A new era in tax transparency

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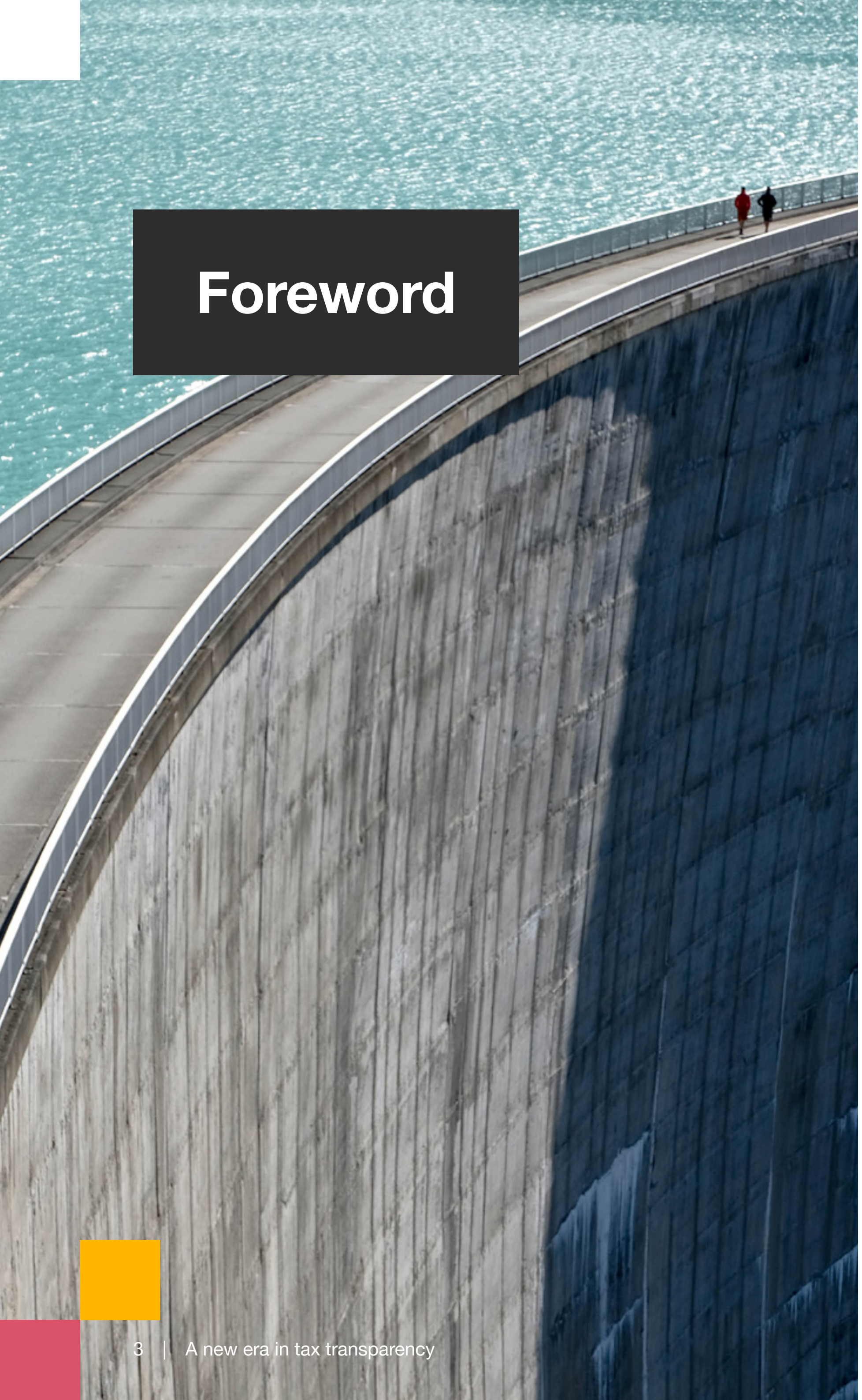


Foreword

The perception of tax has changed. Tax is no longer seen as a basic cost of doing business, increasingly it is being viewed as a powerful indicator of a company's societal impact and a reflection of its broader values and purpose.

