimously committed to support and achieve these goals by 2030. Governments will need help to do this and are calling on business to do their part. Tax is fundamental to the SDGs, since tax revenues are needed to fund investment and this is relevant for every global company. Many large corporates have undertaken to include SDGs within their reporting and where this is the case, the link to tax should be made.

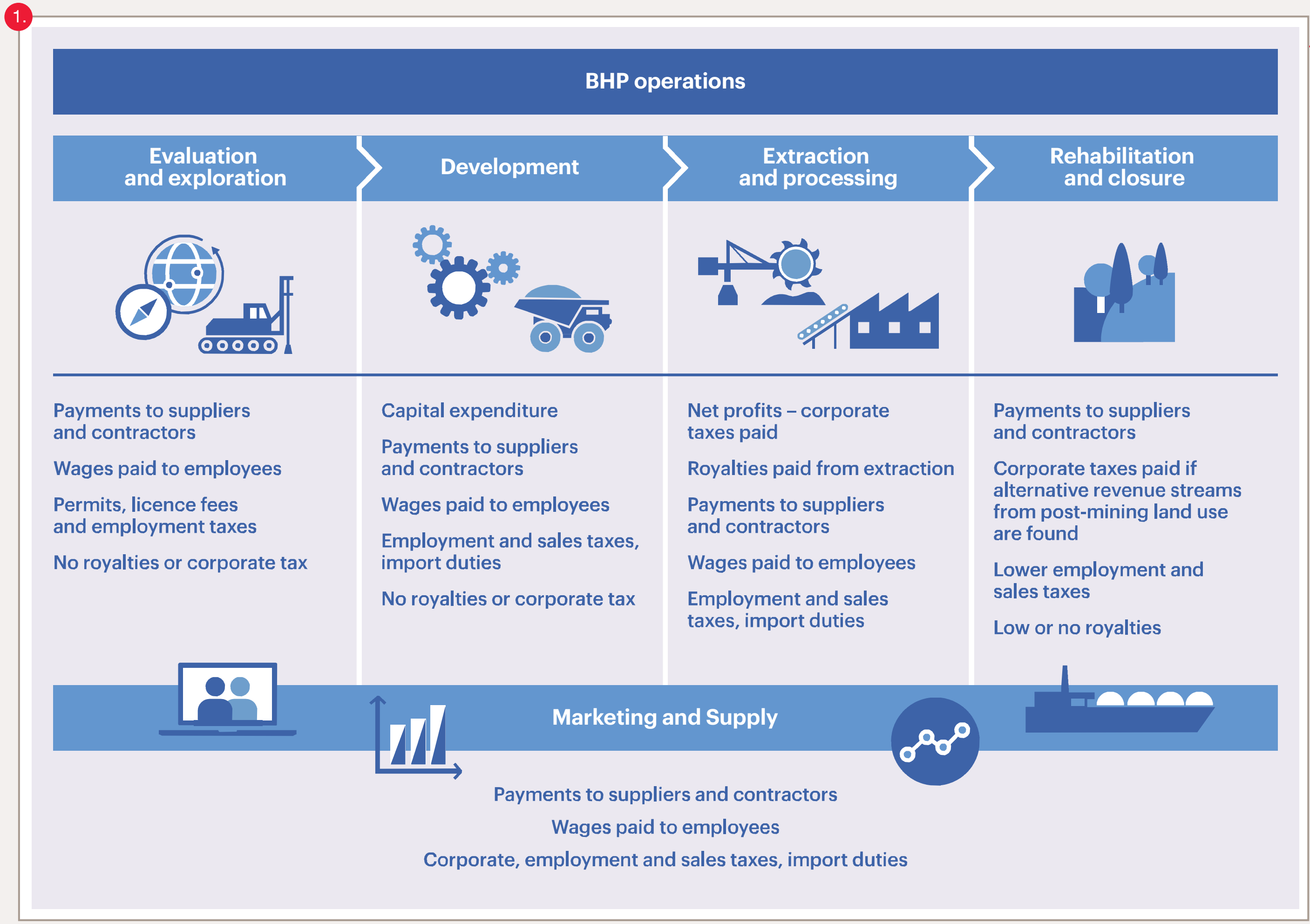
7 https://www.pwc.co.uk/audit-assurance/assets/pdf/corporate-reporting-business-models.pdf
8 http://www.un.org/sustainabledevelopment/sustainable-development-goals/

Linking tax to other areas of reporting

Source:
1. BHP Billiton Economic Contribution report 2017: http://www.bhp.com/-/media/documents/investors/annual-reports/2017/bhpeconomiccontributionreport2017.pdf

Extracts – tax and the business model

1.



BHP Billiton shows its business model moving from evaluation and exploration, through development, extraction and processing to rehabilitation and closure. The taxes arising at each stage of the life cycle are detailed.

