June 2017 : *A review of the FTSE100 for 2016 year ends*

Tax Transparency – A new era?

Trends in voluntary reporting

Fourth Edition

pwc

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Foreword

We are in a new era of tax transparency. It is an issue at the forefront of ethical, economic and political discussions, and corporates are finding themselves in an increasingly challenging tax environment with pressure to explain their tax affairs. As companies navigate their way through the transparency requirements of schedule 19 FA 2016, the comments from the Financial Reporting Council review and the demands of country-by-country reporting (see summary below), a number are making more extensive disclosures this year, to present their own view and aid a better understanding of their tax affairs, while others are taking the first steps on their transparency journey.

A key element of our review this year was the legislative requirement for companies to disclose publicly their approach to tax, which comes into force for accounting periods starting after 15 September 2016. We found 14 FTSE100 companies already publishing a tax strategy stating that it was compliant.

More broadly, two thirds of the FTSE100 provide some narrative around their tax strategy, a small increase compared to last year, but it is disclosures around tax governance and risk management where we have seen a significant change this year. A key issue for companies disclosing their tax strategy is to ensure that any public statements are supported by operational practice and strong systems of internal governance and control. Our review found that two thirds of the FTSE100 are making a reference to governance over tax, compared to just 37 companies three years ago. Current disclosures refer not only to board involvement in tax matters, but some also include control frameworks, risk reviews and evidence of tax policies being delivered.

While some companies are focusing on the mandatory requirement for a public tax strategy, others see it as one element of the broader transparency agenda. It is something to take into account when considering the question 'Transparency to whom and for what purpose?'. The tax strategy forms only part of the company's disclosures on tax and contributes to the bigger picture.

For some companies, part of that bigger picture is the dramatic change and associated uncertainty in the current economic and political landscape. This includes the UK's decision to leave the EU, US tax reform under the Trump administration, the OECD BEPS initiative and the EU's investigation into tax rulings which have created uncertainty for stakeholders around companies' tax affairs.

In response to this uncertainty, over a quarter (31 companies) included some comments on BEPS, Brexit, or US tax reform with some expressing concern over the possible adverse impacts.

Is this, then, a new era of tax transparency? Tax disclosures, both mandatory and voluntary, will continue to develop, but our view is that the ability to demonstrate the effectiveness of a tax control framework, particularly to tax authorities, will become an increasing focus of attention.

There is clearly a significant range of interpretation of the new mandatory requirements leading larger companies to reconsider their approach. Whether or not they decide to go beyond what is required depends on their own circumstances; what is clear is that for most the focus is on making sure they can stand behind public statements with confidence by operating effective tax governance.

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

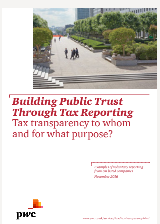
Andrew Packman
Tax Transparency and Total Tax Contribution Leader

In 2016, we saw the following tax transparency developments:

- ***The UK Government (Sch 19 FA 2016)*** – large companies are required to make a public disclosure of their tax strategy
- ***The Financial Reporting Council*** – released a report on their thematic review of tax reporting
- ***The European Commission*** proposed a draft directive on public Country-by-Country Reporting

Our methodology

- We reviewed the annual reports for financial years ending between January and December 2016, for all companies listed in the FTSE100 at 31 March 2017. Figures for 2015 are for all companies listed in the FTSE100 at March 2016, therefore the trends shown represent the FTSE100 group at the time of review, and are not on a like-for-like basis year on year.
- We reviewed the most recent corporate reports, social responsibility reports, and additional tax reporting documents publicly available at 30 April 2017. We explored each company's website, searching for any other information that relates to tax reporting.
- Our review is strictly limited to publicly available information up to 30 April 2017, and uses the PwC Tax Transparency Framework, a set of more than 35 broadly defined tax transparency indicators, to assess the disclosures made.
- Five of these indicators are discussed in detail in this publication.



The winners of our twelfth Building Public Trust Awards for Tax Reporting – recognising companies making leading voluntary tax disclosures – will be announced in November 2017. The publication shown contains over 50 examples of reporting from companies in the FTSE 350.

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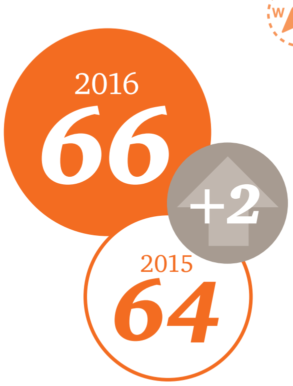
Approach to tax



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.

With the new mandatory requirements of schedule 19 FA 2016, we expect this number to reach 100 by 2018. One question often asked is whether disclosures of company tax strategies are bland, boilerplate statements, or include more detailed commentary, providing insight into how tax is managed in the business.