The momentum from policy makers requesting businesses to make greater tax disclosures has been building for years, resulting in the continuing introduction of legislation mandating greater public reporting of certain tax data. For example, large companies operating within the EU will soon have to publicly disclose details of corporate tax paid at a country-by-country level.[1]

The tax footprint of an organisation - how much taxes are paid, and to whom - is also something investors and the public are increasingly asking companies to report on, most notably in the context of the broader environmental, social and governance (ESG) agenda. Tax transparency is being factored into stakeholder considerations when assessing the sustainability of a business.

For many businesses, tax transparency is an opportunity to build trust with stakeholders and provide assurances that they are adopting responsible tax practices. And by building trust in tax reporting, companies can help establish trust in other areas.

However, there is no standard, uniform track for companies to follow when deciding their approach to tax transparency. There are risks involved, particularly around the disclosure of commercially sensitive data which could impact a company's competitiveness. There is much to navigate in terms of peer reporting, stakeholder interests and regulatory requirements when it comes to tax disclosures.

It is within this ever-evolving landscape, that we publish the first edition of PwC Ireland's tax transparency report, *A new era in tax transparency.*

This report is intended to help companies consider what tax transparency means for them. By undertaking this review, we aim to provide insight for companies, large and small, who are working to understand what type of tax disclosures stakeholders are interested in and what their peers are doing.

Using our own bespoke tax transparency framework, this report summarises the trends shaping the tax transparency landscape. Through our analysis of companies on the main market of the Irish Stock Exchange,[2] we have been able to articulate trends in the voluntary tax disclosures being made by some of Ireland's largest companies.

1 EU member states have reached agreement on a public CbCR Directive, which will require large multinational groups operating in the EU to publicly disclose details of corporate tax paid by 2025.

2 Companies who were listed on the main market of the Irish Stock Exchange *(Euronext Dublin)* in 2020 and remained listed as at 22 February 2022

Though tax disclosures - including the publication of tax strategies - are not mandatory in Ireland, it is clear from our analysis that many Irish companies are embracing tax transparency and are increasingly choosing to voluntarily disclose information on their tax affairs. This is being done carefully, with a considered approach that is navigating the potential commercial risks.

We hope that you find this report useful in understanding the evolution of tax transparency and that it helps inform your tax disclosure considerations.

Every company's approach to tax transparency is different. There are risks as well as benefits to increased transparency. In our experience, large companies typically have a tax strategy and a robust governance framework in respect of tax. How much information a company chooses to publicly disclose varies and is influenced by several factors. There is no optimal level of tax disclosure.

The tax transparency landscape

The transparency journey

Taxes are an important source of revenue for governments, integral in developing fiscal policy and attaining macroeconomic stability around the world. However, the sheer scale and complexity of an organisation's footprint, across multiple jurisdictions with differing regulations, makes tax a difficult area to navigate, let alone communicate simply to interested parties. Tax is complicated and, at times, easily misunderstood.

While public interest in companies' tax affairs is far from new, it is currently being scrutinised by bigger audiences than ever before. The unprecedented investment by governments due to COVID-19 has also added to this wider conversation about how businesses contribute to society. The recent agreement on the OECD's Pillar one and Pillar two proposals has also brought tax into focus.

As a result, the debate around tax transparency continues to gain significant momentum. In short, tax is becoming a powerful indicator of a company's societal impact. And in order to ascertain that impact, stakeholders are demanding a greater level of transparency.

Policy makers, most notably the OECD and the European Commission, have long called for greater tax transparency. This has resulted in the introduction of a number of key initiatives at both global and local levels as summarised in our tax transparency timeline. One of the most significant developments in this space was the introduction of country-by-country reporting (CbCR) in 2015 on foot of recommendations in the OECD's base erosion and profit shifting (BEPS) package. CbCR requires large multinationals to report certain financial information (including corporate tax paid, revenue, profit and employees) at a country level rather than globally. Although CbCR only requires the submission of this information to tax authorities, it has been the catalyst for more significant changes.

We have also seen the introduction of other regulations mandating greater public reporting of certain tax data. For example, in 2016 the UK introduced a legal requirement for large companies to publish a tax strategy relating to their UK tax affairs. More recently, EU member states reached agreement on a public CbCR Directive, which will require large multinational groups operating in the EU to publicly disclose details of corporate tax paid by 2025.