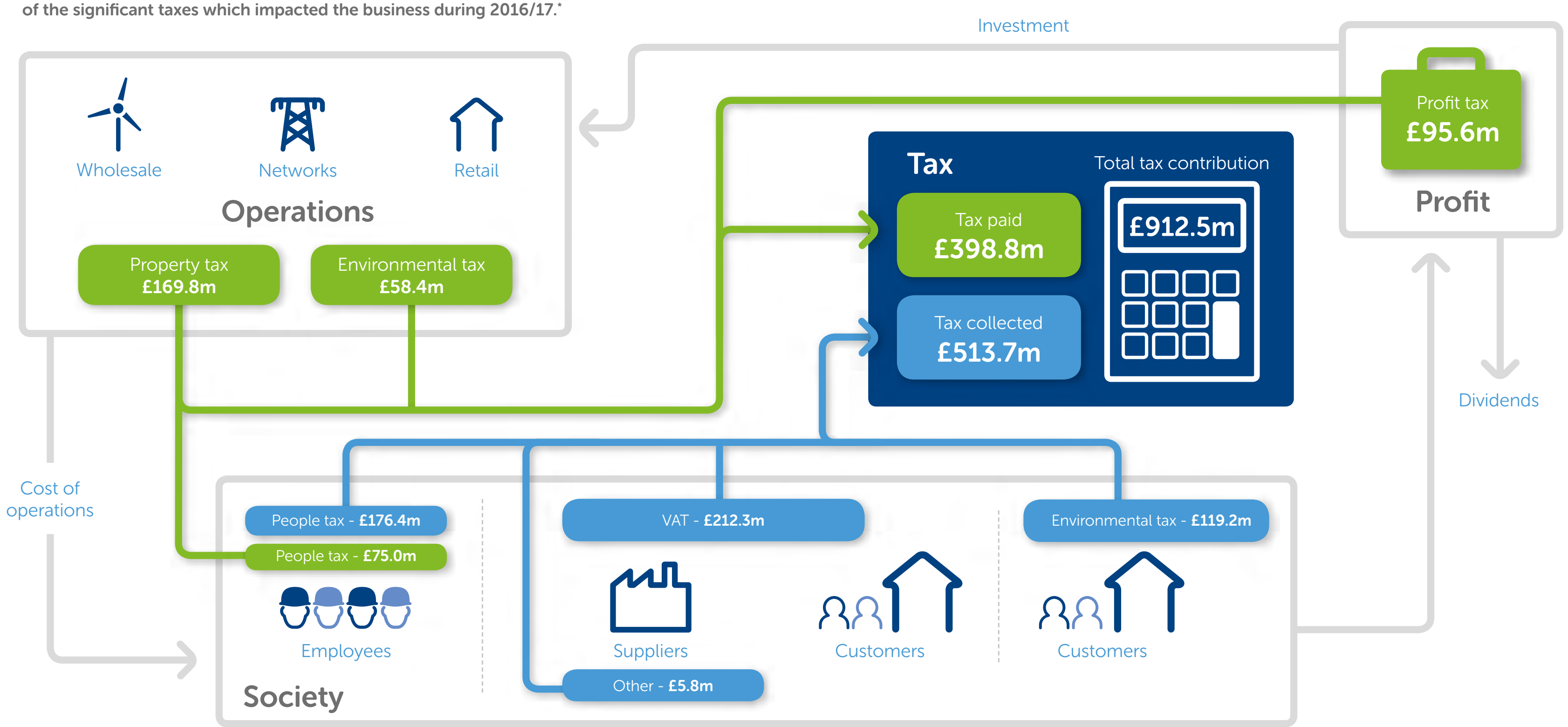
Linking tax to other areas of reporting

Source:
2. SSE Talking Tax 2017: report http://sse.com/media/484646/SSE_TaxReport_October-2017.pdf

Extracts – tax and the business model

2.

SSE pays taxes to, and collects taxes on behalf of, the UK and Irish Governments at various stages throughout its business activity. SSE's tax value chain below shows some of the significant taxes which impacted the business during 2016/17.*



*Figures presented are UK and Ireland combined. The Group yearly average exchange rate was used to convert Euro to Sterling (source: Bloomberg).

SSE shows the flow of tax around the business, highlighting the activities giving rise to the taxes and the amount of each generated.

Linking tax to other areas of reporting

Source:

3. Anglo American Tax and Economic contribution report 2016: http://www.angloamerican.com/~/media/Files/A/Anglo-American-PLC-V2/documents/annual-reporting-2016/downloads/anglo-american-tax-report-2016-int.pdf

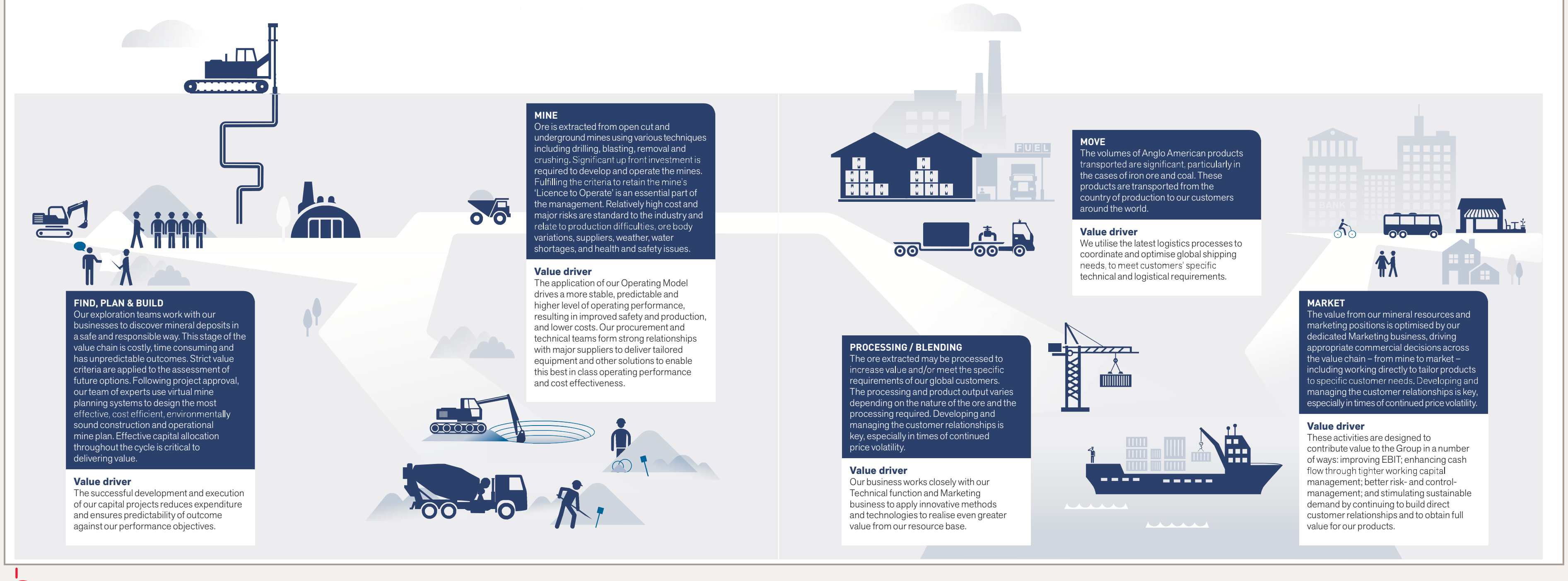
Extracts – tax and the business model

3.

