Tax transparency in an ESG era

Trends in voluntary tax reporting
Ninth edition

June 2022: A review of the FTSE100 for 2021 year-ends

pwc

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Introduction – Tax has become a central pillar of ESG

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Welcome to the ninth edition of trends in voluntary reporting

The tax transparency landscape is experiencing seismic changes internationally, with historical legislative and voluntary reporting developments on the near horizon. The direction of travel is clear, tax is no longer just a private compliance issue for tax teams, it has become a core element of the wider ESG movement under the very public purview of stakeholders, investors, and the Board. Our recent polling of the general public found tax transparency as one of the top three areas which would help build trust with an organisation[1].

The EU is taking the lead on tax transparency

The EU's public country-by-country reporting (CbCR) Directive, published in December 2021 is currently being transposed into individual Member States' legislation for implementation in 2023. For those in scope, the Directive will require the public disclosure of where profits arise and where these are ultimately taxed. This represents the most significant impending shift in the tax transparency landscape since the introduction of Action 13 under the OECD BEPS framework in 2016.

In addition, the EU's Corporate Sustainability Reporting Directive, which will expand the scope of non-financial reporting obligations on companies and require assurance over that information for the first time, is also due for implementation in 2023 under the current timeline. This will require companies to report on ESG areas – such as governance and policy – which are material for their organisations and stakeholders, with tax included.

[1] Opinion gathered from the general public via online market research.

Developments on the international stage

Over 130 countries have now reached a global agreement on the OECD Pillar 2 initiative which, while optional, may see a number implementing it in 2023, and which at its core is a global minimum corporate income tax (CIT) rate of 15%. While guidance on disclosure requirements has yet to be published, the initiative will likely draw scrutiny for companies operating not just in jurisdictions with a CIT rate of less than 15% but, given tax incentives and adjustments, potentially much higher. The debate around whether companies are paying their 'fair share' is likely to be reignited in this new reporting environment.

The IFRS launched the International Sustainability Standards Board (ISSB) in November 2021. Designed to harmonise the various ESG standards developed over recent years and elevate their status alongside IFRS accounting standards, the ISSB's formation represents the establishment of a new global baseline for ESG reporting. Given the importance of tax transparency in other voluntary ESG frameworks – such as the GRI, WEF and SASB – it is likely to become a central tenet of the ISSB's sustainability standards too.

How are companies responding?

Our review of FTSE100 2021 year ends revealed a gradual increase in voluntary tax disclosures across most areas on the prior year. The momentum seen from our earlier reviews is more muted this year, however, the slight slowdown is likely a temporary pause as companies prepare internally for the various transparency initiatives which are in the process of being implemented. Despite this, our review still uncovered some significant milestones in the history of transparency in the UK.

Twenty six companies published a standalone tax report passing 25 for the first time. Up from twenty four, this represents a net increase of 2 companies on the prior year. In an increasingly complex tax transparency landscape, companies often find a separate tax report offers more flexibility to control the narrative around their tax profile, and address tax topics which stakeholders consider material.

The number of FTSE100 companies making a Total Tax Contribution (TTC) disclosure reached 50 for the first time. The increase in TTC disclosures (up from 47 in 2020 representing a net increase of 3 companies) reflects a growing trend likely being driven by companies using the disclosure as a preparatory exercise in anticipation of the incoming EU public CbCR requirements. More companies are using the exercise of collecting their TTC as a starting point for a larger transparency journey, while also finding that the disclosure is effective in demonstrating their proactive engagement with stakeholders and the wider transparency debate.

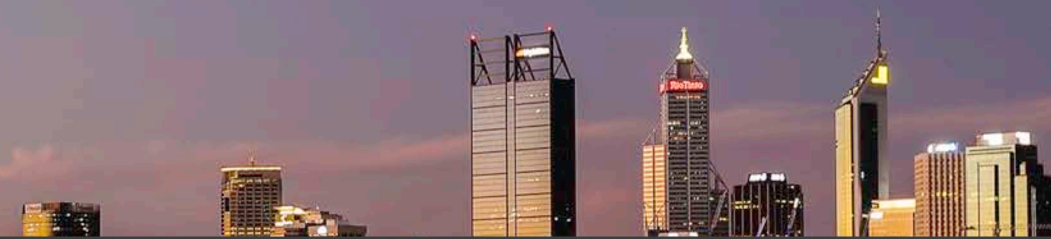
Our review also looked at the number of companies discussing tax within their Task Force for Climate-Related Financial Disclosures (TCFD). Compliance with the TCFD framework became mandatory for listed companies in the UK for periods on or after 1 January 2021, with this extending to incorporate large private companies from April 2022. Reports published in 2022 therefore represent the first year of disclosure, where our review found 38 companies including tax within their TCFD. These disclosures ranged from expansive narrative and modelling on the anticipated risks of environmental taxes increasing under different climate scenarios, and how this impacts existing business models, to less advanced disclosures which simply acknowledge environmental taxes as a potential risk to the business. A majority of companies did not mention tax at all.

Individual tax transparency feedback report

Staying updated with how the transparency landscape is evolving and how peers are responding can be challenging. If you would like to receive a bespoke transparency feedback report which benchmarks your voluntary disclosures against the FTSE100, or you would like to have a conversation about any of the topics raised in this publication, please don't hesitate to contact us.

A new international reporting landscape

A new international reporting landscape



EU public country-by-country reporting

What is it?

The incoming EU requirement for large multinational companies to publicly disclose information on where their profits arise and where these are taxed.

What is the latest?

The EU public country-by-country reporting (CbCR) Directive came into effect in December 2021 and is now being transposed into EU member state legislation for implementation at national level. MNCs in scope will be required to publish information for financial years beginning on or after 22 June 2024.

Who is in scope?

MNCs with global consolidated revenues over EUR 750 million for each of the last two financial years. The disclosure requirements cover all EU member states, plus each of the countries that are on the EU's list of non-cooperative jurisdictions for tax purposes (the 'black' list), or listed for two consecutive years on the list of jurisdictions that do not yet comply with all international tax standards but have committed to reform (the 'grey' list). For all other third (non-EU member) countries, each information item can be given in aggregate.

What information needs to be disclosed?

The disclosure requirements are broadly similar to the OECD BEPS template which has been shared privately with tax authorities in over 90 countries since 2016. Data points include; profit/loss before tax; cash tax paid; tax accrued; number of employees; total accumulated earnings; and nature of activities.

What are the challenges?

CbCR focuses on corporate income tax in isolation and does not offer stakeholders a holistic picture of an organisation's tax profile.

Tax is a complex topic which often requires context and narrative to support external understanding, and to assist in explaining potential outliers or particular nuances. It is important for organisations to understand how their data could be interpreted and compared externally with others.

OECD Pillar Two

What is it?

Part of the OECD/G20 Base Erosion and Profit Shifting Project (BEPS), Pillar Two (P2) is part of a two-pillar initiative designed to address the tax challenges arising from the digitalisation of the global economy.

The core element of P2 is a global minimum corporate income tax rate of 15%, which would be achieved by imposing a 'top-up' tax on profits arising in jurisdictions where an MNC's effective tax rate (ETR) is below that threshold. The ETR would be determined under new Global Anti-Base Erosion (GloBE) rules.