While there is no requirement in Ireland for companies to make tax disclosures, there have been growing requests for companies to disclose more meaningful information on tax. Investors, regulators, the media and civil society are increasingly asking for more transparency.

Building trust through tax transparency

Tax transparency is not just about providing additional detail on tax payments. It requires a broader view of tax strategy, tax risk management and the wider impact of companies' tax contributions.

It is important to put tax information in the right context because companies don't only contribute by way of corporation tax. It is by communicating a company's total tax footprint, including duties, levies and taxes collected on behalf of governments such as employment taxes, that companies can demonstrate their true impact on society and the markets in which they operate.

It is essential to recognise that every company's approach to tax transparency is different. There is no one-size-fits-all model. How much information a company decides to voluntarily disclose on tax varies and is influenced by several factors, which could include regulatory or reputational drivers. Tax disclosures also present risks, which companies need to consider. For example, the disclosure of certain tax and financial data at a country-by-country level may be commercially sensitive and could impact a company's competitiveness.

By building stakeholder trust through tax reporting, there is great potential to establish trust in other areas of a company's operations.

Tax transparency timeline

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

2003

Voluntary transparency is announced for the extractive sector by the Extractive Industries Transparency Initiative (EITI).

2010

The Dodd-Frank Act is enacted in the US, requiring extractive industries to publicly report all payments made to governments.

Ireland introduces legislation requiring taxpayers and advisers to report certain transactions to Revenue.

2013

The EU Accounting Directive is introduced, requiring reporting of payments to the government from the extractive sector.

2014

The EU Capital Requirement Directive IV, a transparency initiative for banks and capital markets, is introduced.

2015

BEPS is introduced by the OECD to prevent multinational companies (MNCs) from exploiting mismatches between different countries' tax systems. CbCR to tax authorities forms part of this initiative.

Australia introduces a set of principles and minimum standards for the public disclosure of tax information.

The Directors' Compliance Statement legislation is introduced in Ireland.

2016

In the UK, HMRC announces requirements for UK businesses to publish a tax strategy.

2018

DAC6, which requires companies to report certain cross-border tax arrangements to tax authorities in the EU, comes into force.

A set of tax principles are generated by the non-profit, The B Team.

2019

A new standard on tax, which incorporates a form of public CbCR, is developed by the Global Reporting Initiative (GRI).

2020

The World Economic Forum's International Business Council releases a set of "stakeholder capitalism" metrics, including the reporting of taxes paid as a core metric and taxes *collected and paid* as a recommended metric.

2021

New public CbCR requirements for large EU businesses, which are expected to be effective before 2025.

2022

EU proposals are expected to ensure that large MNCs publish their effective tax rates, as determined for the purpose of the global minimum tax rate under Pillar one.

Tax and sustainability

Tax as an ESG metric

As the broader area of environmental, social, and governance (ESG) continues to come to the fore - spurred by investors, policymakers, employees, suppliers and customers - organisations are now considering their purpose beyond just financial growth. This means finding a balance between financial returns, social interests, the environment and transparency. This balance, if struck right, can lead to better results for both businesses and society.

Tax is now an important metric in that ESG conversation. In this regard, a company's approach to tax is no longer a question of compliance alone. It is a gauge of how a business views its role in society and its commitment to its purpose. It is a critical element of a business's social contribution, and part of the 'S' in ESG.

ESG reporting presents an opportunity for a company to control its narrative as part of a larger movement to better align with the societies in which it operates. Tax is fast becoming part of that narrative.

Adopting an ESG lens can provide a more holistic view of a company and its purpose, leading to increased trust with stakeholders. Irish companies are increasingly reporting on sustainability matters, with more than half of the companies listed on the main market of the Irish Stock Exchange (Euronext Dublin) issuing a separate ESG report.

Tax reporting frameworks

Stakeholders now look at tax when assessing a company's sustainability performance. For example, a number of institutional investors have released codes of conduct setting out principles to promote responsible tax practices in respect of their investments. The *Dow Jones Sustainability Index* also incorporates tax criteria into its sustainability assessment of companies.