As a multinational group, Anglo American undertakes a significant number of intragroup transactions relating to the processing, logistics and marketing of our products or intragroup services and financing.

With respect to the Anglo American value chain, below is an illustrative example of how value can be created, from finding deposits to the marketing of our products.

Throughout our value chain activities, we conduct other material transactions between companies in the Anglo American Group. These transactions are disclosed to tax authorities through the submission of our tax returns and are performed at an arm's length price.



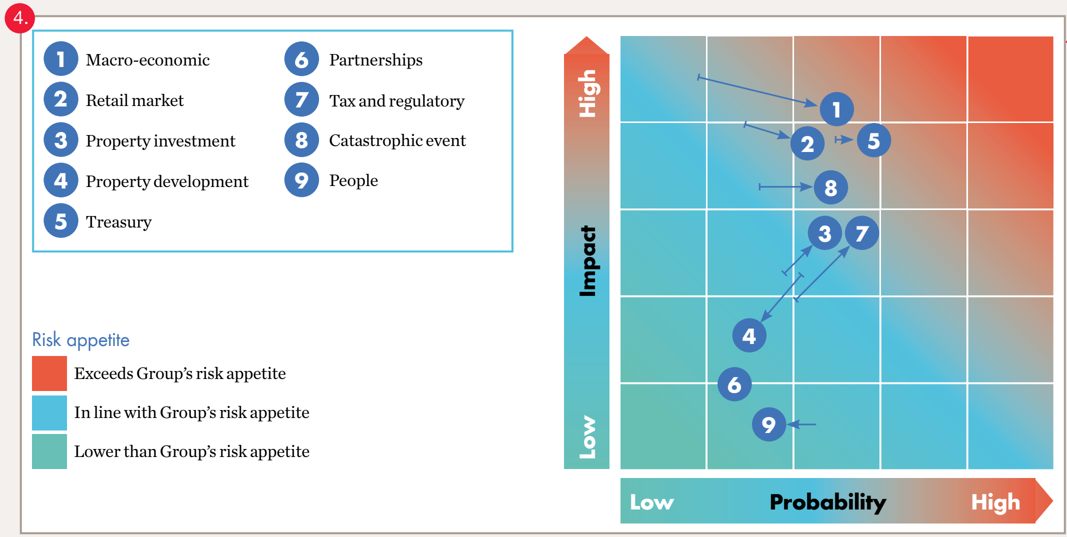
Anglo American includes a diagram of its value chain, setting out how value can be created from finding deposits to the marketing of products.

Linking tax to other areas of reporting

Extracts – tax and risk

Source:
4. Hammerson annual report: https://bfd4f2dde63e9e620a17-5cad31df697fe43d78c0459eba68b1d4.ssl.cf3.rackcdn.com/wp-content/uploads/2017/03/1111DN-ham026_ara_2016_web-original.pdf
5. Imperial Brands annual report: http://www.imperialbrandsplc.com/content/dam/imperial-brands/corporate/investors/annual-report-and-accounts/online-annual-report-pdfs/Imperial_Brands_annual_report_2016.pdf

4.



Hammerson shows a risk heat map. The tax and regulatory risk is shown as increasing, both in impact and probability.

5.

UNCERTAIN TAX POSITIONS

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include cross-border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets. The Group is also monitoring developments in relation to EU State Aid investigations but does not currently consider any provision is required. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on interpretation of legislation, management experience and professional advice.

Provisions arising from uncertain tax positions taken in the calculation of tax assets and liabilities are included within current tax liabilities. At 30 September 2016 the total value of these provisions, including foreign exchange movements, was £165 million (2015: £114 million). It is possible that amounts paid will be different from the amounts provided.

Management have assessed the Group's provision for uncertain tax positions and are comfortable that apart from the French matter referred to below, the provisions in place are not material individually or in aggregate, and that a reasonably possible change in the next financial year would not have a material impact on the results of the Group.

Imperial Brands sets out the reasons for uncertain tax positions, the basis of the judgements used and the total value of the provisions at the year end.

Linking tax to other areas of reporting

Source:
6. Pearson 2016 tax report: https://www.pearson.com/content/dam/one-dot-com/one-dot-com/global/Files/about-pearson/tax/Pearson_Tax_Report_2016_final.pdf

Extracts – tax and risk

6.

Recent areas of international or national policy change affecting Pearson are as follows:

Policy development	Pearson response
Country-by-country reporting (CBCR)	In addition to complying with CBCR, and the requirement to publish a UK tax strategy, we have decided to voluntarily publish this tax report.
UK voting to leave the EU	A restructuring of certain EU subsidiaries may be required.
US tax reform	Too soon to say.
Ireland corporation tax review	Too soon to say.
State aid	In the last few years, there have been a number of cases of alleged illegal state aid under which governments in a number of jurisdictions have been subject to investigation by the European Commission for entering into special agreements with individual multinational companies. Pearson is not the focus of any related European Commission investigation.

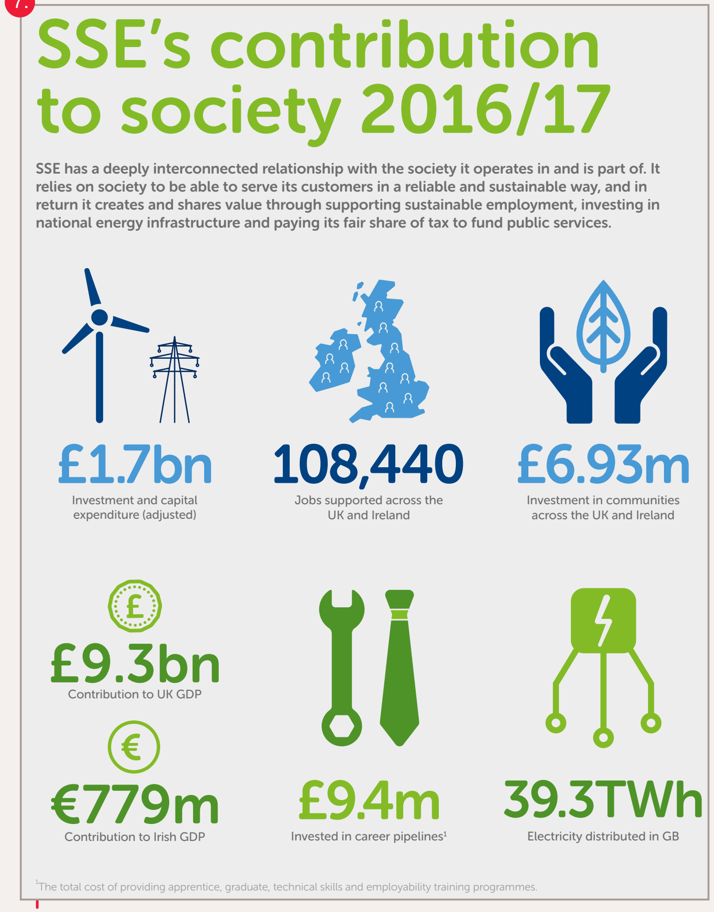
Pearson sets out the recent areas of international or national policy change together with details of how the company is responding.