What is the latest?

Over 130 countries have now reached a global agreement that includes P2 as an optional element, but which will probably result in some cases in the transposition of the P2 rules into domestic legislation during 2022, for implementation in 2023. The EU and UK in particular have discussed ambitious timelines for the introduction of the P2 rules that could see them come into effect for some periods from dates in 2023.

Who is in scope?

The global minimum tax regime will apply to both public and privately-held MNCs with consolidated revenues over EUR 750 million. Parent entities of non-profit organisations, pension/investment funds and government entities (or any holding vehicle used by such entities) will be excluded.

What information needs to be disclosed?

Guidance on the reporting and disclosure requirements for P2 have yet to be published by the OECD nor those implementing.

What are the challenges?

The main challenges from a transparency perspective center around any potential disclosure of an MNC's ETRs under GloBE, as well as any top-up tax incurred. This could draw attention to operations in jurisdictions with an ETR rate below 15%. There are risks that any heightened scrutiny could reignite debate around companies paying their 'fair share' leading to potential reputational damage.

EU Corporate Sustainability Reporting Directive

What is it?

The Corporate Sustainability Reporting Directive (CSRD) is a proposal by the EU which would expand on the existing reporting requirements of the Non-Financial Reporting Directive (NFRD) introduced in 2014. The purpose of both directives is to enable stakeholders to evaluate companies on non-financial performance metrics and encourage organisations to develop a more responsible approach to business.

What is the latest?

The EU published its proposal in April 2021. The anticipated timeline is for EU Member States to transpose the new directive into law by 31 December 2022, with the new standards applicable for reports published in 2024.

Who is in scope?

The CRSD extends the scope of the NFRD to include all large companies as well as all listed SMEs (there are exceptions for micro-entities).

What information needs to be disclosed?

The CRSD introduces a requirement to report more detailed information according to mandatory sustainability standards. The standards, which are yet to be finalised at time of publication, are expected to touch on all aspects of the ESG agenda, and will likely include tax. Importantly, CRSD also introduces a requirement that the reported information be audited.

What are the challenges?

These developments highlight the growing importance of non-financial information for stakeholders and investors. Companies will need to map out what ESG elements are material to their business – including tax – and assess the risks of disclosing non-financial information around policy, governance, culture, controls and business operations.

A history of transparency initiatives

2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

2003 – EITI

Transparency initiative for the extractive sector.

2010 – US Dodd Frank Act

Extractive industry proposal to report all payments made to governments.

2013 – EU Accounting Directive

EU Accounting Directive – payments to government for extractive sector.

2014 – CRD IV

EU transparency initiative for banks and capital markets.

2015 – OECD BEPs

Introduced as a way to stop MNCs exploiting mismatches between different countries' tax systems – introduces CbCR disclosure to governments.

2015 – ATO tax principles

Australian tax authority introduces a set of minimum standards to guide on public disclosure of tax information.

2016 – UK tax strategy

UK requirement to publish a tax strategy.

2018 – The B Team

A group of leading companies came together to generate a set of tax principles.

2019 – GRI 207 tax standard

GRI developed a new standard on tax which includes public country-by-country reporting.

2020 – WEF metrics

International Business Council of the World Economic Forum includes a core metric of tax borne (paid); expanded metric includes tax collected in set of ESG metrics.

2021 – EU Public CbCR

EU agrees to new public CbCR reporting for large businesses operating in the EU. Effective 2024/25.

2021 – IFRS

IFRS established the International Sustainability Standards Board at COP26.

2021 – OECD Pillar 2

OECD reaches agreement on global minimum corporate income tax rate of 15%.

2021 – US Bills introduced

Bicameral proposed legislation (two bills) for public CbCR.

2022 – EU ETR

Expected requirement to publicly disclose ETRs as determined for Pillar 2 purposes.

2022 – SEC proposed ESG rules

Disclosures of climate-related metrics, governance and management processes, and risk mitigation approach.

2022 – Task-Force for Climate-Related Financial Disclosure

Climate standards finalised. UK becomes the first country to make compliance with the standards mandatory for both listed and large private companies.

International perspectives: commentary from selected PwC network offices

Charalambos Antoniou

Tax Function Design and Tax Transparency Leader, Global ESG Insurance Tax Leader
PwC Switzerland

Companies in Switzerland are seeing that tax transparency sends a powerful message about their commitment to the environment and society. They understand that with the agreed amendment to the EU Accounting Directive in December 2021, public country-by-country reporting will no longer be voluntary, and that other global initiatives are shaping the tax transparency landscape. Many companies are also realising that carefully considered tax transparency, including a compelling narrative, is an opportunity rather than a risk.

Our **Public Tax Transparency Benchmark study** is designed to help readers understand Swiss companies' response to the evolving tax transparency landscape by comparing their disclosures. This year, we published our third edition of the study, analysing the disclosure levels of 50 of the most noteworthy Swiss-based companies across 10 different industries.

In the study, we distinguish between three different areas of disclosure: tax strategy and risk control framework (TSRCF), country-by-country reporting (CbCR) and Total Tax Contribution (TTC). Each area is assigned to the 'Minimal', 'Medium' or 'Advanced' class according to pre-defined criteria. On this basis, we evaluated the companies' 'Overall Public Tax Transparency' level.

In 2021, the number of companies that qualify for the Advanced disclosure category has doubled, although still on a relatively limited level, from 2% in 2020 up to 4%. The share of companies in the Medium category grew to 38% (+2%), and 58% (-4%) remained in the Minimal disclosure category.

Our findings underscore our conviction that public tax transparency will become the norm. We foresee a rapid increase in public tax transparency, particularly the disclosure of more granular information on a country-by country basis, in the near future.

Carla Perry

Tax Reporting and Strategy, PwC South Africa

According to the latest PwC Africa Business agenda report[2], 56% of CEOs in Africa are extremely concerned about tax policy uncertainty, fragile economic growth and plummeting government revenues fueling an increase in public debt. As a result, large businesses face aggressive tax collections, increases in tax rates or the introduction of new taxes. It has therefore become increasingly important for companies, as major contributors to the public finances, to proactively engage with stakeholders and demonstrate their commitment to tax transparency and the development of a sustainable tax policy environment which promotes economic prosperity.

Our **analysis of the tax transparency landscape** of the top 100 listed companies in the Johannesburg Stock Exchange (JSE) provides a useful baseline and shows how reporting practices have evolved over time. Our review of 2020 year ends showed 10% of companies published a standalone tax report. 67% of companies publicly disclosed their tax strategies, representing a 97% increase on the 2019 year ends. This is largely driven by the requirements of KingIV™, which focuses on companies demonstrating good corporate citizenship. Companies still find the integration of tax and sustainability strategies and the value creation link between the two challenging.

The leaders in transparency provided information in-line with local and international tax transparency initiatives – such as the GRI 207. In addition, where these organisations have a large footprint in Africa, they disclosed detailed information of taxes paid and other relevant non-financial information on a country-by-country basis. These trendsetters demonstrated their view of taxes as an important contribution to society providing a clear link between tax and value creation. However, these trendsetters remain in the minority and compared to other sustainability issues, public reporting on tax remains less developed and standardised.