Compared to other sustainability issues like Net Zero, methods of tax reporting have historically been less developed. However, this has changed in recent years. Companies can now choose to follow a range of tax transparency frameworks when considering their approach to tax disclosures. These frameworks have been developed by different stakeholders including business organisations, not-for-profits, tax authorities and investors. Some common themes that emerge from these frameworks include:

- having a published tax strategy
- the importance of board oversight of a company's tax affairs
- having good tax governance and risk management procedures embedded in the organisation
- incorporating tax into a company's reporting on ESG matters

While numerous frameworks are available, here is an overview of two of the most commonly-adopted tax reporting frameworks, *The B Team Responsible Tax Principles* and *GRI 207.*

The B Team Responsible Tax Principles

The B Team is a non-profit organisation created by business leaders worldwide to encourage a way of doing business for the wellbeing of people and the planet.

The B Team, in conjunction with several leading businesses, developed a tax reporting framework based on seven principles: governance, compliance, business structure, interactions with tax authorities, tax incentives, effective tax systems and transparency. Any business can choose to adopt the framework, but to do so they must publicly endorse *The B Team Responsible Tax Principles,* incorporate the principles in practice, publish a tax strategy and implement enhanced tax reporting.

The B Team Responsible Tax Principles

- **Accountability and governance:** tax is a core part of corporate responsibility and governance, and is overseen by the company's board of directors.
- **Compliance:** the company complies with the tax legislation of the countries in which it operates and pays the right amount of tax at the right time in the countries where value is created.
- **Business structure:** the company uses business structures that are driven by commercial considerations, aligned with business activity and have genuine substance. The company also includes statements affirming that abusive tax results are not sought.
- **Relationships with tax authorities:** the company seeks wherever possible to develop cooperative relationships with tax authorities based on mutual respect, transparency and trust.
- **Seeking and accepting tax incentives:** where tax incentives offered by governments are claimed, the company ensures that they are transparent and consistent with statutory or regulatory frameworks.
- **Supporting effective tax systems:** the company engages constructively in national and international dialogue with governments, business groups and civil society to support the development of effective tax systems, legislation and administration.
- **Transparency:** the company provides regular information to stakeholders including investors, policy-makers, employees, civil society and the general public about its approach to tax and taxes paid.

GRI 207

The Global Reporting Initiative (GRI) has developed a set of global sustainability standards, which are widely accepted as good practice for reporting on a range of economic, environmental and social topics. More than 10,000 organisations in 100 countries use the GRI standards for sustainability reporting, including many Irish companies.

In 2019, a tax standard called *GRI 207* was introduced to meet greater stakeholder demand for tax transparency. The standard applies to companies using the GRI framework and is effective for reports published on or after 1 January 2021. Disclosures on tax strategy, governance and risk management are included in the standard. It also incorporates a disclosure on public CbCR.

GRI 207 disclosure requirements

GRI 207 enables companies to report on tax practices as part of their sustainability reporting. It consists of four key disclosures that fall under management approach disclosures and topic-specific disclosures:

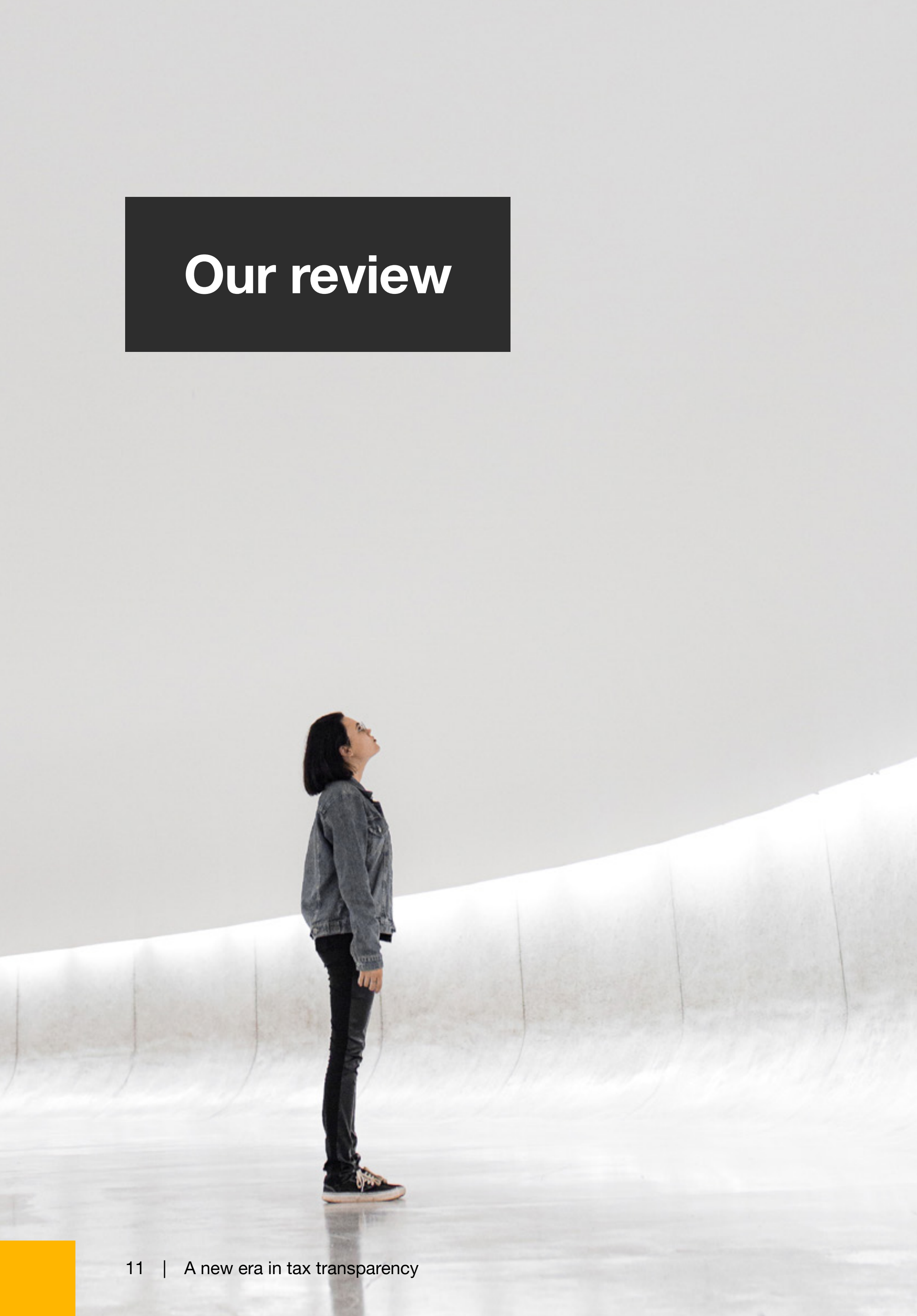
Management approach disclosures:

- **Disclosure 207 - 1** Approach to tax.
- **Disclosure 207 - 2** Tax governance, control, and risk management.
- **Disclosure 207 - 3** Stakeholder engagement and management of concerns related to tax.

Topic-specific disclosures:

- **Disclosure 207 - 4** Country-by-country reporting.

Our review



Methodology & scope

In undertaking this tax transparency analysis, we reviewed the tax disclosures of all 24 companies listed on the main market of the Irish Stock Exchange *(Euronext Dublin)*[3].

Our review was strictly limited to publicly available information in respect of financial years ending in 2020, as published on 31 December 2021. To the extent that they were published on their websites, we reviewed companies' tax strategies, annual reports and ESG or sustainability reports.

While companies can use a variety of publicly available documents to make tax disclosures, our review found that substantial tax disclosures were made in a published tax strategy. Therefore, the findings we present in this report relate to companies with a published tax strategy.

For the scope of this review, we limited our analysis to companies that have chosen to make public disclosures on tax. In our experience, large companies typically do have a tax strategy and a robust governance framework in respect of tax. A company may decide not to publish details of its tax strategy or its governance arrangements for a variety of reasons. Therefore, it cannot be assumed that the absence of a published tax strategy, or specific disclosures therein, means that these components aren't in place. Rather, they are not being made publicly available.