Linking tax to other areas of reporting

Source:
7. SSE Talking Tax 2017 report: http://sse.com/media/484646/SSE_TaxReport_October-2017.pdf
8. WPP sustainability report: http://www.wpp.com/sustainabilityreports/2016/downloads/

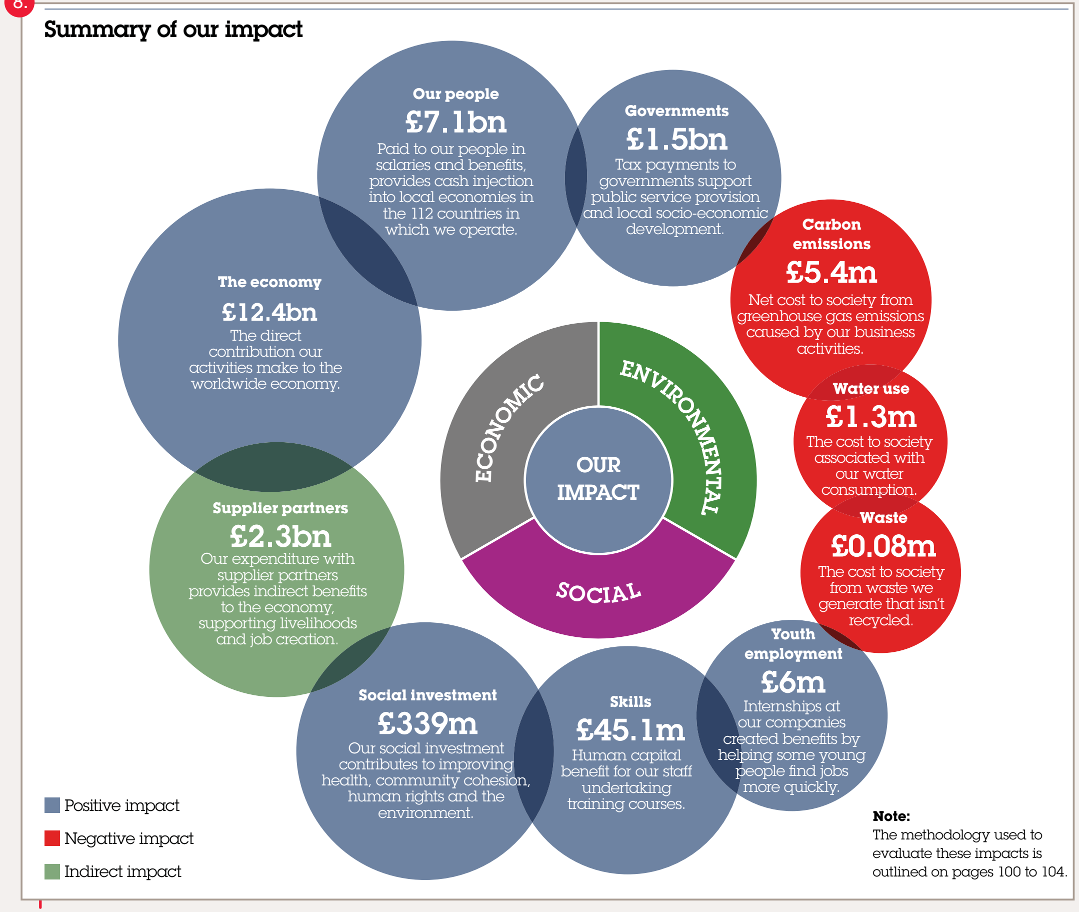
Extracts – tax and corporate responsibility

7.



SSE explains the relationship it has with the society in which it operates. It relies on society to serve its customers and shows how it creates value for society.

8.



WPP shows how its tax contributions of £1.5bn form part of its impact, including employment, supplier partners and social contribution.

Where next – a strategic response?

Where next – a strategic response?

The Tax Transparency Framework

A range of stakeholders are interested in tax, regulators, NGOs, investors, the board, the media, employees, the finance department – the list is long and growing. How can companies develop a strategic response to the changing tax landscape? The PwC Tax Transparency Framework helps to guide companies through the thought process needed to develop an approach that maximises the benefit of tax transparency for the company.

The framework does not necessarily lead to more disclosure on tax matters, but is intended to help companies make an informed decision as to what is best for them, taking into account the perspective that their different stakeholders might have. If the company's current view on transparency has developed in response to regulation, then a strategic project to understand the risks and benefits of additional voluntary transparency, ensuring that appropriate controls and processes are in place, is key.

The Tax Transparency Framework	PwC insight
Transparency to whom and for what purpose?	This is the central question of the framework and takes into account the full range of external and internal stakeholders.
What do stakeholders want to know and why?	For each stakeholder, identify what they want to know, why they want to know it and therefore what information might be useful to them. Whether or not a company choses to disclose that information is a separate question which is considered later in the framework.
What are the views around the business?	It may be that other departments work closely with some stakeholders, eg public relations, investor relations, sustainability teams. These teams should be involved in the process.
What are the risks and benefits of providing information?	What information is already provided to respond to stakeholders' needs, what other information might the company want to provide, and what are the risks and benefits of providing or withholding that information?
What disclosures would create value?	For a company operating 'business-to-business' with limited presence in developing countries, no voluntary public disclosure may be most appropriate. For others, a relatively straightforward statement could add considerable value.
Are the disclosures understandable?	Once decisions on disclosures have been made, consider whether they are understandable by the target audience. Is there a business case for providing additional narrative to 'explain tax'?
Do you have systems to support your disclosures?	The final element of the framework is to consider whether there are controls and processes in place to support any disclosures.