[2] https://www.pwc.com/ng/en/press-room/africa-business-agenda-2021.html

Francisco Gonzalez Fernandez Mellado

Partner, New Law – Tax Reporting & Strategy Leader, PwC Spain

The international tax transparency landscape is being shaped by a number of different initiatives – including the EU's Directive for public country-by-country reporting and the GRI tax standard. The recent transparency developments in Spain are also heavily shaped by the evolving international picture.

In 2018, the Spanish government introduced legislation requiring Spanish companies which met particular criteria (based on total value of assets, number of employees and being an entity of public interest) to disclose information with similar data points to country-by country reporting, namely; profit before tax, corporate income tax paid on a cash basis and data on incentives. The scope of the standard makes the disclosure obligations, in a majority of cases, only applicable to entities whose parent company is resident in Spain.

Additionally, The Spanish Companies Act introduced in 2015 included a list of non-delegable obligations on the Board of Directors of Spanish listed companies, which included an obligation to establish a tax strategy, the entity's approach to risk management, alongside audit committee oversight of the risk framework – all of which included tax risk.

Back in 2010, the Spanish tax authorities launched a voluntary initiative called the **Code of Good Tax Practices** (CGTP), which provides a self-regulatory framework for minimising tax risks and promoting a voluntary cooperative relationship between companies and the tax authorities. From 2016 the authorities encourage those companies who have signed up to the CGTP to consider filing a standalone fiscal transparency report.

As at February 2022, 177 companies had signed up to the CGTP. For the 2020 fiscal year, 34 companies had filed a standalone fiscal transparency report.

International perspectives: commentary from selected PwC network offices and VBDO

Susanna F. Bjerrum Poulsen

Partner, Corporate Tax,
PwC Denmark

PwC Denmark's report, **Trends in the tax reporting of C25 companies 2022**, shows that the tax transparency landscape across the C25 has continued to develop when compared to 2020 across all measures. These developments are primarily driven by increasing interest from investors and stakeholders in the tax affairs of these companies.

Our review found that almost every company voluntarily publishes information on its tax position and has published a tax strategy approved by the board. It also revealed an increase of 5 companies disclosing information concerning their processes or actions for mitigating tax risk. In addition, companies continue to expand their narratives explaining the tax charge in the annual report by addressing the main items which impact the organisation's tax position for the year.

Our 2022 review found a couple of companies publishing stand-alone tax reports which mostly focussed on country-by-country reporting (CbCR), but also introduced disclosures around how the tax operating model supports CbCR, and is integrated into the organisation's wider tax policy. Most companies chose to devote one or more sections in their annual or ESG/sustainability report to explain their tax affairs, including how their operational model affects their tax payments in countries where they have business operations.

Aidan Lucey

Director, Tax Risk and Controversy
PwC Ireland

PwC Ireland's report **'A new era in tax transparency'** found that many companies are choosing to voluntarily disclose information on their tax affairs because they see it is important to their stakeholders.

While there is no requirement in Ireland for companies to publish a tax strategy, 13 of the 24 companies listed on the main market of the Irish Stock Exchange published such a document. We found that these tax strategies contain disclosures on many of the areas that would be of interest to stakeholders:

- All companies make statements on their tax governance procedures including specific references to board oversight;
- 77% of the companies state that their tax strategy seeks to support the company's broader business strategy;
- Tax authorities are a key stakeholder as regards companies' tax affairs. In this respect, it is unsurprising that all companies state that they seek to have a co-operative and/or transparent relationship with tax authorities; and
- All companies affirm that tax risk is managed and specifically refer to controls being in place to manage this risk.

We found that Irish companies are primarily using their published tax strategies to communicate with stakeholders on tax. Incorporating some of these tax disclosures into broader ESG reports presents an opportunity for companies to demonstrate how they are adopting sustainable tax practices. Some Irish companies are already making tax disclosures in their ESG reports.

The **VBDO Tax Transparency Benchmark**, which is a collaboration between VBDO (Dutch Association of Investors for Sustainable Development) and PwC NL, examines the transparency of 77 Dutch listed companies on their tax policies, reporting and the quality of their tax governance. Since the introduction of the Benchmark in 2015, the average score based on the total points achieved increased from 25% in 2015 to 51% in 2021. The year 2021 marked the first reporting year of the GRI 207 – TAX standard, which was applied by six Dutch companies. In addition, 20% of the 77 participating companies had published country-by-country data. According to a recent study conducted by FTSE Russell and commissioned by the UN PRI, only 7% of the 1,300 publicly listed companies in their global database had done so. Simultaneous to these developments at companies, we observe an increase in investors integrating tax transparency into ESG research and active ownership practices. An interesting example of this is the tax resolution filed at the 2022 AGM of Amazon.

This year, in 2022, the benchmark will be dominated by two major events. First, after several years the benchmark receives an update that will be more specific on tax governance, country by country reporting, ESG taxes and further alignment with leading tax standards. Second, and this is a first, VBDO will start a pilot EU Tax Transparency Benchmark covering the largest economies in Western Europe (excluding the UK).

Tax within sustainability

An overview of ESG frameworks

Introduction

The development of Environmental, Social and Governance (ESG) standards is one of the main products of stakeholder-driven expectations placed on businesses.

Through this ESG lens, tax, and transparency around tax, is increasingly being incorporated into ESG with businesses expected to address stakeholder concerns on tax and publicly disclose how their tax strategy helps address issues around climate change and economic inequalities.

With the launch of the ISSB in November 2021, there is a growing movement to synchronise and integrate the various ESG standards to produce a new global base line for non-financial reporting.

We have summarised the various standards developed and how tax is integrated with them.

ISSB

Launched by the IFRS in November 2021, the formation of the ISSB was designed to create a new global baseline for ESG reporting and harmonise the various sustainability-related disclosure standards introduced in recent years.

As demand from stakeholders for high quality, transparent and comparable corporate reporting increases, the ISSB will work in close collaboration with other international standard-setting organisations. In March 2022, the ISSB published a consultation on two proposed standards drawing heavily from both the TCFD framework and SASB industry standards. It was also announced the same month that the ISSB and GRI would coordinate their standard-setting activities.

The proposed General Requirements of the ISSB standards would require an entity to report on all material information about significant sustainability risks and opportunities via either thematic and/or industry-specific disclosures. The standards will focus on four key areas which are considered critical to the way an entity operates:

- Governance
- Strategy
- Risk Management
- Metrics and Targets

While it is not yet clear exactly how tax will fit into the these four areas, tax transparency is a key part of existing voluntary ESG frameworks. If part of the ISSB's mandate is to harmonise ESG reporting, it is likely tax will factor into its standards too.

WEF

The International Business Council (IBC) of the World Economic Forum issued a set of ESG metrics in September 2020.

The metrics contain a variety of common core ESG reporting topics, with tax included in the form of the taxes borne element of the Total Tax Contribution (TTC) methodology. There is an expanded metric including the option to disclose the taxes collected element of the TTC and/or geographic analysis of that data.

The IBC is made up of the 120 largest companies globally, many of which have stated their intention to follow the metrics, with over 70 companies now including the metrics in their reporting materials[3].