3 Who were listed on *Euronext Dublin* in 2020 and remain listed as at 22 February 2022.

PwC Ireland's tax transparency framework

In conducting our review, we used **PwC Ireland's tax transparency framework**, which leverages our home-grown experience and expertise, as well as that of our extensive PwC global network, on tax disclosures. Our framework, which we developed specifically for the Irish market, includes more than 30 tax transparency indicators, which we believe to be good practice in voluntary tax reporting. Our indicators broadly align to the key tax transparency metrics identified by standard-setting bodies and provide even greater depth of analysis. These indicators can be grouped into four categories:

Published tax strategy

This helps stakeholders understand a company's key tax principles and its approach to tax.

Tax governance

This provides an understanding of who has responsibility, oversight and accountability for tax - not only on a day-to-day basis, but where the ultimate responsibility for tax rests.

Tax controls and risk management

This helps stakeholders understand the policies, procedures and controls in place to monitor and mitigate tax risk.

Total tax contribution

This provides stakeholders with an understanding of the total taxes paid by a company, often distinguishing between taxes borne and taxes collected on behalf of the exchequer.

Transparency trends

Our framework, and this report, is intended to help companies consider the benefits of greater transparency based on their own specific profile and stakeholder interests. It should help inform companies' external communications strategies regarding their tax affairs.

Below are some of the key trends we identified.

Strong practices of tax strategy publication, mainly with a global lens

A published tax strategy, sometimes referred to as a company's approach to tax or tax policy, is currently the primary means by which companies make tax disclosures. The strategy should clearly communicate a company's vision on tax and make reference to key principles such as tax compliance, governance and risk management.

In developing a tax strategy, tax departments often work closely with other teams across the business such as sustainability and investor relations. The development of the tax strategy may also be overseen by the board, which will have ultimate responsibility for its execution.

A good tax strategy document should:

- include a statement on a company's approach to tax compliance and tax planning
- demonstrate that the company's tax strategy aligns with its business model
- outline who has responsibility for the oversight and governance of tax
- discuss the existing tax risk management controls and procedures
- indicate how relationships with tax authorities are managed

While there is no requirement in Ireland for companies to publish a tax strategy, 13 of the companies reviewed voluntarily published a tax strategy, or equivalent document.

77% of the published tax strategies were global tax strategies which is unsurprising given the global scale of the companies reviewed. A global tax strategy sets out a company's policies for managing their tax affairs in all countries in which they operate. It is reassuring for businesses that the principles of a tax strategy can translate well across different jurisdictions, with varying and complex tax regulations.

Our review found that the tax strategies published by Irish companies contain many of the disclosures expected by stakeholders. These disclosure trends are explored further below.

Close alignment of tax and business strategies

77% of the companies state that their tax strategy seeks to support the company's broader business strategy. Consistency between the management of a company's tax affairs and their wider business strategy is important, demonstrating that tax is aligned to broader commercial objectives.

Transfer pricing is a reference point

Acknowledging the increased importance of transfer pricing for businesses, the majority of companies refer to transfer pricing in their tax strategies. Transfer pricing ensures that companies profits are taxed in the jurisdictions where economic activities are performed, with some companies specifically making a statement to this effect in their tax strategies.

Companies seek co-operative relationships with tax authorities

Tax authorities are a key stakeholder when it comes to 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.

All companies included general statements on the company's approach to compliance with tax regulations.

Good governance of tax and strong board oversight

Tax governance refers to a company's approach to tax risk management and the responsibility for oversight of tax affairs. Stakeholders want to understand whether the tax strategy and tax risks are discussed outside the tax team - with the board or audit committee, for example. It provides comfort that tax is overseen at an appropriate level and compliance obligations are monitored effectively.

Of those companies with a published tax strategy, all provided some form of disclosure on tax governance procedures. All of the companies also stated that the board has oversight of the company's tax affairs, while some explicitly stated that the board approved their published tax strategy.

It is common for the board to delegate oversight of tax matters to one of its sub-committees, typically the audit committee. 11 companies make reference to the audit committee overseeing tax matters, while several have specifically included tax oversight in the audit committee's terms of reference.

Directors' Compliance Statement

It is important to note that Irish company law requires board oversight on tax matters. In accordance with the Directors' Compliance Statement legislation, the directors of most large Irish companies[4] are required to include a statement in the financial statements to acknowledge responsibility for tax compliance and to confirm that arrangements (i.e. processes and controls) are in place to ensure tax compliance, and that those arrangements have been reviewed during the year.

