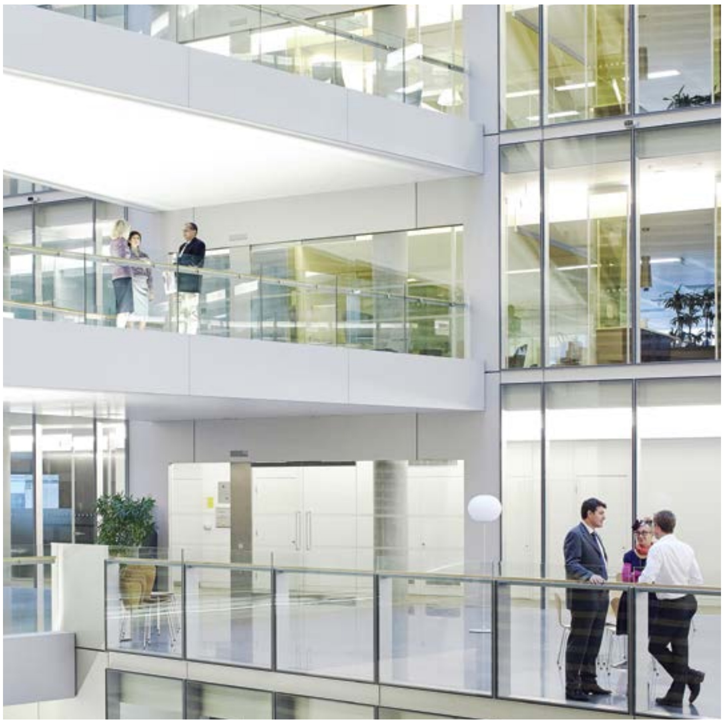
A review of the FTSE100 for 2013 year-ends

Tax Transparency
What are the UK's biggest listed companies reporting?

May 2014

Launch



www.pwc.co.uk/tax/tax-transparency.jhtml

Foreword

Corporate tax has never been so high on the public's agenda. Concerns over public perception and the impact on customers, employees and investors have led companies to consider explaining more about their approach to tax. Some companies are being questioned about the implications of corporate structures and transactions which historically might only have been of interest to the taxing authorities.

How can companies best respond? We are seeing a wide range of approaches from companies facing these pressures. Some choose to share more information. Tax transparency comes in many forms: narrative around strategy and governance, further numeric insight into tax results or telling the wider story of the company's contribution.

In our view, there is no simple answer to this question. For many businesses, their key stakeholders simply do not ask for this information and therefore companies are mindful of the time and cost involved in providing additional data.

However, we do think that every business should consider its approach to these issues. What are the key tax issues and risks, who needs to understand them and how best are they explained? The changing nature of stakeholder demands has led to a substantial increase in companies deciding to say more about tax, both internally and externally.

I am pleased to present our review of the UK's largest listed companies which focuses on five areas of tax communication. We give a snapshot of the number of companies making disclosures in each area and the changes we have seen in the past year. We explain the variety of communications we have seen within each area and suggest reasons a business may consider introducing this type of disclosure in the future.

We hope you find this review helpful in understanding the range and scale of tax disclosures by the UK's biggest listed companies. I would be interested in hearing your thoughts on how tax reporting should develop.

Andrew Packman
Tax Transparency and Total Tax Contribution Leader

Our methodology

- We reviewed the annual reports for financial years ending between January and December 2013, for all companies listed in the FTSE100 at 31 March 2014.
- We reviewed the most recent corporate and social responsibility report available. We explored each company's website, searching for additional tax reporting information.
- Our review is strictly limited to publicly available information and uses our Tax Transparency Framework, a set of more than 30 broadly defined tax transparency indicators.
- Five of these areas are discussed in detail in this publication.


Tax Transparency
Building Public Trust
How companies are explaining their tax affairs

Our Tax Transparency Framework sets out areas that companies consider when developing their tax reporting.
The winners of our ninth Building Public Trust Awards for Tax Reporting will be announced in December 2014.

In our latest Global CEO Survey, 75% of CEOs agreed that it is important to be seen as "paying their fair share of taxes".


Building trust and growth

Approach to tax

49

Scrutiny of tax affairs has reached unprecedented levels. The range of people interested, the number of companies being examined and the breadth of issues under the spotlight has steadily increased.

Companies have responded to this changing stakeholder interest by volunteering additional information about their approach to tax. Some give a high level statement of principles whilst others have explained their attitude towards tax planning, low-tax jurisdictions, transfer pricing or relationships with revenue authorities.

Approach to tax was disclosed in some way by **49** companies, almost half of the FTSE100. This is more than a 50% increase from the **32** companies that explained their approach to tax in 2012. What each disclosure had in common was a statement of the principles the company adopts when it comes to tax.

This ranged from a short paragraph in the annual report to a stand-alone tax policy paper, published on the company's website. Some companies have compared their approach to tax to the CBI's statement of tax principles.

