Tax transparency: A new reporting landscape

Trends in voluntary tax reporting

Eighth edition

June 2021: A review of the FTSE100 for 2020 year-ends

Latest developments in the tax transparency landscape at a glance:

- Transparency is increasing across the FTSE100 for the eighth consecutive year
- On the 1 June 2021, the EU moved forward with proposals for public country-by-country reporting (CbCR) after an agreement was reached on a draft directive. These recent developments highlight the direction of travel, with public CbCR seen as increasingly likely to become a reporting requirement for MNCs with EU operations before 2025
- The Covid-19 pandemic has accelerated existing trends in the transparency market
- Tax has increasingly become integrated within the broader sustainability landscape
- Attention from Environmental, Social and Governance (ESG) analysts and investors around tax transparency continues to grow

Change is on the horizon

Welcome to the eighth edition of Trends in Voluntary Tax Reporting, released as the tax transparency landscape continues to evolve at an accelerated pace. Developments in both legislative and voluntary reporting continue to be driven by the Covid-19 pandemic, which has resulted in a re-evaluation of the relationship between the private and public sectors, against a backdrop of unprecedented government support for businesses.

We are seeing increased scrutiny over the tax affairs of businesses. With the recent announcement from the G7 signalling agreement on a minimum corporate income tax rate of 15%, alongside the OECD work on Pillar 2, questions around whether companies are paying their ‘fair share’ of tax are again being re-examined in this new environment. Governments around the world are experiencing acute fiscal deficits as a result of the economic turmoil caused by the public health crisis, with many administrations turning to businesses in order to boost tax receipts.

The Covid-19 crisis has lent greater momentum to proposals for public country-by-country reporting (CbCR) in the European Union and corporate income tax rate increases in the UK and US. On 1 June 2021, representatives of the European Parliament and Member States agreed on a draft directive which would require multinational companies with EU operations to publicly disclose their CbCR information. Transposition into Member States’ domestic law could take another couple of years.

In the medium to long term, we continue to see the integration of tax within the wider sustainability and Environmental, Social and Governance (ESG) agenda. The International Business Council (IBC) of the World Economic Forum released its paper **‘Measuring Stakeholder Capitalism: Toward Common Metrics and Consistent Reporting of Sustainable Value Creation’** in September 2020. The paper includes a core set of ESG reporting metrics aimed at harmonising the various ESG standards on the market. Tax is a key component of the IBC metrics with the taxes borne element of the Total Tax Contribution framework forming one of the core governance metrics.

The Global Reporting Initiative (GRI), an independent organisation responsible for setting sustainability standards globally, also released a tax standard in December 2019 which became applicable for reports published from 1 January 2021. The standard includes a requirement for public CbCR. Sustainability teams that are keen to follow GRI standards may place pressure on tax teams for greater transparency; internal discussions around this sensitive topic should be encouraged.

How are companies responding?

Our review of 2020 year ends revealed an increase in voluntary tax disclosures, as companies respond to these ongoing developments. Twenty four companies published a standalone tax report (up from 22 in 2019 and 18 in 2018). We also found significant increases in disclosures relating to transfer pricing, use of low-tax jurisdictions, and Total Tax Contribution (TTC). The continued increase in companies making a TTC disclosure (up from 34 companies in 2018 to 47 in 2020) is likely to be a reflection of the growing attention on public CbCR and corporate income tax in isolation. TTC disclosures provide stakeholders with the overall tax contribution businesses make, highlighting those taxes paid in addition to corporate income tax. Many companies also disclose the taxes they collect on behalf of governments as a result of the economic activity generated by the business. The increase in TTC disclosures among the FTSE100 suggests that companies are finding the disclosure effective in demonstrating their proactive engagement in the tax transparency debate, as it allows them to present their views and provide explanations around their tax affairs.

Individual tax transparency feedback report

If you would like to receive a bespoke transparency feedback report which benchmarks your voluntary disclosures against the FTSE100, or would like to have a conversation about any of the topics raised in this publication, please don’t hesitate to contact a member of the team.

On the horizon: Public country-by-country reporting (CbCR)

What is CbCR?

CbCR is a broadly used term which usually refers to the reporting of certain financial information (e.g. revenue, profit, number of employees, assets, corporate income tax paid) at an individual country level rather than globally.