SASB

The Sustainability Accounting Standards Board is an independent body which publishes industry-specific standards. Similar in design to traditional accounting standards, the SASB standards are intended to provide common reporting metrics on financially-material sustainability issues for companies and investors.

There are 77 SASB standards across 11 industries, and as the standards are industry specific, the tax element varies depending on the sector. Tax is included across 6 of these industry standards, reflecting those industries where the topic is viewed as more material for stakeholders.

TCFD

The Task Force on Climate-Related Financial Disclosures was created by the Financial Stability Board to increase reporting of climate-related financial information and improve transparency for investors and creditors. In the UK, compliance with the framework became mandatory for periods on or after 1 January 2021 for listed companies.

There are three key areas which link the TCFD framework to tax;

The future tax landscape and the scope of future environmental taxes, incentives and grants;

The impact on supply chains and transfer pricing policies from less carbon intensive activities;

The impairment of assets and the potential impacts on tax attributes sitting on company balance sheets from climate change.

The Securities Exchange Commission (SEC) announced in 2022 a proposal of climate-related disclosures which are closely aligned with the TCFD framework.

GRI

The Global Reporting Initiative is an international organisation responsible for setting sustainability standards globally on a range of ESG topics.

In December 2019 it issued the 207 tax standard, introduced to meet stakeholder demands for greater transparency around tax. The main area of focus with the 207 standard is the public country-by-country requirement which has similar data points to the OECD BEPS template.

Our review of the FTSE100 for 2021 year-ends found 47 companies following the GRI across a range of ESG reporting topics. 23 companies followed the 207 tax standard to some degree, with 10 of these companies claiming full compliance with the standard.

[3] https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation

Task Force on Climate-Related Financial Disclosures (TCFD) and the growing profile of environmental taxes

What is the TCFD?

The TCFD increases reporting of climate-related financial information. The recommendations under TCFD are built around four key pillars: governance, strategy, risk management and metrics and targets.

Who is required to produce reports?

TCFD and wider ESG reporting already applied to premium-listed companies with accounting periods beginning on or after 1 January 2021. This has been extended to incorporate large private companies from April 2022.

Why is tax an important element of TCFD?

The TCFD framework is not a one size fits all model. It is for individual companies to assess the extent of the impact that climate change will have on them. Under the risk assessment, companies need to consider the physical and transition risks.

1. **The future tax landscape**: Understanding the scope of the existing and new environmental taxes, as well as global fiscal policy, incentives and grants, is key to minimising climate-related risks, and maximising climate-related opportunities.
2. **The impact on supply chains:** How to identify and attribute value to ESG activities in an organisation; the right pricing mechanism for those ESG activities; how changes in the supply chain will impact overall profitability and geographical split of profit.
3. **Impairment of assets:** As company TCFD scenario forecasts are adjusted for climate change, where territory profitability is reduced there may be tax attributes (e.g. deferred tax assets) that can no longer be recognised.

PwC Green Taxes Tracker

PwC's Green Taxes and Incentives Tracker helps you discover details about climate and carbon-related tax matters where your company operates; it covers more than 800 taxes and 600 green incentives in 88 countries and regions around the world that can affect critical business strategies and operations.

FTSE100 review

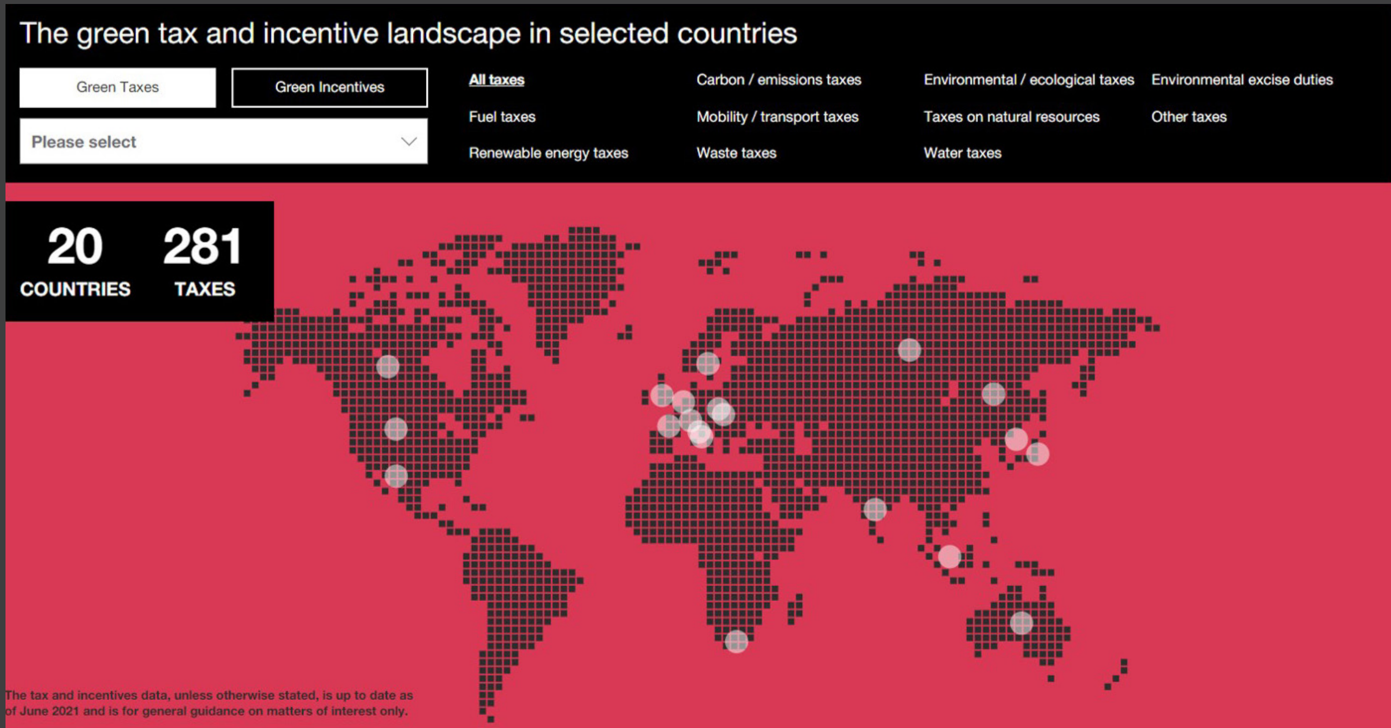
In our review of the FTSE100 for 2021 year ends we analysed how many companies included tax within their TCFD. Our findings revealed that 38 companies mentioned tax within TCFD.