Where next – a strategic response?

Source:
1. Prudential annual report 2016: http://www.prudential.co.uk/~/media/Files/P/Prudential-V2/reports/2016/prudential-plc-ar-2016a.pdf

Extracts – Explaining tax – statutory/effective tax rate reconciliation

1.

(b) Reconciliation of effective tax rate continued

2016 £m	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Attributable to shareholders	Attributable to policyholders	Total
Operating profit based on longer-term investment returns	1,503	2,052	828	(127)	4,256	n/a	n/a
Non-operating (loss) profit	(460)	(1,523)	198	(196)	(1,981)	n/a	n/a
Profit (loss) before tax	1,043	529	1,026	(323)	2,275	937	3,212
Expected tax rate	22%	35%	20%	19%	25%	100%	47%
Tax at the expected rate	229	185	205	(61)	558	937	1,495
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(28)	(18)	(12)	(9)	(67)		(67)
Deductions not allowable for tax purposes	19	8	7	26	60		60
Items related to taxation of life insurance businesses	(20)	(159)	(1)	–	(180)		(180)
Deferred tax adjustments	(11)	–	2	(14)	(23)		(23)
Effect of results of joint ventures and associates	(29)	–	–	(17)	(46)		(46)
Irrecoverable withholding taxes	–	–	–	36	36		36
Other	–	–	1	(6)	(5)		(5)
Total	(69)	(169)	(3)	16	(225)	–	(225)

2016 £m	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Attributable to shareholders	Attributable to policyholders	Total
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	1	(81)	(7)	5	(82)		(82)
Movements in provisions for open tax matters	20	–	–	31	51		51
Impact of changes in local statutory tax rates	–	–	(5)	(1)	(6)		(6)
Write down of Korea life business	58	–	–	–	58		58
Total	79	(81)	(12)	35	21	–	21
Total actual tax charge (credit)	239	(65)	190	(10)	354	937	1,291
Analysed into:							
Tax on operating profit based on longer-term investment returns	254	468	160	12	894	n/a	n/a
Tax on non-operating profit	(15)	(533)	30	(22)	(540)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	17%	23%	19%	(9)%	21%	n/a	n/a
Excluding non-recurring tax reconciling items	16%	27%	21%	18%	22%	n/a	n/a
Total profit	23%	(12)%	19%	3%	16%	100%	40%

Prudential provides a reconciliation between the statutory and effective tax rate, analysing the difference into recurring and non-recurring tax reconciliation items. There is further detail, showing how the reconciliation breaks down between the different regions.

Where next – a strategic response?

Source:
2. Barclays annual report 2016: https://www.home.barclays/content/dam/barclayspublic/docs/InvestorRelations/AnnualReports/AR2016/Barclays%20PLC%20Annual%20Report%202016.pdf
3. Marks & Spencer annual report 2017: http://annualreport.marksandspencer.com/M&S_AR2017.pdf

Extracts – Explaining tax, statutory/effective tax rate reconciliation

2.

Factors driving the effective tax rate

The effective tax rate of 30.7% is higher than the UK corporation tax rate of 20% primarily due to profits earned outside the UK being taxed at higher local statutory tax rates. In addition the effective tax rate is affected by provisions for UK customer redress being non-deductible for tax purposes, non-creditable taxes and non-deductible expenses including UK bank levy. These factors, which have each increased the effective tax rate, are partially offset by the impact of non-taxable gains and income, including those arising from divestments, and reductions in expected liabilities in respect of a range of issues related to a number of prior years.

Relative to the prior year, the effective tax rate on profit before tax decreased to 30.7% (2015: 100.3%). This was principally a result of a lower level of non-deductible provisions for investigations and litigation in 2016, as well as gains arising in 2016 on the divestment of businesses and assets, as the Group has pursued its strategy to run-down Non-Core, that were taxed at low rates.

The Group's future tax charge will be sensitive to the geographic mix of profits earned and the tax rates in force in the jurisdictions in which we operate. In the UK, legislation to reduce the corporation tax rate to 19% from 1 April 2017 and to 17% from 1 April 2020 has been enacted. In the US, proposed tax reform measures include a reduction in the US corporate income tax rate to as low as 15%. The US rate change is a proposal only at this stage and developments are being closely monitored. In the long term, a reduction in the tax rate would enhance the returns generated by the Group's US business. However, if enacted, such a change would have a substantial up-front negative impact on the measurement of the Group's US deferred tax assets, although this would reverse over time and result in a lower effective tax rate as these assets are utilised.

Barclays includes narrative that provides further explanation of the items reconciling the statutory to the effective tax rates. This provides readers with additional details and insight into the drivers of the effective tax rate.

3.

7 INCOME TAX EXPENSE CONTINUED

B. Taxation reconciliation continued

	2017 £m	2016 £m
Profit before taxation	**176.4**	488.8
Notional taxation at standard UK corporation tax rate of 20% (last year 20%)	**35.3**	97.8
Disallowable accounting depreciation and other similar items	**90.2**	85.4
Deductible capital allowances	**(67.2)**	(71.5)
Allowable deductions for employee share schemes	**1.0**	(3.4)
Allowable deductions for employee pension schemes	**(11.7)**	(13.4)
Overseas profits taxed at rates different to those of the UK	**(2.3)**	(4.3)
Overseas tax losses where there is no immediate relief	**0.5**	3.7
Other income and expenses that are not taxable or allowable	**3.8**	7.6
Adjusted items:		
– UK store impairments and strategic programmes – UK store estate where no tax relief is available	**17.3**	21.0
– International store closures and impairments where no tax relief is available	**27.3**	–
– strategic programmes – UK organisation and logistics income and expenses that are not taxable or allowable for tax purposes	**(1.8)**	–
– pay and pensions where tax relief is due in the future	**25.4**	–
– profits and losses on property disposals	**–**	(0.5)
– UK property and investment deductions where no tax relief is available	**–**	7.5
– Lima (Bradford) S.à r.l acquisition accounting	**–**	(5.4)
– embedded derivative	**–**	4.7
– overseas profits taxed at rates different to those of the UK	**(10.6)**	(5.2)
Current year current tax charge	**107.2**	124.0

In addition to showing a reconciliation from profit before tax to total income tax expense, Marks & Spencer provides a reconciliation to explain the difference between profit before tax and current year current tax charge.