While under OECD BEPS Action 13 disclosure of this information has been required to tax authorities in over 90 countries since 2016, developments towards public CbCR have been gaining momentum in recent years.

What are the latest CbCR developments in legislative reporting?

Developments in the EU

In April 2016, the European Commission presented proposals on public country-by-country reporting requirements for MNCs head quartered in the EU with a total consolidated revenue of at least EUR 750 million.

The proposal was for MNCs to publicly report on where their profits arise and where these are taxed. The information required to be disclosed under the proposals would cover all EU member states in which there are affiliated undertakings consolidated in the financial statements for the relevant year, broken down for each EU member state, plus in each of the countries that are on the EU list of non-cooperative jurisdictions for tax purposes (EU's 'blacklist'), or listed for two consecutive years on the EU's 'grey list'. For all other third-country operations, the information should be given in an aggregate number.

The proposal was adopted by the European Parliament in July 2017, and a formal mandate for Trilogue negotiations with the European Parliament and the European Commission was adopted in March 2021. On 1 June 2021, representatives of the European Parliament and EU Member States agreed a draft directive, although transposition into Member States' domestic law could take another couple of years.

Developments in the US

In February 2020 new legislation was introduced to the US House of Representatives – H.R. 5933, The Disclosure of Tax Havens and Offshoring Act – that would direct the US Securities and Exchange Commission (SEC) to mandate public disclosure of country-by-country financial reports by corporations with annual revenues over $850 million.

What are the challenges with CbCR?

Tax is a complex topic which can be easily misunderstood. The OECD BEPS template which is the basis for private disclosures to 90+ tax authorities globally was devised as a risk assessment tool based on limited information which can be difficult to interpret. In an era of greater transparency, tax is no longer simply a private matter between tax teams and tax authorities. Where CbCR data is made public, it needs to be accompanied with the appropriate context owing to a number of challenges inherent in the data:

- The basis of preparation for CbCR datasets is not aligned with accounting standards, making it non-comparable with a company's financial statements.
- CbCR disclosures focus on corporate income tax in isolation. The data lacks contextual nuance which may lead readers to draw the wrong conclusions from limited data without seeing the holistic picture.
- The various CbCR datasets have small, but significant differences in their disclosure requirements (see table 1 below). For companies which already make public CbCR disclosures, reconciling and explaining discrepancies could be time consuming and demand significant resources.

With these challenges in mind, it is important that companies understand what public CbCR looks like for them.

Consideration should be given to how the data could be interpreted and compared externally with others, and whether additional narrative to explain outlying data points or how tax arises in the company's business model, would assist stakeholders in their understanding of the data.

Total Tax Contribution could be part of that context. It highlights all taxes businesses pay, beyond corporate income tax, helping to inform the debate over the broader contribution that businesses make in taxes.

Have you considered:

- The risks and benefits of having to disclose your CbC data and the format of the disclosure?
- How your CbC data will be interpreted?
- The narrative around the CbC disclosure?
- How you will communicate sensitivities around the dataset to your stakeholders?
- Whether Total Tax Contribution data would provide useful context alongside your CbC data?
- Making a Total Tax Contribution disclosure at a time when corporate income tax may be low?

Below are the differences between CbCR disclosures required under the EU proposal, OECD, and GRI 207-4			
	EU Proposal	OECD	GRI 207-4
Total revenue	✓	✓	✗
Revenue from third parties	✗	✓	✓
Revenue from related parties	✗	✓	Between jurisdictions only
Profit/loss before tax	✓	✓	✓
Cash tax paid	✓	✓	✓
Tax accrued	✓	✓	✓
Tangible assets other than cash and cash equivalents	✗	✓	✓
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	✗	✗	✓
Total accumulated earnings	✓	✓	✗
Stated Capital	✗	✓	✗

Tax within sustainability: Developments in voluntary reporting

GRI 207 tax standard

Overview

The Global Reporting Initiative (GRI) is an international organisation responsible for setting sustainability standards globally. The standards are widely accepted as good practice for reporting on a range of economic, environmental and social topics.

In December 2019, the GRI issued the 207 tax standard which was introduced in order to meet stakeholder demands for greater transparency around tax; especially country-by-country datasets.