Clear reassurances on tax controls and risk management

Stakeholders look for assurances that a company is aware of its tax risk footprint and has appropriate controls and processes in place to manage that risk. Disclosures in this area provide comfort that tax is embedded within a company's broader risk management framework.

Of those companies with published tax strategies, all companies include a general statement confirming that tax risk is managed and specifically refer to controls being in place to manage this risk. 69% of these companies include a statement on the company's risk appetite.

Many companies state that they have specific arrangements in place to actively monitor tax risk. Some companies refer to testing tax controls, while others state that they track tax developments that may be relevant to them.

Increasing expectations from Revenue on tax controls

There is a growing expectation from the Revenue Commissioners (Revenue) that companies have controls in place to manage tax risk. For example, companies participating in Revenue's Co-Operative Compliance Framework (a programme designed to create a Revenue/taxpayer relationship based on trust and transparency) are required to have a tax control framework in place. Furthermore, Revenue recently introduced a new compliance intervention framework, which places an onus on all companies to get tax returns correct first time and to self-detect and self-report tax errors.

Voluntary disclosure of tax contributions

Companies contribute to public finances by not only paying taxes on profits, but also by administering taxes on behalf of the exchequer.

Total tax contribution (TTC) quantifies the total amount of taxes paid by a company, often distinguishing between taxes borne by the company and taxes collected on behalf of the exchequer. With CbCR regimes currently focusing on corporation tax, companies are voluntarily disclosing information on their TTC to improve understanding and provide visibility of the wider contribution they make to public finances. Sector taxes such as irrecoverable VAT (for banks) and business rates (for retailers) can be more significant than corporation tax.

Although TTC reporting is not mandatory, some Irish companies have chosen to voluntarily disclose more information on their total tax contribution.

Tax is being incorporated into ESG reporting

Our report clearly shows that Irish companies are embracing tax transparency and are primarily using their published tax strategies to communicate with stakeholders. 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, using ESG reporting standards including *GRI 207* as a benchmark.

4 The Directors' Compliance Statement applies to all public limited companies. It also applies to limited companies, designated activity companies and guarantee companies that have a turnover exceeding €25m and a balance sheet total exceeding €12.5m.

Considering your tax disclosure strategy

What transparency means for your company?

Trust can be built by companies that adopt a strategic response to their tax disclosures. Disclosures can explain and inform the company narrative around how they are taxed and their larger societal impact. However, it is wise to continually assess the value increased disclosure can deliver against possible risks to the business.

More and more companies are indicating that the benefits outweigh the risks. Those benefits include:

- Better communication around tax can build trust with stakeholders, particularly for companies in sectors where tax is the subject of heightened attention.
- As tax is complicated, a clear narrative that explains the concepts behind a business's tax strategy and its tax contributions is essential. This is particularly important where the use of tax losses or a tax incentive significantly reduces a company's tax contribution in a particular period.
- Other sustainability commitments, like Net Zero transition, can take years to achieve. However, companies are already delivering when it comes to tax contributions and tax governance. Companies can report on tax today.
- Relationships with tax authorities require trust and credibility. Tax disclosures may reduce the level of scrutiny and can lead to more open and streamlined dialogue.