Who discloses their approach to tax?

Companies which seek to:

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

Tax governance

37

Tax governance refers to the company's approach to risk management and the responsibility for oversight of tax affairs. We identified **37** companies providing some details of tax governance procedures.

Stakeholders are increasingly looking for confirmation of whether tax strategy and risks are being discussed outside the tax department. Many companies state specifically that the board or audit committee has discussed tax during the year.

More companies are setting out details of the risk management framework that governs their approach to tax. This can include the role that the internal audit function plays in providing comfort to the board and audit committee that the company's tax affairs are being managed appropriately.

As the level of publicly available information increases, companies also need to be ready to meet challenges from tax authorities and other regulators. For example, whether underlying processes, controls and systems are supporting the extraction and consolidation of accurate data.

Who discloses their approach to tax governance?

Companies which seek to

- give comfort to investors that tax affairs are overseen at an appropriate level

Discussion of tax strategy and governance has traditionally been found in the business review section of the annual report. Increasingly, we are beginning to see more detailed tax policy documents, published together with other codes of conduct.

Cash tax reconciliation

14

Reconciliation of cash tax to the tax charge is a voluntary disclosure which can enhance understanding of factors driving the company's cash tax paid.

This reconciliation helps to explain why the corporation tax paid in the year is not the same as the charge in the profit and loss account. Cash tax is particularly meaningful when measuring the contribution of a company to the economy in any particular year.

Still relatively unusual, we found that **14** of the 100 companies gave a numerical or a descriptive explanation for the difference between these two measures of tax.

Who discloses their cash tax reconciliation?

Companies which seek to

- explain how actual tax paid to revenue authorities relates to the financial results of the operations
- give greater visibility over tax paid

Total Tax Contribution

Our 2013 survey of the 100 Group's UK Total Tax Contribution revealed that corporation tax is less than a quarter of the taxes companies bear. Employers' National Insurance is now the largest tax cost to the UK's biggest public companies.

Companies pay far more in taxes than just corporation tax. Total Tax Contribution quantifies the total amount of taxes generated by a company and contributed to the public finances. It clearly distinguishes between taxes borne by companies and taxes collected on behalf of others.

We found that **24** companies provided some information about taxes other than corporation tax, often giving a breakdown. This has increased since 2012 when **19** companies made this form of disclosure.

Some companies use charts and graphs to illustrate the taxes they generate. There are several examples of Total Tax Contribution being combined with territory-by-territory reporting to provide a breakdown of the different taxes borne and collected by geographic region.

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

Almost a third of the **extractive companies** in the FTSE100 gave some Total Tax Contribution information, as did more than a third of the **financial services** groups. These sectors have faced deeper scrutiny over their tax affairs for longer than many of their peers in other industries. Many of these companies have been "pioneers" in publishing more transparent information.

Total Tax Contribution can be combined with economic, social and environmental impact measures to present a holistic picture of businesses' contribution to the economy. We are increasingly seeing tax disclosure as part of corporate and social responsibility reporting.

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

Who discloses their Total Tax Contribution?

Companies which seek to:

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

Geographic reporting

Geographic reporting is now on the agenda of the UK's biggest companies. Several mandatory reporting regimes are making transparent global disclosure a reality for some industries.

We found that **22** companies are currently providing some breakdown of their taxes around the world, either by region or by country. Some are combining this with Total Tax Contribution, breaking down the different taxes borne and collected globally.

It is worth noting that some companies operate their businesses almost entirely within the UK. As such, very little tax – corporation tax or other – is generated in other countries. A company may choose not to give a global breakdown of taxes because it is simply not meaningful.

Almost two thirds of the FTSE100 **extractive companies** made some geographic reporting disclosures. This is unsurprising given that three of the mandatory reporting regimes are aimed at the oil and gas and mining sectors. The majority of these companies will have some experience of reporting under the Extractive Industry Transparency Initiative and will be preparing for the EU Accounting Directive and the Dodd-Frank Act, if it applies to them.

Similarly, the majority of the **banks** provide greater disclosure of the geographic make-up of their taxes. With the rapid implementation of the CRDIV transparency requirements for EU credit institutions, banks are preparing to extract and communicate detailed figures on a country-by-country basis.

Our recent tax transparency and country-by-country reporting publication gives details of all the tax reporting initiatives developing in this area.

Who discloses taxes on a geographic basis?

Companies which seek to

- highlight their contribution to the public finances in different territories
- supplement any corporate and social responsibility reporting around specific territories

Some companies are responding to scrutiny over their tax affairs by publishing increasing amounts of information – explaining more about their approach to tax, providing detail on their tax numbers and disclosing their Total Tax Contribution. In our experience, many more large

UK companies are responding internally to the changing tax environment – by reviewing and updating their tax governance frameworks and their communication strategy for tax.

We see this move towards increased tax transparency as part of a trend which we expect to continue in 2014.

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