38 included tax within TCFD

33 Mentioned carbon taxes and/or carbon pricing

2 Discussed plastic packaging taxes

3 Discussed environmental taxes more broadly



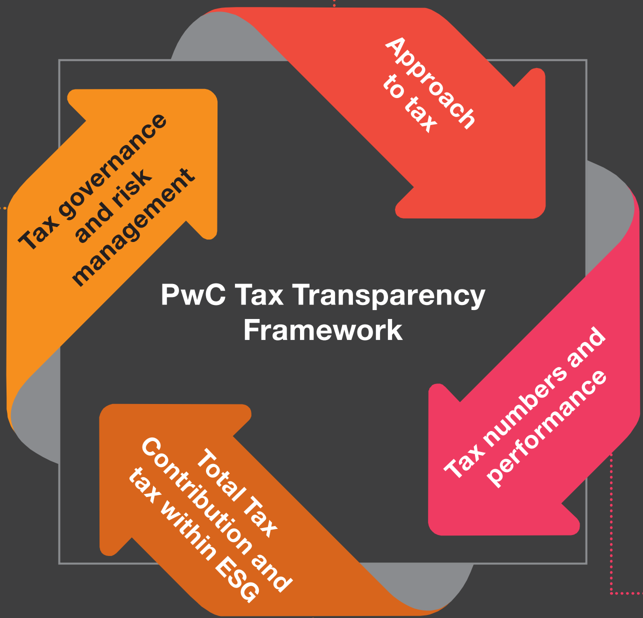
https://www.pwc.com/gx/en/services/tax/green-tax-and-incentives-tracker.html

Trends in transparency

FTSE100 review of 2021 year ends

We reviewed the annual reports for financial years ending between January and December 2021, for all companies listed in the FTSE100 at 31 December 2021. Our review uses the PwC Tax Transparency Framework, a set of broadly defined tax transparency indicators to assess the disclosures made. Ten of these indicators are shown below and discussed in more detail in the appendix. We reviewed the most recently publicly available corporate reports, social responsibility reports, and additional tax reporting documents publicly available at 30 April 2022. For additional commentary on these ten areas, please see appendix A.

2021	2020	
67	66	Board approval
96	96	Risk framework
38	-	Tax within TCFD
50	47	Total Tax Contribution
5	5	Country-by-country reporting[1]



	2020	2021
Transfer pricing	62	64
Tax havens	47	48
Tax incentives	71	69
Cash tax reconciliation	24	26
ETR reconciliation narrative	45	42

The numbers shown refer to the number of FTSE100 companies.

[1] Country-by-country reporting (CbCR) disclosure refers to the public disclosure of CbCR data points per OECD BEPS Action 13 table 1

How have companies responded to the evolving transparency landscape over time?

How has voluntary reporting changed?

The voluntary reporting landscape has evolved significantly over recent years. This has principally been driven by the introduction of legislative requirements at both an international and national level, which has shifted the goal posts in terms of what constitutes a voluntary disclosure. For example, the disclosure of a tax strategy in the UK would have constituted a voluntary disclosure in 2014, whereas disclosure is now mandatory for large businesses.

The expectation from stakeholders has been for companies to not only comply with the mandatory requirements introduced, but continue to build on them and increase their voluntary tax reporting too. The focus on voluntary reporting has therefore experienced a similar intensification over recent years, with companies disclosing evermore detailed information about the organisation's tax profile.

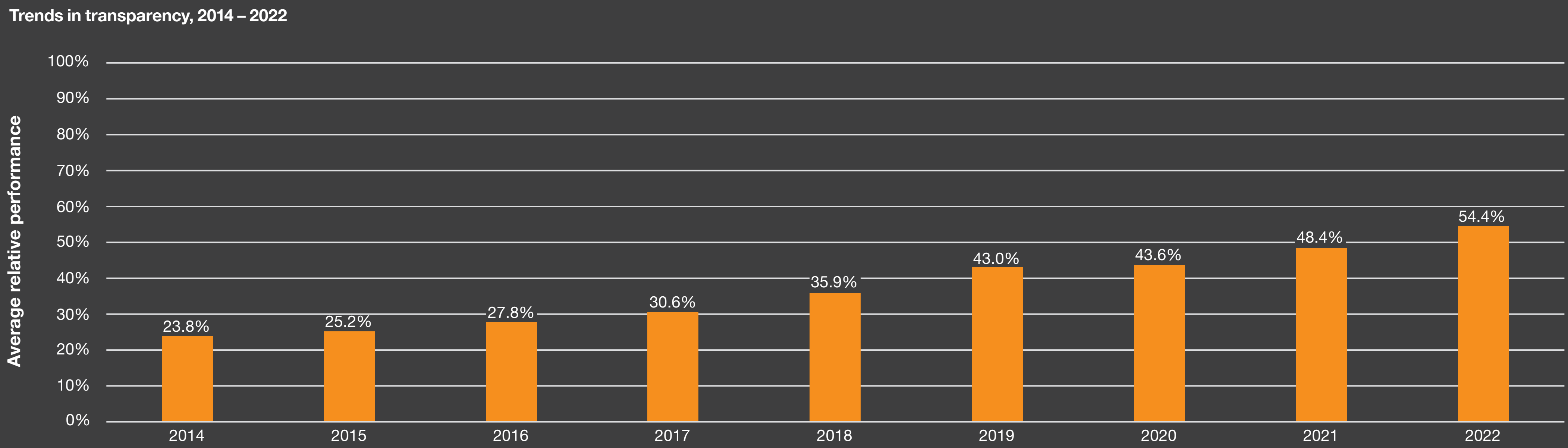
How has PwC captured this shifting landscape?

The PwC Transparency Framework was developed in 2008 and focuses on voluntary tax reporting. It can be used as a quantitative benchmarking tool providing insights into how companies respond to developments in tax transparency by assigning marks based on certain criteria. Over time the framework has adapted to closely reflect the maturing transparency landscape.

Using the framework and data from our review of FTSE100 companies in the period 2014 – 2022, we have adjusted the criteria for each year and used data for the same number of companies present in the FTSE100 across all 8 years; this is to make it consistent and ensure a like-for-like comparison.

Figure 1 shows our analysis and the longer-term trends in transparency. In 2014, the average score against the adjusted criteria was 23.8%. In 2022 this average crossed 50% for the first time, indicating that voluntary disclosures have continued to increase, building on mandatory legislation and becoming more complex.

Figure 1: Average relative performance of selected FTSE100 companies across the period 2014 – 2022 using like-for-like criteria.



How have voluntary disclosures changed?

To understand how the voluntary reporting landscape has changed since 2014, we looked into some of the material disclosure topics for stakeholders on tax. Our analysis reveals a gradual increase in the number of FTSE100 companies making voluntary disclosures across all four sections of the PwC Transparency Framework in the period.

The four sections of the framework are:

- Approach to Tax;
- Tax Governance and Risk Management;
- Tax Numbers and Performance; and
- Total Tax Contribution and Tax within ESG.