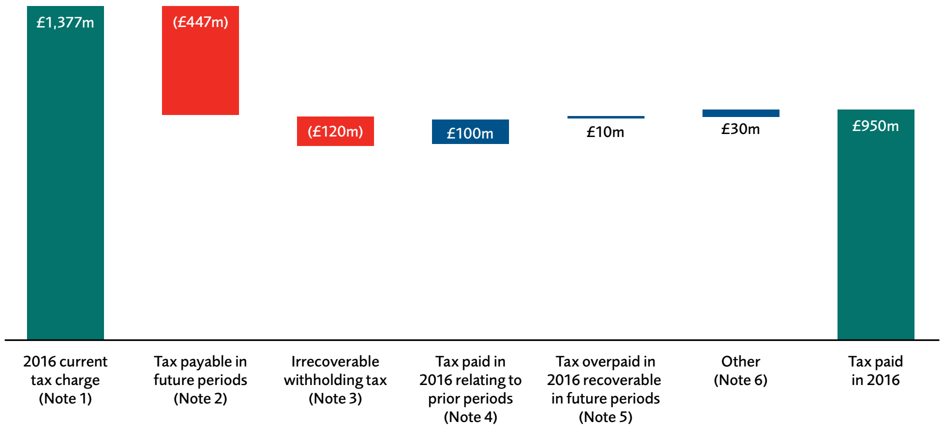
Where next – a strategic response?

Source:
4. Prudential Contributing to public finances through a responsible approach to tax: http://www.prudential.co.uk/~/media/Files/P/Prudential-V2/reports/2016/prudential-tax-strategy-2016.pdf
5. ITV Annual report 2016: http://www.itvplc.com/~/media/Files/I/ITV-PLC/documents/reports-and-results/2016-itv-plc-annual-report.pdf

Extracts – Explaining tax, cash tax reconciliation

4.

Figure 5: 2016 tax charge to tax paid reconciliation



Notes
1. Total current tax of £1,377 million is per note B5 on pages 194 to 198 in the 2016 Annual Report and comprises the current tax charge in respect of 2016 together with adjustments for prior years. It does not include any deferred tax.
2. In most countries, corporation tax is payable in regular instalments, some of which fall into the current period, and some which fall into the following year.
3. This relates to irrecoverable withholding tax on dividends payable to the UK from certain non-UK subsidiaries, and dividends on overseas portfolio investments of insurance funds. The withholding tax is included in the accounts tax charge but as it is not corporation tax as such, it is not included in the corporation tax paid. The £120 million withholding tax is included in 2016 total taxes borne as per Figure 1 of this report.
4. This is a combination of £138 million in respect of instalment tax payments falling due in 2016 relating to 2015 partly offset by £(38) million repayments from tax authorities following routine true-ups of prior period tax returns.
5. Instalment tax payments are typically based on estimated taxable profits. The £10 million above reflects overpaid tax following a downward revision of estimated taxable profits.
6. Other includes a combination of (i) £44 million in respect of Prudential's share of tax paid from joint ventures and associates; (ii) £37 million other adjustments, principally foreign exchange partly offset by £(51) million in respect of the movement of provisions for open tax matters included in the current tax charge.

Prudential uses a 'waterfall' chart to illustrate and explain the differences between the tax charge reported in the income statement and the cash tax paid in the year, together with detailed narrative to explain the reconciling items in more detail.

5.

Cash tax

Cash tax paid in the year was £90 million (2015: £117 million), the majority of which was paid in the UK. The cash tax figure is net of production tax credits received in the year. The cash tax payable is lower year-on-year because of the timing of the receipts of tax credits. A reconciliation between the tax charge for the year and the cash tax paid in the year is shown below.

Twelve months to 31 December	**2016 £m**	2015 £m
Tax charge	(100)	(139)
Temporary differences recognised through deferred tax	(13)	29
Prior year adjustments to current tax	(10)	(9)
Current tax, current year	(123)	(119)
Phasing of tax payments – UK	5	(1)
Phasing of tax payments – overseas	5	(1)
Production tax credits – timing of receipt	7	(14)
Cash tax impact of allowable UK pension payments	16	18
Cash tax paid	(90)	(117)

ITV explains the difference between the tax charge and cash tax paid using a table.

Where next – a strategic response?

Source:
6. Vodafone Tax and economic contribution report 2015-16: http://www.vodafone.com/content/dam/sustainability/pdfs/vodafone_2016_tax.pdf
7. Unilever tax web page : https://www.unilever.com/sustainable-living/what-matters-to-you/tax.html

Extracts – Explaining tax, incentives

6.

5 Governments use tax regimes to incentivise investment

Companies are an important source of investment and employment. Governments seeking to stimulate or protect jobs and capital investment often develop corporate taxation strategies that are designed to attract the shareholder funds necessary to deliver key political objectives and achieve a wider national benefit. Those strategies include tax allowances for capital expenditure, exemptions from certain taxes and tax relief on the interest on debt raised to fund investment. Many of those measures are debated in, and approved by, national parliaments as part of a government's overall fiscal programme. These are therefore carefully scrutinised and methodical policy choices – not accidental loopholes in any sense – and they have the effect of reducing tax liabilities for companies whose investment decisions support those policy choices. We invested £8.9 billion in the networks and services relied on by our customers in 2015-16; a substantial level of investment (not least when set against a total profit before tax of £1.8 billion), which was reflected in our tax liabilities in each country of operation. We set out more detail on our views in multinationals, governments and tax overleaf.

