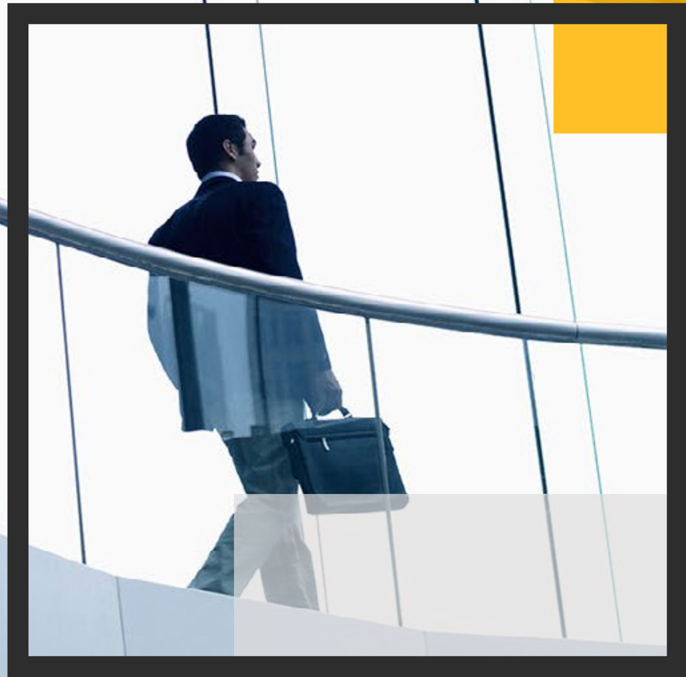

Building stakeholder trust through tax transparency

Trends in tax disclosures - second edition

March 2023

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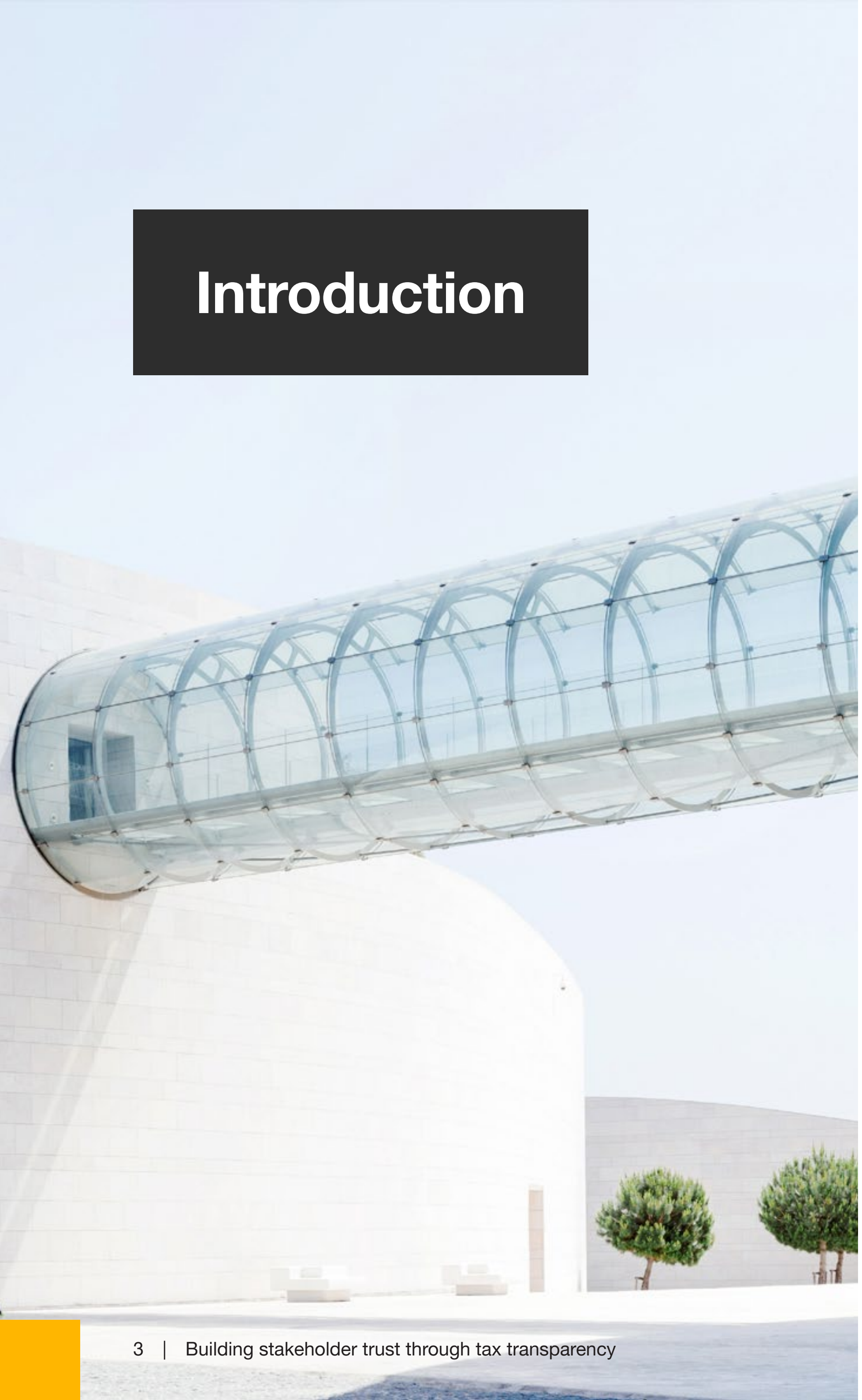