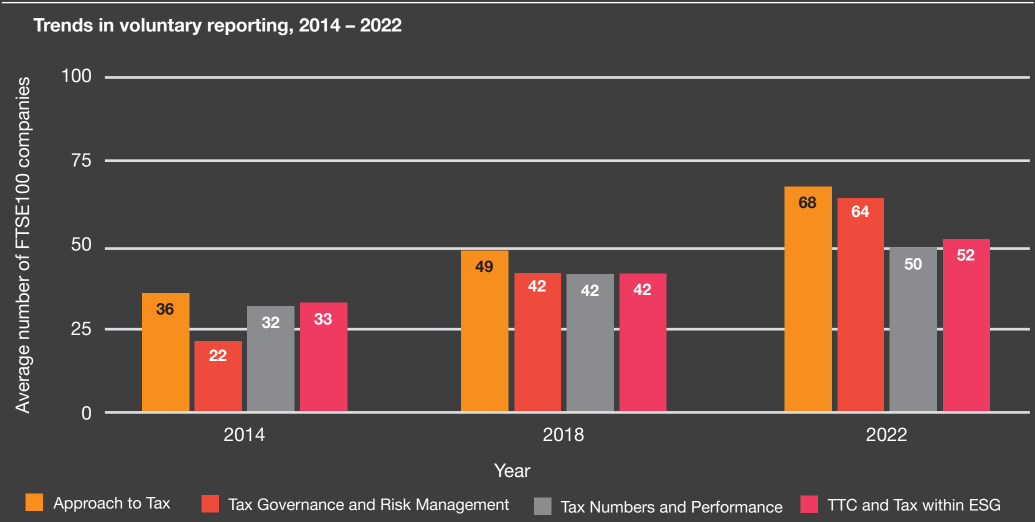
Figure 2 shows that in 2014, we found an average of c.25-35 FTSE100 companies making some form of voluntary disclosure across each of the framework's four areas. By 2022, this average has increased by at least 50% across each area.

We also looked into specific disclosure areas in order to understand the drivers behind these upward trends. Our analysis shows that underneath the surface there have been some significant increases in the levels of voluntary disclosure. Figure 3 reveals the number of companies making voluntary disclosures between 2014 – 2022 in the following areas:

- Tax Havens;
- Tax Risk Framework;
- Narrative on future performance of ETR; and
- Total Tax Contribution.

In every area more companies are currently making disclosures than in 2014 by significant margins. This indicates that while the increase in tax transparency at a broad level appears to be more gradual, individual areas of disclosure have seen seismic changes over a short period of time.

Figure 2: Average number of FTSE100 companies making voluntary disclosures across four sections of the PwC Transparency Framework.



What has driven these changes in the reporting landscape?

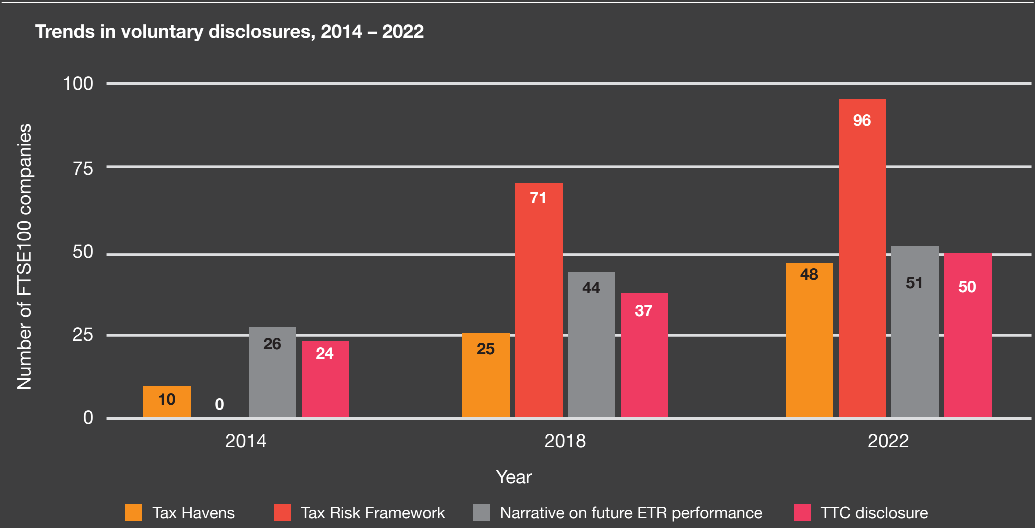
Tax Havens: There has been intense scrutiny from NGOs on the use of low-tax jurisdictions over recent years. This has only intensified as a result of the COVID-19 pandemic as many governments around the world introduced legislation restricting state support for companies with operations in these jurisdictions.

Tax Risk Framework: This is an area which both HMRC and the Department for Business, Energy and Industrial Strategy (BEIS) have shown increasing interest in over recent years.

ETR Narrative: The Financial Reporting Council (FRC) released a thematic paper in 2016 which encouraged companies to provide more narrative in this area for stakeholders. Focus on this area was renewed in May 2021, when the FRC released another paper building on the recommendations from the 2016 paper.

Total Tax Contribution: The increasing number of companies disclosing their TTC is likely driven by the growing focus on country-by-country reporting at both EU level and internationally via the OECD.

Figure 3: Number of FTSE100 companies making voluntary disclosures across selected areas.



The journey towards greater transparency

Insights from bp and Lloyds Banking Group

We invited the winners of last year's Building Public Trust Awards for Tax Reporting, bp and Lloyds Banking Group, to offer insights into their respective tax transparency journeys and the importance of robust underlying governance controls over tax. The Tax Reporting award is split into two separate awards with bp winning the multinational award, and Lloyds Banking Group winning the UK-focussed award. This split reflects the varied stakeholder expectations on tax for the two different geographies.

Our bp journey

bp's commitment to tax transparency is longstanding. We have provided information on our tax and our economic contribution for many years. We work with governments and civil society to develop disclosure standards that provide accurate and useful information. This focus on transparency is demonstrated in our aim to be recognised as a leader for the transparency of our reporting – we believe it helps us build trust with our stakeholders. These strong foundations – of transparency and collaboration – helped prepare the ground for our first tax transparency report. We started in earnest by gathering input from expert stakeholders including NGOs and investors. We also referred to different frameworks, guidance and standards: we focused on The B Team's seven responsible tax principles, which helped inform the structure of the report, and the GRI tax standard: 207. We were pleased to be one of the first companies to adopt the new standard.

Producing the tax report required skills that perhaps most tax advisors don't use on a day-to-day basis. Fortunately, there was support throughout the organisation, including from our corporate reporting team who brought their expertise, including helping to make the report accessible to the non-tax reader. Collating the full data set for the report required support from our global network of tax colleagues. Other teams provided expertise including legal and finance, making it a truly cross-functional and collaborative project. With details of our approach to tax along with country by country and total tax contribution data, the report demonstrates that bp is a responsible taxpayer and that the taxes we pay provide financial resources to the societies where we operate. The report has enabled new dialogues with our stakeholders, providing a useful starting point for conversations that might otherwise not have been possible.

Our four top tips:

1. Understand the context for the report within your organisation – how will it help demonstrate your strategy in action or meet your other goals?
2. Get early executive-level support.
3. Build a great internal team who can collaborate and help prepare the report.
4. Engage with external stakeholders to understand what information they would like to see to improve their understanding of your tax affairs.

Our approach to tax transparency

We understand that we operate in a society which wants assurance that the value created by companies is underpinned by appropriate, prudent and transparent tax behaviour. Following the announcement that publication of a Tax Strategy would become a mandatory UK tax obligation, we decided to create a single document that met this requirement and brought together all our tax messages and reporting in one place.

Tax is an important part of ESG considerations for responsible investors, but without a generally accepted standard of what constitutes 'good' tax transparency disclosures, we set about trying to synthesise our own. We reviewed a broad range of tax transparency documents, including those published by investors, NGOs, advisory firms, accounting bodies, large corporates and our peers, and built a report to address topics of significant interest. We revisit our Tax Strategy document each year, keeping it relevant and useful and reflecting developments in tax transparency best practice and feedback from stakeholders.