£18 billion

invested in building digital infrastructure across Europe – including more than £4 billion in the UK – between 2011 and 2016

Vodafone explains how and why governments use tax regimes to incentivise investment, and highlights investment in networks and services.

7.

Tax Incentives: Examples

Turkey

Turkey provides tax investment regimes for large industrial projects. Currently Unilever has two projects benefitting from the incentive. The first is an ice cream factory and the second is a factory which makes cleaning and personal care products, both located in the province of Konya in Central Anatolia. The incentives are granted to help develop this and other regions in Turkey. The benefit is in the form of a lower tax rate on the profits generated from the sale of goods manufactured in those factories.

India

India provides tax incentive regimes to encourage research and development activity in the country. Currently Unilever participates in an incentive regime which relates to research and development carried out on eligible products. These include a wide range of home and personal care products such as detergent and body wash. The incentive comes in the form of enhanced corporate tax deductions for the associated costs, including capital costs on relevant plant and machinery.

Unilever provides examples of tax incentives in Turkey (a lower tax rate on profits) and India (enhanced corporate tax deductions) and highlights the benefits to the countries concerned.

Where next – a strategic response?

Source:
8. Rio Tinto Taxes paid in 2016: http://www.riotinto.com/documents/RT_taxes_paid_in_2016.pdf
9. Legal & General 2016 group tax supplement: https://www.legalandgeneralgroup.com/2016fastread/files/2016_group_tax_supplement.pdf

Extracts – Explaining tax, transfer pricing and low tax jurisdictions

8.

International related-party dealings

Singapore commercial centre
Rio Tinto has established a commercial centre in Singapore which undertakes marketing, shipping, procurement and other services. The centre employs approximately 350 people. The commercial centre centralises best practice across product groups and other corporate functions, and includes centres of excellence for pricing and contracting strategies with a focus on managing risk and capturing value through all market conditions.

Rio Tinto entities based in Singapore generate income from activities carried out by the centralised marketing, shipping and procurement functions. This includes global and/or regional marketing activities of the product groups in respect of iron ore, bauxite, alumina, aluminium, copper, salt, uranium and borates.

These activities result in purchases, sales and services to global and regional Rio Tinto producer entities. Our Singapore commercial centre also provides financial services and global category management services in relation to the supply of certain strategic categories of goods, materials and services.

Rio Tinto explains why related-party transactions occur, highlighting that the commercial centre in Singapore centralises best practice across the group.

9.

We operate in the following jurisdictions which have low, or nil, tax rates, for the following commercial reasons:

Bermuda
We have established our global reinsurance hub in Bermuda to meet our goal of expanding our Pension Risk Transfer business internationally. Bermuda is one of the largest reinsurance markets in the world with a robust, Solvency II equivalent, regulatory framework and a well-established regulator. Bermuda has a highly qualified and experienced local workforce.

Jersey & Luxembourg
We have established collective investment schemes (CIS), which are investment funds or entities, in Jersey and Luxembourg. These jurisdictions are widely recognised as a funds domicile for funds marketed on a global basis.

Whilst tax is generally not paid at fund level due to local tax rules, tax is paid at the level of the investor on their income from, and gains made on, their interests in the CISs. Where group companies invest in these funds, they pay corporation tax in their country of residence (typically the UK) on any investment return.

Legal & General explains why it operates in low tax jurisdictions, and the particular benefit to the business from operating there.

Where next – a strategic response?

Source:
10. Prudential: Contributing to public finances through a responsible approach to tax: http://www.prudential.co.uk/~/media/Files/P/Prudential-V2/reports/2016/prudential-tax-strategy-2016.pdf
11. Vodafone Tax and economic contribution report 2015-16 http://www.vodafone.com/content/dam/sustainability/pdfs/vodafone_2016_tax.pdf

Extracts – Explaining tax, common phrases

10.

What do we mean by 'responsible and sustainable'?

By responsible, we mean that the tax decisions we make balance our responsibility to support our business strategy with our responsibility to the communities in which we operate, which need sustainable tax revenues.

By sustainable, we mean making tax decisions with a long-term rather than short-term perspective.

What do we mean by paying the 'right' amount of tax?

Tax is inherently complex, particularly when it involves financial services and international dimensions. Where the tax treatment of a particular transaction or activity is unclear, we will follow the generally understood interpretation of tax law.

What do we mean by 'generally understood interpretation'?

Within each of the countries in which we operate there arises over time a common view across the informed tax community (comprising taxpayers, tax advisers and the prevailing practice followed by the tax authority) of how the tax laws and regulations are interpreted and applied. This forms a 'generally understood interpretation'.

Prudential clearly explains what is meant by common terms such as a 'responsible and sustainable' tax strategy.

11.

1 'Corporation tax' is not the same as 'all taxes paid by a company'

Corporation tax is just one of numerous direct taxes paid to governments by companies. As we set out in Appendix 4, corporation tax is one of almost 70 different corporate taxes paid by Vodafone's operating businesses every year. For context, Corporation Tax accounts for only around 9%[3] of total tax paid to the UK Exchequer and just under 20%[4] of total taxes paid to the UK Exchequer by the UK's largest 100 companies. It is seriously misleading to conclude that a company's corporation tax payments represent the total of its direct tax contributions to a government.

2 Many corporate taxes are paid on profits, not on revenues

If a company makes little or no profit, it will generally incur lower tax charges than another similar company with higher profits. This approach is common to almost all countries. Without it, companies enduring periods of low profitability would be faced with disproportionate tax demands and significant disincentives for investment; in the worst cases, they would be unable to afford to pay their tax bills at all and could be at risk of bankruptcy.

In addition, in some markets, other taxes that are levied on revenue (together with non-taxation-based contributions such as spectrum fees) have the effect of depressing profit and so reducing corporation tax liabilities. For context, Vodafone made a worldwide profit before tax (PBT) of £1.8 billion in 2015-16 based on a total revenue of £41 billion, and it is the PBT of £1.8 billion which determines many of the taxes we pay, not our revenue.

Vodafone explains that corporate taxes are paid on profits, not on revenues and that companies pay many other taxes in addition to corporate income tax.