The standard is applicable for reports published from 1 January 2021.

What are the disclosure requirements?

The standard consists of four key disclosures:

- 207-1 Approach to Tax
- 207-2 Tax governance, control and risk management
- 207-3 Stakeholder engagement and management concerns relating to tax
- 207-4 Country-by-country reporting

Each component has a set of mandatory criteria which organisations must follow in order to claim a publication has been prepared in accordance with GRI 207.

Any organisation can choose to align with the standard, however, if a company follows the GRI standards in their sustainability reporting, then the tax standard should be followed if the company's stakeholders also deem tax to be a material topic.

While alignment with the standard is voluntary, our review showed that around 35% of FTSE100 follow the GRI standards more generally around environmental, social and governance topics.

International Business Council

Overview

The International Business Council (IBC) of the World Economic Forum issued its paper 'Measuring Stakeholder Capitalism: Toward Common Metrics and Consistent Reporting of Sustainable Value Creation' in September 2020.

The paper is designed to address the need to harmonise the different ESG reporting frameworks that exist, and converge the various standards. The IBC is made up of the largest multinational companies globally.

What are the disclosure requirements?

The paper contains a common, core set of metrics for ESG reporting broken down into four broad categories:

- Principles of governance
- Planet
- People
- Prosperity

Tax is included within these ESG metrics, in the form of the taxes borne element of the Total Tax Contribution (TTC) methodology (see page 8). There is an expanded metric including the options of disclosing the taxes collected element of the TTC and/or geographic analysis of that data.

Although alignment with the metrics is voluntary, some members of the IBC have endorsed and stated their intention to follow the metrics.

ESG analysts and investors

Overview

Attention and scrutiny from sustainability-conscious stakeholders on tax transparency is expected to increase in the medium to longer term as tax continues to be an integral pillar of the broader sustainability landscape.

ESG Investors

Within the investment community, ESG investors are using transparency around tax as an important metric for evaluating their portfolios. Norges Bank Investment Management (NBIM), for example, published a tax transparency expectations document which outlines the values and behaviours it expects companies to demonstrate around tax and transparency.

NBIM withdrew investments from a small number of companies in early 2021 over their tax policies – citing a lack of transparency and information over where and how they pay tax.

ESG analysts

Some ESG analysts are already looking at effective tax rates and cash tax rates (ETRs/CTRs). The analysis of tax rates assesses companies' reported average ETR/CTR for the last two years to determine any discrepancies between reported and expected sector tax rates which they consider could be an indicator of aggressive tax planning.

With the proliferation of accessible technologies such as data analytic and visualisation tools, it is becoming easier for ESG analysts to perform benchmarking exercises which evaluate an individual company's tax disclosures, data, and/or narrative with sector or industry averages. This type of analysis can also be performed on Total Tax Contribution data if publicly disclosed.

Have you considered:

- How your voluntary disclosures align with the GRI 207 standard or the IBC ESG metrics?
- How your voluntary disclosures compare to your peers and within your industry?
- Whether additional voluntary disclosures would generate value for your business?
- How to link your approach to tax with the company's sustainability strategy?
- Whether you are fully linked in with your sustainability team on tax disclosures and greater transparency around tax more generally?
- What key areas and disclosures are stakeholders looking for around tax in your industry or sector?

Approach to tax and governance over tax

We reviewed the annual reports for financial years ending between January and December 2020, for all companies listed in the FTSE 100 at 31 December 2020. Our review uses the PwC Tax Transparency Framework, a set of more than 40 broadly defined tax transparency indicators to assess the disclosures made. Eight of these indicators are discussed in detail in this publication. We reviewed the most recent publicly available corporate reports, social responsibility reports, and additional tax reporting document publicly available at 30 April 2021.

Tax havens

36 → 47

2019
2020

- Tax havens were discussed by 47 companies in this year's review, which represents an increase of 31% on the 2019 year-ends, where 36 companies mentioned them.
- Tax havens have been an area of intense scrutiny over the years, attracting attention from NGOs, ESG analysts, the media, and the wider public. The Covid-19 pandemic has only heightened this level of scrutiny, as some governments around the globe introduced legislation preventing businesses with operations in tax havens from receiving state aid. In both the US and EU, proposals requiring firms that receive government assistance to publish country-by-country reporting data were made, if not pursued. In response to this increased attention, more companies are voluntarily disclosing narrative around why they have operations in low tax jurisdictions, and additional data to support these explanations – including details around the number of subsidiaries they have operating in these places and why they are there.