One of our key principles is that tax reporting must be understandable by non-specialist readers. One of our early decisions was to publish the IFRS proof of tax in our annual accounts but with additional, straightforward, line-by-line explanations. We also created a chart to then illustrate the differences between accounting tax and cash tax in our Total Tax Contribution analysis. This principle of straightforward explanation is particularly important to support country by country disclosures which, provided without business context, we have found can easily be misinterpreted.

Top tips:

1. Own your numbers, own your narrative! This is your opportunity to tell your tax story directly to your stakeholders in the most engaging and informative ways.
2. Review the public documents of your peer group. What areas do they focus on? Do they answer the questions you think are important for stakeholders in your industry?
3. Use prior year data to do a dry run of disclosures to identify process wrinkles and areas where data quality could be improved before going live.
4. Share your draft disclosures widely within your organisation, and ask for feedback. Non-tax reviewer observations and questions can often be revelatory.

Total Tax Contribution (TTC) as a starting point on your transparency journey

Why TTC?

For the first time our review found 50 FTSE100 companies disclosing their TTC. This is likely driven by companies using the disclosure as a preparatory exercise in anticipation of the incoming EU public country-by-country requirements which focuses on corporate income tax in isolation.

TTC provides a holistic overview of a company's international tax profile and includes all taxes a company pays. This can provide tax teams with a robust baseline upon which key messages can be built and a broader transparency strategy formulated and integrated within a wider ESG strategy.

What is TTC?

TTC is the total cash taxes and levies paid by a company to any level of government. At a broad level the TTC framework is split into two main categories:

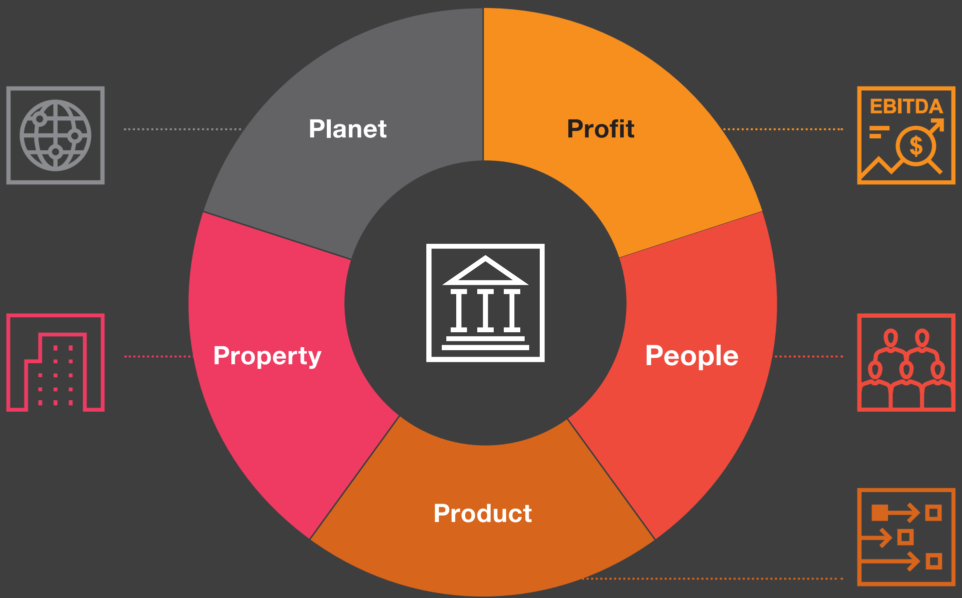
- **Taxes borne:** which are a cost to the company when paid and impact the company's financial statements; and
- **Taxes collected:** which are those taxes the company collects on behalf of governments as a result of the economic activity generated by the company.

Where to begin?

TTC is as much a journey itself as developing a wider transparency strategy. Our recommendation is for tax teams to initially focus on data collection for material taxes from top locations with operations. Undertaking this process is likely to produce a tax profile which captures around 80% of total taxes paid by the company, and will provide key messages about the company's overall tax contributions which are unlikely to change in future years.

Building on this process as a starting point on a wider transparency journey will provide tax teams with a solid foundation upon which more informed conversations with stakeholders about transparency and how the company's tax profile supports broader ESG topics can be facilitated.

5 P's – The TTC tax bases



What are the 5 P's?

- **Profit:** These include taxes on company profits that are borne (such as corporation tax) and collected (such as withholding tax on payments to third parties).
- **People:** Taxes on employment, both borne and collected (including income tax and social security payments).
- **Product:** Indirect taxes on the production and consumption of goods and services, including VAT and sales taxes.
- **Property:** Taxes on the ownership, sale, transfer and occupation of property.
- **Planet:** Taxes and duties levied on the supply, use of, or consumption of goods and services that are considered to be harmful to the environment.

Greater value in TTC

For those companies who are further along on their transparency journey, there are still ways of gaining more value from TTC.

Leveraging technology and data automation to assist with the data collection process can save significant time and resources. TTC data which has been collected over a number of years can also be used to draw out longer-term trends. This data could be used to inform public policy and support conversations on macroeconomic issues such as industry or geographically specific taxation.

How can PwC help?

Developing a transparency strategy

The PwC tax transparency framework helps guide companies through the thought process needed to formulate a strategy that maximises the benefits of greater transparency.

With our insights into the evolving transparency landscape we can produce a transparency roadmap which summarises the risks and opportunities of developing your voluntary disclosures.

We can also perform an independent alignment review to assess whether, in our view, your current voluntary disclosures meet the tax reporting criteria of ESG standards including: GRI 207, WEF/IBC Metrics and SASB industry standards.

Total Tax Contribution

We have the knowledge, expertise and experience to support you through any stage of your TTC journey:

- Global TTC data collection
- Reasonableness reviews
- TTC assurance
- TTC automation

We are the market leader when it comes to TTC, having worked on the TTC framework for over 15+ years. You can find our comprehensive TTC guide **here**.

Tax Contribution Report (TCR)

We can work with you to produce and design your organisation's first TCR, or update an existing one. We can assist with:

- **Strawman report** – work with you to develop the main structure of a TCR which you can build upon internally;
- **TCR content support** – we will work with you to draft the full report;
- **TCR content update** – we will help you expand your current TCR disclosures;
- **Full TCR support** – all of the above, working with our bespoke in-house design team, to support with the design and production of the final report.

Benchmarking

In the current environment where tax is increasingly a reputational issue, it's more important than ever to know how you compare to your peer group.

Using publicly available data and our own bespoke databases, we can carry out effective tax rate, TTC, or tax narrative benchmarking providing you with in-depth insights into what drives your tax profile and how to communicate this to internal and external stakeholders.

Tax governance

To publish with confidence companies need to invest in a robust tax control framework so that narrative statements and numbers confidently reflect the day to day reality. We can assist with:

- Current state process, risk and control assessment and gap analyses;
- Governance framework approach and roadmap/strategy to enhance;
- Automation opportunities to give greater certainty and control; and
- Validating controls in place to help you achieve net zero.