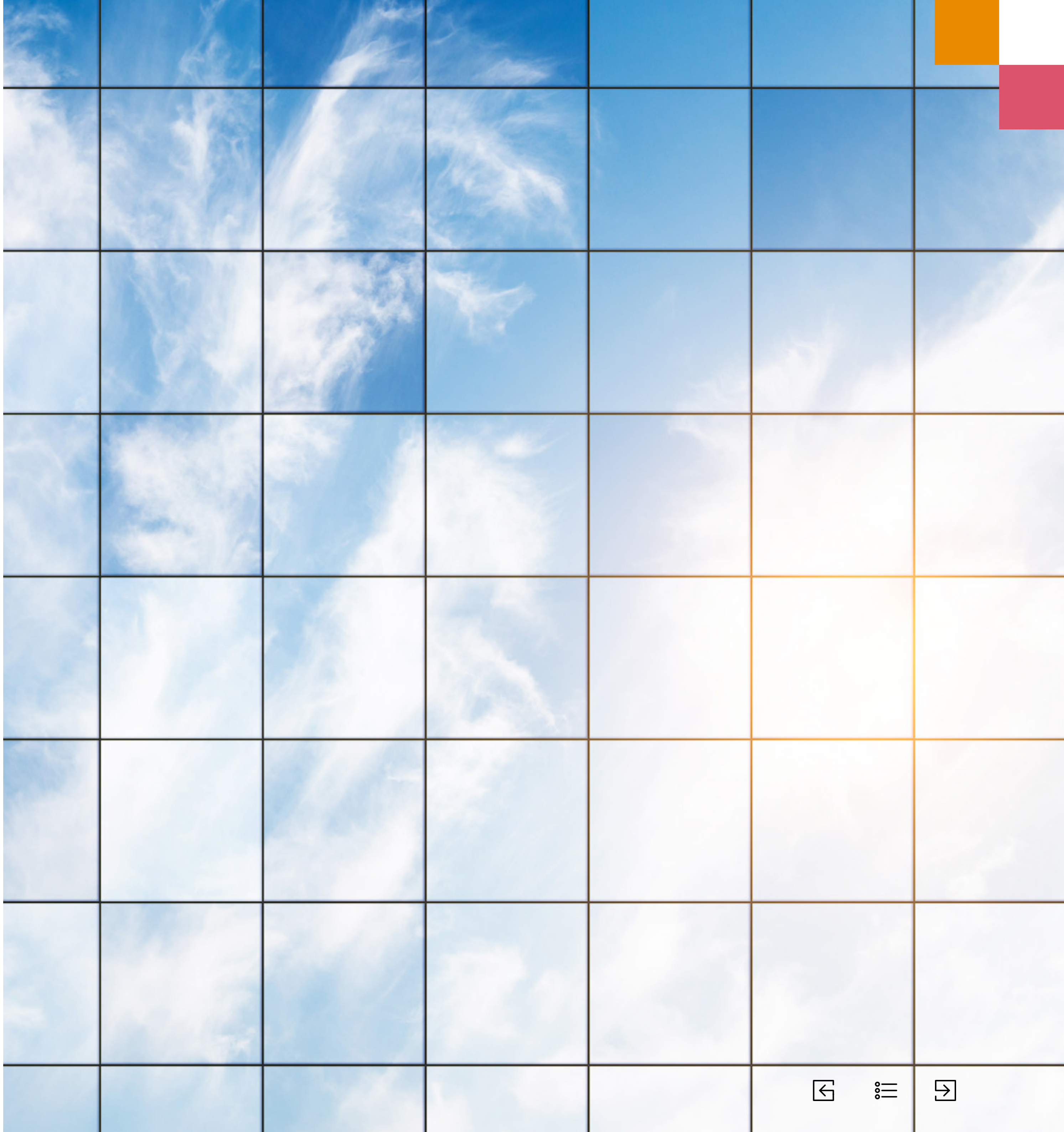
Key considerations

There is no optimal level or one-size-fits-all approach to tax transparency. Each company's perspective is different and will be driven by a number of factors, including its own brand values and stakeholder interests. In some instances, no disclosures may be required. In others, disclosure on certain areas may create further value, trust, and provide greater context to stakeholders.

In deciding what level of tax disclosure is the best fit for your company, consider the following:

- **Consider your stakeholders.** Understand what each stakeholder wants to know about tax, and why they want to know it.
- **Consider what your peers are reporting.** What tax disclosures are your peers making? Consider how your disclosures compare.

- **Be conscious of your stakeholders' awareness levels.** Once you decide what disclosures to make, will the target audience be able to understand each disclosure? Additional information may help explain the disclosure and provide context.
- **Establish the optimal reporting framework for your company.** Is your company using a reporting framework, such as GRI, for the purpose of its wider sustainability disclosures? Consider how your current tax reporting aligns to the tax disclosures within that framework.
- **Create alignment across your company.** Ensure that you are fully engaged with your sustainability team and other internal stakeholders.



Our Team

The tax transparency landscape is evolving. Companies need to adapt to keep up with stakeholder expectations on tax disclosures, while also ensuring that the benefits and risks of these disclosures are carefully considered. We can support you in defining your tax transparency strategy while navigating the opportunities and the risks. Contact us today.

Click here to view our dedicated Tax Risk & Controversy web page

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