Tax incentives

69 → 72

2019
2020

- Tax incentives were mentioned by 72 companies, an increase of 4% on the 2019 year-ends.
- A tax incentive is a government measure designed to promote specific corporate behaviours – such as investment in technologies, R&D, and employment-generating schemes. Incentives continue to be an area of focus for many stakeholders, and in response, a number of companies are voluntarily disclosing information on how they are utilising incentives. These narratives are often supplemented with data concerning how much the incentives are worth, the economic impact it has on the company, and how these incentives shape overall tax policy. Our review found a limited number of companies discussing the use of government-backed incentives and grants to businesses to support them during the pandemic. Instead, many companies confirmed they did not use such incentives.

Transfer pricing

46 → 60

2019
2020

- Transfer pricing was discussed by 60 companies in this year's review, an increase of 30% on the 2019 year-ends.
- The price at which companies carry out intra-group transactions, transfer pricing is an area where numerous companies are now providing either a brief statement to acknowledge their conformity with OECD principles, or expanding on these narratives to provide additional voluntary information about their business model and why transfer pricing is an important element of their operations. The increased level of disclosure in this area may also be a reflection of the recent focus from the Financial Reporting Council on IAS 1 disclosures regarding significant estimates.

Board approval

59 → 66

2019
2020

- Board approval of the company's tax strategy has increased in this year's review by 12% on the 2019 year-ends.
- HMRC guidance on large business tax strategies was updated in June 2018, and indicates that there should be board approval of the strategy. Many companies have responded since this guidance was introduced by making explicit reference to board approval of the tax strategy, or approval of an individual board member specifically – often the CFO via delegation through the audit committee. Either way the increasing trend highlights responsibility for, and involvement with, the tax strategy at the highest levels of the business.

Risk framework

85 → 93

2019
2020

- 93 companies have a risk framework in place specific to tax in this year's review, up 9% on the 2019 year-ends.
- Risk frameworks are increasingly important – as demonstrated by the high number of companies referring to them – as stakeholders look for assurance that the company tax strategy, alongside public statements on tax, are followed in practice. Tax risk frameworks set out the activities, tools, techniques, and organisational arrangements to ensure tax risks are identified, assessed, understood, and that appropriate responses are in place to mitigate the impact of all risks. The consultation from the Department for Business, Energy & Industrial Strategy (BEIS), published in March 2021, on 'restoring trust in audit and corporate governance' is likely to impact this area of disclosure. There is a recommendation to increase disclosures regarding controls – including tax – and director statements over governance.

Tax numbers and performance, Total Tax Contribution and the wider impact of tax

Cash tax reconciliation

20 → 23

2019
2020

- In this year's review, the number of companies providing a cash tax reconciliation increased by 15% on the 2019 year-ends.
- 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. This disclosure is 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

45 → 46

2019
2020

- We found 46 companies providing additional narrative around their statutory/effective rate reconciliation, an increase of 2% on the 2019 year-ends.
- This continuing increase is likely to be attributable to the thematic paper published by the Financial Reporting Council in 2016, which encouraged companies to provide more narrative in this area for stakeholders. The FRC released another thematic review in May 2021, with a strong focus on increased tax disclosures at interim reporting dates to meet the needs of stakeholders. Based on the impact of the 2016 review, we expect to see greater disclosures moving forward.