Tech-driven insights

We have an arsenal of bespoke tools available which can offer valuable insights into your tax data;

- TTC and CbCR analytics and visualisation; identifying outlying ratios;
- ETR and tax narrative benchmarking;
- ESG tax maturity assessment – using our Tax Management Maturity Model (T3M) to help you develop your approach to ESG tax strategy.

Please see our T3M website for more information[1].

Why choose PwC?

We have the knowledge, expertise and experience to support you through any stage of your transparency journey.

Experience

We are the market-leading specialists in tax transparency and TTC having worked with large companies around the world for over 15 years, helping them navigate the evolving transparency landscape.

1

International network

We can leverage our global network and tap into specialist or local knowledge as required.

2

Tech-enabled

We can leverage bespoke data analytics and visualisation tools to offer valuable insights into your TTC or CbCR data, which can be used to construct key messages and formulate a wider transparency strategy.

3

1 https://www.pwc.nl/en/services/tax/tax-function-of-the-future/digital-tools/tax-management-maturity-model.html

Appendices

Appendix A: PwC commentary on review of FTSE100 for 2021 year-ends

Appendix B: Country-by-country disclosure requirements

Appendix C: Building Public Trust Awards for Tax Reporting

Appendix D: PwC network office contacts

Appendix A

PwC commentary on review of FTSE100 2021 year ends

Tax Havens: 48 companies discussed tax havens in this year's review, an increase of 1 on 2020.

We saw heightened scrutiny over tax havens during 2020 as a result of the COVID-19 pandemic, as many governments introduced legislation preventing businesses with operations in tax havens from receiving state aid. While this momentum has slowed, the incoming EU public CbCR Directive includes disclosure requirements for operations in the EU's list of non-cooperative jurisdictions; namely the 'black' and 'grey' lists.

Transfer Pricing: Was discussed by 64 companies, up from 62* on 2020 year ends.

We saw a large increase in transfer pricing disclosures last year which may have been driven by the Financial Reporting Council (FRC) focus on IAS 1 disclosures regarding significant estimates.

With the EU public CbCR disclosure requirements incoming, scrutiny around company intra-group transactions will likely increase.

Tax Incentives: Were mentioned by 69 companies, a decrease of 2 on the 2020 year end.

The decrease was largely driven by a change in the makeup of the FTSE100 during the year.

We also saw a large increase in the number of tax incentive disclosures last year as many companies included narrative around COVID-19 grants and other support measures introduced by governments.

Board Approval: Of the company's tax strategy has increased by 1 on the 2020 year ends.

HMRC guidance on large business tax strategies was updated in June 2018, and indicated that there should be board approval of the strategy. Many companies have responded by making explicit reference to board approval of the tax strategy, or approval of an individual board member specifically – often the CFO. The increasing trend highlights responsibility for, and involvement with, the tax strategy at the highest level of the business.

Risk Framework: 96 companies have a risk framework in place specific to tax, which is flat on the prior year.

The Department for Business, Energy and Industrial Strategy (BEIS) published a consultation in March 2021 on 'restoring trust in audit and corporate governance' which recommended increasing disclosures on controls and director statements over governance – including on tax – and is likely a key driver in the exceptionally high number of companies referring to a risk framework.

HMRC has also renewed its business risk reviews to focus on tax risks and controls.

Cash Tax Reconciliation: We found 26 companies providing a cash tax reconciliation, an increase of 2 on the previous year.

Cash tax reconciliation is a voluntary disclosure which sets out the difference between the tax charge disclosed in the financial statements and the corporation tax paid by the company. The disclosure remains less common, but it is provided by companies seeking to explain and clarify to stakeholder groups, how the tax charge in the accounts relates to actual cash tax paid to the authorities.

Tax Reconciliation Narrative: 42 companies provided additional narrative around their statutory/ effective rate reconciliation, a decrease of 3 on the 2020 year ends.

The decrease was partially driven by a change in the makeup of the FTSE100 during the year. However, we expect this number to gain momentum again in future years as the FRC released another thematic paper in May 2021, building on a 2016 paper, and putting renewed focus on increasing tax disclosures to meet stakeholders demands.

Total Tax Contribution: For the first time we found 50 companies disclosing their TTC marking a significant milestone for tax transparency in the UK.

With the impending legislative developments around the EU public CbCR Directive, and to a lesser extent the OECD Pillar 2 initiative, it is less surprising to find more companies making a TTC disclosure in anticipation of heightened focus on corporate income tax in the near future. TTC offers a more holistic overview of a company's tax profile and broadens the transparency debate.

TCFD: We found 38 companies including tax within their TCFD. The disclosure became mandatory for listed companies in January 2021.

These disclosures ranged from expansive narrative and modelling on the anticipated risks of environmental taxes increasing under different climate scenarios, and how this impacts existing business models, to less advanced disclosures which simply acknowledge environmental taxes as a potential risk to the business. A majority of companies did not mention tax at all.

*Note that 2020 figures may differ from our prior publication. This is as result of timing differences driven by companies with a March year-end being reviewed later in the year. The changes to last year's published figures were minimal.

Appendix B: Country-by-country disclosure requirements

Below are the differences between CbCR disclosures required under the EU CbCR proposal, OECD and GRI 207-4.

	EU Proposal	OECD	GRI 207-4
Total revenue	✓	✓	X
Revenue from third parties	X	✓	✓
Revenue from related parties	X	✓	Between jurisdictions only
Profit/loss before tax	✓	✓	✓
Cash tax paid	✓	✓	✓
Tax accrued	✓	✓	✓
Tangible assets other than cash and cash equivalents	X	✓	✓
Number of employees	✓	✓	✓
Reasons for the difference between CIT accrued on profit/loss and the tax due if the statutory rate is applied to profit/loss	X	X	✓
Total accumulated earnings	✓	✓	X
Stated Capital	X	✓	X

Appendix C: Building Public Trust Awards for Tax Reporting

Winners of the fifteenth Building Public Trust Awards for Tax Reporting – recognising companies making leading voluntary tax disclosures – will be announced in November 2022.

Explore how the tax transparency debate is evolving through our short briefings on our website. Each addresses a different topic and contains extracts from leading companies. There will also be a repository of extracts published here throughout the year.

Scan the QR code below, search for 'Building Public Trust Through Tax Reporting' or visit: https://www.pwc.co.uk/services/tax/insights/building-public-trust-through-tax-reporting.html

How can we help?

The tax transparency landscape is evolving rapidly and becoming more complex. Keeping up to date with how your peers are responding and understanding what information your stakeholders are looking for is increasingly important, but also increasingly challenging.

Our benchmarking report can show you how you compare to peers and offer insights into areas for potential development to meet stakeholder expectations.

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C25 Tax Transparency

Trends in the tax reporting of C25 companies, 2022

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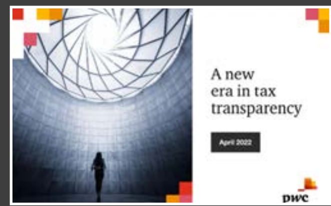
A new era in tax transparency



Transparency Benchmark in the Netherlands, 2020
For more information about the Tax Transparency Benchmark in the Netherlands, please contact VBDO.

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