A more comprehensive review of the approach to tax statements (see diagram below) begins to answer that question. Of these 66 companies, 48 commented that their tax strategy was consistent with their wider business strategy. They confirmed that tax was aligned to the rest of the business and the wider business objectives, emphasising the link between the tax function and the company's daily operations. 24 companies included a discussion on how tax interacts with their business model, an area previously restricted to the leaders in tax transparency.

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.

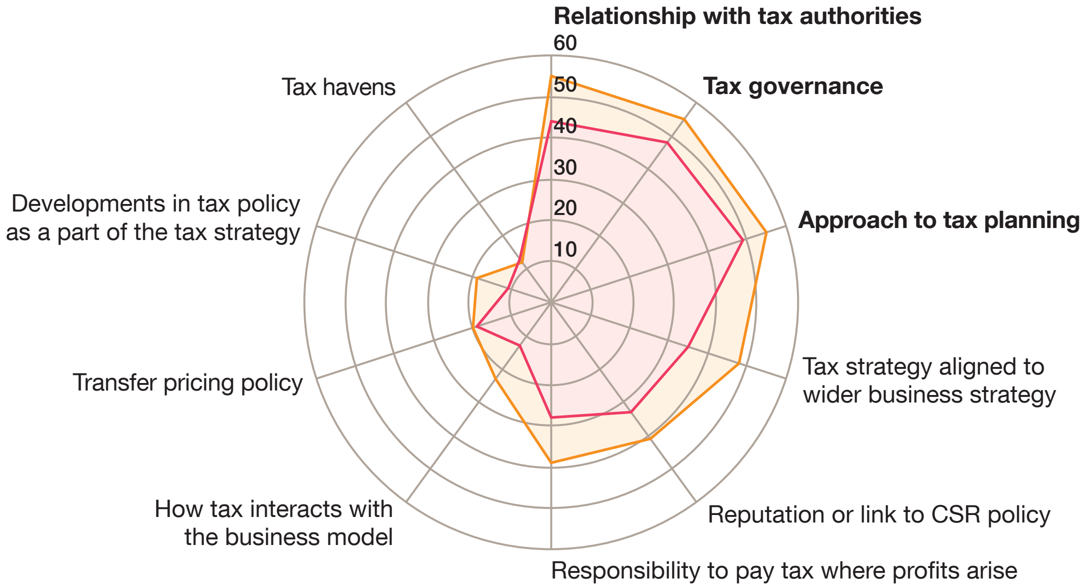
A coherent disclosure of a company's approach to tax is vital, without which it is difficult to put other disclosures into context. Companies developing their public strategy disclosures are working with corporate responsibility teams, investor relations and developing a broader briefing document for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

Benefits of disclosing an approach to tax?

For companies seeking to:

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

Analysis of the approach to tax statement



2015 year ends   2016 year ends

The chart above shows the number of companies providing disclosures in each area described in the approach to tax statement, emphasising the trend towards greater detail within the approach to tax statement.

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.

Stakeholders need comfort that the strategy is embedded in practice and 32 companies discussed how the strategy is being delivered. Of this group of 66 companies, 49 companies provided detail covering areas such as their risk profile and the control framework in place to provide insight into how tax risks and opportunities which require further investigation are identified and aligned to the agreed strategic objectives.

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

Benefits of disclosing your tax governance?

For companies seeking to:

- Give comfort to investors that tax affairs are overseen at an appropriate level
- Provide insight into the system of internal control to monitor the operating effectiveness of key tax controls

***55** Companies disclose board oversight of the tax strategy*

***49** Companies disclose detail of risk frameworks, appetite or controls*

***32** Companies discuss delivery of the 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.

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

Benefits of disclosing a cash tax reconciliation?

For companies seeking to:

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

Total Tax Contribution

2016
38
+1
2015
37

Companies are liable to pay many other taxes in addition to corporation tax. **Total Tax Contribution** quantifies the total amount of taxes generated by a company and contributed to the public finances. 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. This is more prevalent in the financial services and extractives companies, where public disclosure of information on a country-by-country basis is already required.

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

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

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

Our survey of the 100 Group explores the Total Tax Contribution and wider economic impact of the UK's largest listed companies.

Benefits of disclosing Total Tax Contribution?

For companies that are seeking to:

- Highlight the breadth and amount of taxes generated by the business
- Explain tax as part of an economic impact measurement disclosure to put into context the statements on approach to tax

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.

Twenty companies included some discussion around country-by-country reporting requirements in their public reporting – for 11 of these, the discussion was around the requirements under BEPS action point 13, and for the remaining companies it was around existing initiatives, such as EITI for extractives and CRD IV for banks.

Of these 20, five are extractive companies and six are banks or related to financial services. This reflects the mandatory reporting regimes (mentioned above) that already apply to these sectors. It is worth noting that some companies in the FTSE 100 operate their businesses almost entirely in the UK. As such, very little tax is generated in other countries, making this disclosure less relevant.

Benefits of disclosing taxes on a geographic basis?

For companies that are seeking to:

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

How can we help you?

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

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