Total Tax Contribution

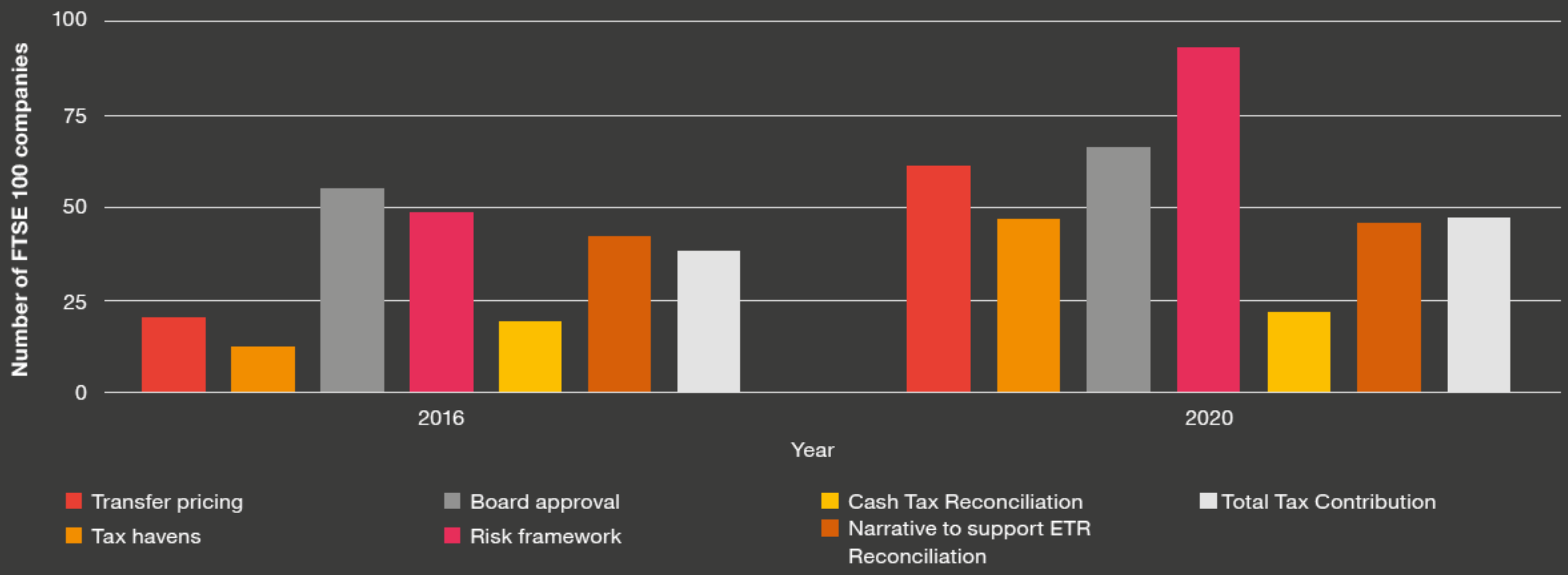
40 → 47

2019
2020

- 47 companies provided some kind of information or data concerning their Total Tax Contribution, an 18% increase on the 2019 year-ends.
- Often broken down geographically, by type of tax, and distinguishing between taxes borne and collected, it is clear that more companies are interested in emphasising and showcasing the wider contributions they make to society – beyond simply focussing on the corporation tax they pay on profits. This voluntary disclosure of a company's Total Tax Contribution is more prevalent in the financial services and extractive industries, where public disclosure of information on a country-by-country basis is already required.

How has transparency changed in recent years?

Trends in transparency, 2016 – 2020



Looking at the longer terms trends in transparency reveals a gradual increase in FTSE100 companies making voluntary tax disclosures.

We looked at some of the material topics for stakeholders on tax and which form part of the PwC Transparency Framework over the period 31 December 2016 – 31 December 2020. We looked into the following areas:

- **Approach to tax**
  - Transfer pricing
  - Tax havens
- **Governance over tax**
  - Board approval
  - Risk Framework
- **Tax numbers and performance**
  - Cash Tax Reconciliation
  - Tax Reconciliation Narrative
- **TTC and the wider impact of tax**
  - Total Tax Contribution

Our review shows that in all but one area (cash tax reconciliation, which has remained broadly flat since 2016), more companies are currently making disclosures in these sensitive areas than in 2016. This indicates that transparency is increasing, albeit gradually, as the landscape has evolved.

Since 2016, there have been a number of significant developments which are likely to have contributed to the increase in voluntary disclosures:

- The introduction of UK legislation in 2016 requiring large companies to publicly disclose their UK tax strategy.
- The Financial Reporting Council (FRC) released its thematic paper in 2016 which encouraged companies to provide more narrative around the tax reconciliation in the financial statements.
- OECD BEPs initiative requiring private disclosure of tax, profits and other financial data to tax authorities around the globe.