Our review of tax disclosures

Our review of tax disclosures

We use elements of our Tax Transparency Framework to carry out a review of tax reporting in the FTSE350. It includes the areas that we consider to be the basis of good practice in tax reporting. The areas were originally developed following discussions with FTSE companies and different stakeholder groups including governments, investors, analysts and NGOs and cover tax strategy and risk management, tax numbers and performance and Total Tax Contribution and the wider impact of tax.

Tax strategy and risk management

In reviewing a company's tax reporting we are looking for discussion of the approach to tax, and identification of risks and tax strategy. This includes disclosure of policy in areas which are key to that particular business such as tax planning, transfer pricing, low tax jurisdictions and relationships with revenue authorities.

Explanations of internal governance processes are recognised as well as evidence of oversight of tax at Board or audit committee level.

Historically found in the front end of annual reports, we are now seeing more webpages and reports dedicated to companies' approach to tax.

1.

Tax strategy and risk management

- Discussion of tax objectives and strategy
- Disclosure of policies in key areas for the business, for example, tax planning and transfer pricing
- How the tax strategy and function are managed and who has responsibility for governance and oversight
- Discussion of material tax risks

Tax numbers and performance

The second pillar of the framework is most closely aligned to the accounting disclosures required by financial reporting standards and other applicable regulations. We look for a clear explanation as to why the current tax charge is not simply accounting profit at the statutory rate or some insight into the effective tax rate.

We also look for a clear reconciliation from cash tax to the tax charge and forward looking measures, such as forecast accounting or cash tax rate.

Usually placed in the annual report, some companies make innovative use of graphics to illustrate and contextualise the numbers.

2.

Tax numbers and performance

- Clear reconciliation of the tax charge to the statutory rate
- Discussion of cash tax payments and how they relate to the tax charge
- Forward-looking measures for tax, such as an indication of the future direction of the company tax rate

Total Tax Contribution and the wider impact of tax

The third area we review moves away from traditional accounting disclosures towards understanding the wider picture. Discussion of how tax impacts the business strategy and details of advocacy are recognised. We look for additional insight into taxes borne and collected other than corporate income taxes and the company's economic value add.

This pillar of the framework also includes country by country reporting and discussion of taxes contributed to developing countries – an area where we have seen an increase in both mandatory and voluntary reporting in recent years.

3.

Total Tax Contribution and the wider impact of tax

- Show how tax impacts wider business strategy and company results
- Discussion of advocacy activities on tax
- The impact of tax on shareholder value
- Communication of the economic contribution of all taxes paid

A review of the FTSE100 for 2016 year ends

This page shows the results of our June 2017 review of tax disclosures in the FTSE100, looking at 2016 year ends. We looked for five specific areas of disclosures that are included in our Tax Transparency Framework, reviewing annual reports, corporate responsibility reports and websites. The number of companies in the FTSE100 reporting each specific area is shown together with the movement from last year.

Approach to tax

2016 **66** +2
2015 **64**

The approach to tax was disclosed in some way by 66 companies, two thirds of the FTSE100. This has increased from 2015, when the number disclosing their approach to tax was 64.

Most of the approach to tax disclosures were found in the annual report, however there is an increase in the number of companies releasing tax reports (7 companies have published standalone tax reports) and making disclosures on their company website.

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.

Tax governance

2016 **66** +10
2015 **56**

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 10 this year with 66 companies now providing some form of disclosure of tax governance procedures and how tax risk is managed.

The publication of a tax strategy is not a simple exercise and companies need to build trust with their stakeholders that the strategy reflects how the business operates. One consideration is how senior stakeholders will be engaged and we found 55 companies reporting that the Board had oversight of their tax strategy.

Cash tax reconciliation

2016 **19** +1
2015 **18**

Reconciliation of cash tax to the tax charge is a voluntary disclosure which bridges the gap between the tax charge disclosed in the financial statements and the corporation tax paid by the group. It's a disclosure that is rarely seen but is provided by companies seeking to explain to stakeholders how the tax charge in the accounts relates to the tax paid to governments.

Our review shows that 19 companies in the FTSE100 provided an explanation of the differences between these two numbers; 8 companies disclosed this by means of a table and the other 11 by way of discussion. The total number of companies disclosing this year is an increase from the 18 companies reporting for 2015 year ends.

Total Tax Contribution

2016 **38** +1
2015 **37**

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 from others on behalf of Government.

For 2016 year ends, 38 companies provided some information about their Total Tax Contribution, often analysing this amount by the types of taxes paid.

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.

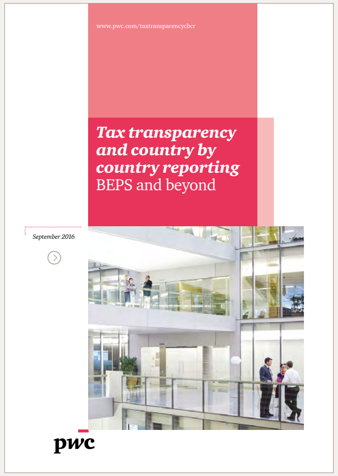
Geographic reporting

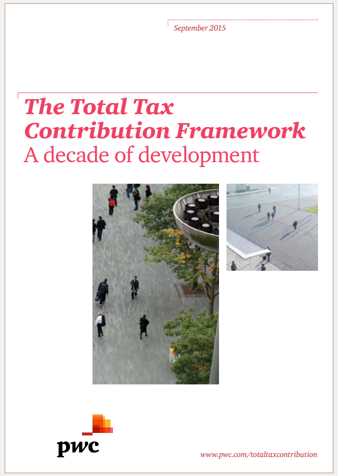
2016 **30** +2
2015 **28**

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 30 companies are currently providing some breakdown of their taxes around the world, either by region or country, an increase of 2 over 2015.

Recent publications





Key contacts

PwC has a strong network of people who can advise you on how to develop your reporting to best meet the needs of your business, the board and external stakeholders. To discuss reporting insights for your organisation, please speak to your usual contact or one of our team:

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www.pwc.co.uk/services/tax/insights/bulding-public-trust-through-tax-reporting.html

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