Introduction

Stakeholders are demanding a greater level of transparency from companies on their tax affairs because tax is no longer seen as a basic cost of doing business. Tax is increasingly viewed as a powerful indicator of a company's societal impact and a reflection of its broader values and purpose.

Tax has become a key component of the broader environmental, social and governance (ESG) movement and is being factored into stakeholder considerations when assessing the sustainability of a business. Investors, customers and the public want to understand companies' approach to tax, how tax matters are governed, and how much taxes are paid.

There is no 'one size fits all' approach when it comes to tax transparency. There is much to navigate, such as stakeholder interests, regulatory requirements and reporting frameworks.

In our experience, large companies typically have a tax strategy and a robust tax governance framework. A company may decide not to publish details of its tax strategy or its governance arrangements for a variety of reasons. Therefore, one cannot assume 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.

In undertaking our tax transparency analysis this year, we reviewed the tax disclosures of all 21 companies listed on the main market of the Irish Stock Exchange (Euronext Dublin).[1] In this report, we look at the tax transparency trends emerging from our review and provide a year-on-year comparison of the tax disclosures being made by Irish companies.

What is clear from this year's review is that voluntary tax transparency is increasing, particularly in terms of the breadth of information disclosed by the companies already engaged. We hope that you find the second edition of our report useful and that the insights provided help inform your tax disclosure considerations.

1 In undertaking our second tax transparency analysis, we reviewed the tax disclosures of all 21 companies listed on the main market of the Irish Stock Exchange (Euronext Dublin), which were listed on the Euronext in 2021 and remain listed as at 31 January 2023. Our review was strictly limited to publicly available information in respect of the financial years ending in 2021, as published at 31 December 2022. To the extent that they were published on their website, we reviewed the company's tax strategies, annual reports and ESG or sustainability reports.

The tax transparency landscape

The tax transparency journey

Over the past decade, geopolitical and economic crises have fuelled public interest in companies' tax affairs, resulting in the gradual introduction of various tax disclosure initiatives. However, recent institutional and regulatory drivers have intensified the pace of change in the tax transparency landscape. The trajectory has continued over the last 12 months and we see no sign of it abating.

The most significant changes for companies emanate from recent EU directives, all of which will need to be considered by Irish companies as they define their tax transparency strategies.