Have you considered:

- How your current voluntary disclosures compare to your peers and wider industry group amidst the recent transparency developments?
- Are your current disclosures fit for purpose?
- Whether you need to refresh or update your current disclosures?
- How your company will respond to future developments in transparency?

What does tax transparency mean for me?

While the Covid-19 pandemic has provided momentum to many of the tax transparency developments in the last year, our research shows that a small number of companies are leading with extensive voluntary disclosures which are often driven by legislative, geographical or industry-specific requirements. The majority of companies make more limited disclosures, however, the ongoing developments and direction of travel around public country-by-country reporting within the EU represent a significant impending shift in the transparency market. Internal conversations should be encouraged within the company to canvass views and plan how the business will respond.

The PwC Tax Transparency Framework helps guide companies through the thought process needed to develop an approach that maximises the benefit of greater transparency. It consists of a series of questions to help manage the risks and benefits of making more extensive voluntary tax disclosures.

The Framework is structured into four broad categories for ease of reference:

- Approach to tax 1
- Governance over tax 2
- Tax numbers and performance 3
- Total Tax Contribution and the wider impact of tax 4

Transparency for whom and to what purpose?	This is the central question of the framework and takes into account the full range of internal and external stakeholders.
What are the views around the business?	Internal consensus on approach is key. Prepare a briefing paper for the board, public relations, investor relations, sustainability, corporate reporting teams setting out latest developments in tax transparency and how your current tax disclosures compare to your peers.
What do stakeholders want to know and why?	For your external stakeholders, identify what they want to know, why they want to know it and therefore what information might be useful to them. Whether or not you choose to disclose that information is a separate question. You might consider disclosures around tax havens, transfer pricing and tax incentives.
What are the risks and benefits of providing additional information?	The risks of additional transparency is an important consideration for internal stakeholders. Once disclosures have been made, it is difficult to withdraw them in subsequent years. What are the risks and benefits of providing or withholding 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. Total Tax Contribution disclosures can help highlight the contribution made to the public finances beyond corporation tax.
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’? Additional narrative for the tax reconciliation and an explanation of the difference between the tax charge and tax paid are areas to consider.
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. Details of board approval of the tax strategy and the tax control framework can help provide comfort that statements made are followed in practice.

Could a Total Tax Contribution disclosure add value?

What is Total Tax Contribution (TTC)?

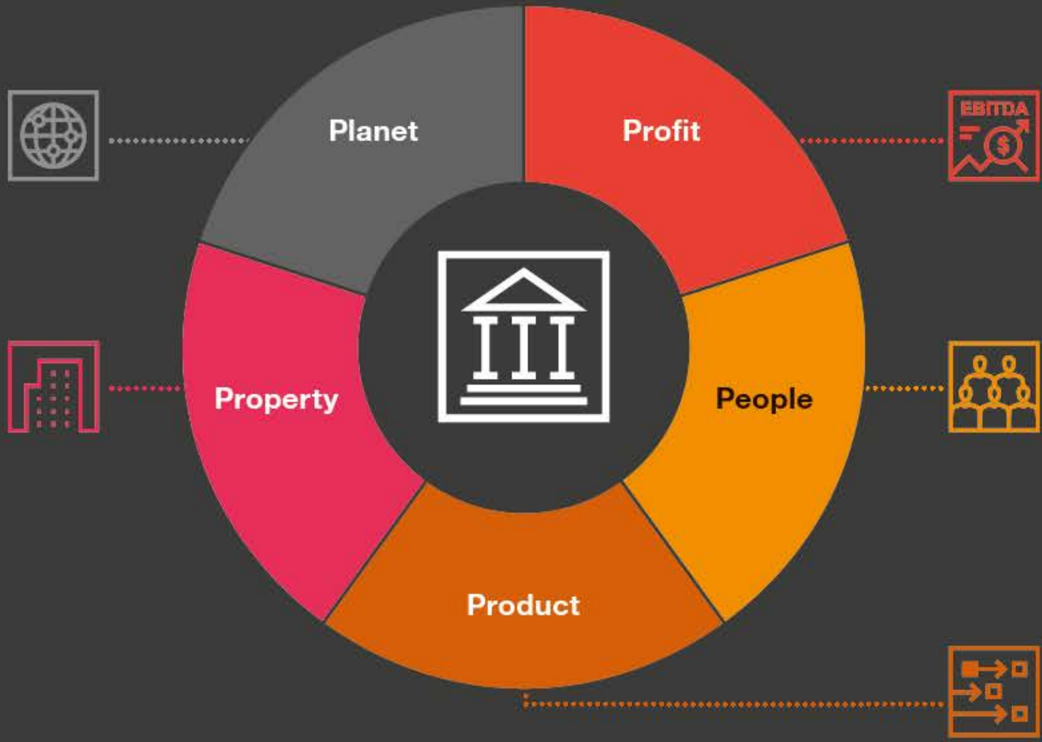
TTC is the total of all cash taxes and levies paid by a company to any level of government. It is split into 2 categories:

- Taxes borne (IBC core metric): taxes which are a cost to the company when paid; and,
- Taxes collected: taxes which are collected on behalf of governments as a result of the economic activity generated by the business, such as payroll or consumption taxes.

Why make a TTC disclosure?

- It helps broaden the debate beyond corporate income tax – which is often viewed in isolation such as through CbCR reporting.
- The TTC framework can be applied to any tax regime globally, is non-technical, and easy for non-tax experts to understand.
- Enables companies to measure and communicate the total tax they pay and show their economic contribution to public finances.
- TTC can be used for external relations and in corporate reporting, facilitating discussions with key stakeholders on tax policy and governance.
- TTC datasets can be used for internal communications – such as board briefings – in a non-technical way.

5 P's – The TTC tax bases



How can we help?

- **Support with global TTC data collection:** We can provide bespoke collection templates for individual countries and sense check the data once received; we will support you throughout the collection process offering our knowledge and expertise to streamline the process.
- **Reasonableness review:** We can undertake a thorough reasonableness review of your TTC data to provide comfort that your data is robust and sensible.
- **TTC Assurance:** We can provide assurance over your TTC data, producing either an internal report for management or an external opinion. This will provide you with confidence over your published data.
- **TTC sector cut and benchmarking:** Based on the data collected from TTC surveys and publicly available data, we can benchmark your data against peers or specific industries/sectors.
- **TTC Automation:** We can help automate the data collection process with bespoke technical solutions and machine learning to help you save time and resources.

Why choose PwC?

- We are the market-leading specialists having worked with large companies around the world on the TTC framework for 15+ years. Find our comprehensive guide **here**.
- We have the knowledge, expertise and experience to support you through any stage of your TTC journey.
- We can leverage our global network and tap into specialist or local knowledge as required.
- We can leverage bespoke data analytics and visualisation tools to offer valuable insights.

Our methodology

We reviewed the annual reports for financial years ending between January and December 2020, for all companies listed in the FTSE 100 at 31 December 2020. Figures for 2019 are for all companies listed in the FTSE 100 at December 2019, therefore the trends shown represent the FTSE 100 group at the time of review, and are not on a like-for-like basis year on year.

We reviewed the most recent publicly available corporate reports, social responsibility reports, and additional tax reporting documents publicly available at 30 April 2021. We explored each company's website, searching for any other information that relates to tax reporting.

Our review uses the PwC Tax Transparency Framework, a set of more than 40 broadly defined tax transparency indicators, to assess the disclosures made. Eight of these indicators are discussed in detail in this publication.

Building Public Trust Awards for Tax Reporting

Winners of our fourteenth Building Public Trust Awards for Tax Reporting – recognising companies making leading voluntary tax disclosures – will be announced in November 2021.

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

1

Tax Transparency frameworks: Which framework should I follow?

2

Tax strategy: Is anyone reading published tax strategies?

3

Country by country reporting: What are the latest developments?

4

Explaining tax: Which disclosures could add value to your business?

How can we help?

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:

Andrew Packman
Total Tax Contribution and Tax Transparency Leader
M: +44 (0)7712 666441
E: andrew.packman@pwc.com

Janet Kerr
Tax Transparency and Total Tax Contribution
M: +44 (0)7841 781417
E: janet.kerr@pwc.com

Guilherme Pereira
Tax Transparency and Total Tax Contribution
M: +44 (0)7484 901240
E: guilherme.l.pereira@pwc.com

Chris Huggins
Tax Transparency and Total Tax Contribution
M: +44 (0)7706 284539
E: christopher.huggins@pwc.com

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