Corporate Sustainability Reporting Directive

In November 2022, EU member states adopted the Corporate Sustainability Reporting Directive (CSRD), which requires large companies to report certain non-financial information in accordance with standards that span a range of sustainability topics.

The CSRD will require the disclosure of significant information from multinational groups, such as their business models and global footprint. This information will be relevant to stakeholders from a transfer pricing perspective and will no doubt be read in conjunction with information disclosed through public Country-by-Country Reporting (CbCR).

CSRD also will require broader consideration of how companies manage tax risk. That is because companies in scope of the CSRD must also comply with the EU Taxonomy, an EU sustainability regulation which classifies the environmentally sustainable activities carried out in the EU. To be recognised as a sustainable economic activity, there are a number of criteria to be satisfied including complying with certain minimum safeguards, one of which is tax. The Platform of Sustainable Finance's final report on the minimum safeguards suggests that a company could be considered non-compliant with the taxonomy if the company:

- does not treat tax governance and compliance as important elements of oversight and there are no adequate tax risk management strategies and processes in place or/and
- has been finally found violating of tax laws.

Companies will need to implement internal tax governance procedures to ensure compliance with the regulation.

Pillar 2

In December 2022, EU member states reached agreement in principle on Pillar 2, which will come into effect from 1 January 2024. Pillar 2 introduces a global minimum effective tax rate (ETR) via a system where multinational groups with consolidated revenue over €750m are subject to a minimum ETR of 15%.

In the context of tax disclosures, companies will face increased scrutiny where the ETR is below 15% in certain jurisdictions.

Public Country-by-Country Reporting

EU member states are beginning to transpose the public CbCR Directive into domestic legislation. This will require large multinational groups operating in the EU to publicly disclose details of corporate tax paid by 2025.

This will undoubtedly draw attention to a company's corporate tax payments relative to its operations in certain jurisdictions.

> "The sheer scale and complexity of an organisation's footprint, across multiple jurisdictions with differing regulations, makes tax a difficult matter to navigate. This means that tax information like public CbCR data could be easily misunderstood. Disclosures can inform the narrative around how a company is taxed in different jurisdictions and can help demonstrate its broader societal impact."
>
> Aidan Lucey, Partner & Tax Transparency Leader, PwC Ireland

The tax transparency journey

2003

EITI
Transparency initiative for the extractive sector.

2004 2005 2006 2007 2008 2009

2010

US Dodd Frank Act
Extractive industry proposal to report all payments made to governments.

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

2011 2012

2013

EU Accounting Directive
Requiring reporting of payments to the government for extractive sector.

2014

CRD IV
EU transparency initiative for banks and capital markets.

2015

OECD BEPS
Introduced as a way to stop multinational companies (MNCs) exploiting mismatches between different countries' tax systems – introduces CbCR disclosures to tax authorities.

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

The Directors' Compliance Statement
Legislation is introduced in Ireland.

2016

UK tax strategy
UK requirement to publish a tax strategy.

2017

2018

DAC6
Requiring companies to report certain cross-border tax arrangements to tax authorities in the EU.

The B Team
A group of leading companies come together to generate a set of tax principles.

2019

GRI 207 – tax standard
GRI developed a new standard on tax which includes public CbCR.

2020

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

2021

EU Public CbCR
EU agrees to new public CbCR reporting for large businesses operating in the EU.

IFRS
IFRS established the International Sustainability Standards Board at COP26.

OECD Pillar 2
OECD reaches agreement on global minimum corporate income tax rate of 15%.

US Bills introduced
Bicameral proposed (two bills) for public CbCR.

2022

EU Pillar 2
EU reaches agreement in principle on Pillar 2 which will apply to financial year ends commencing in 2024. MNEs in scope will be required to publicly disclose their ETRs as determined for Pillar 2 purposes.

SEC proposed ESG rules
Disclosures of climate related metrics, governance and management processes, and risk mitigation approach.

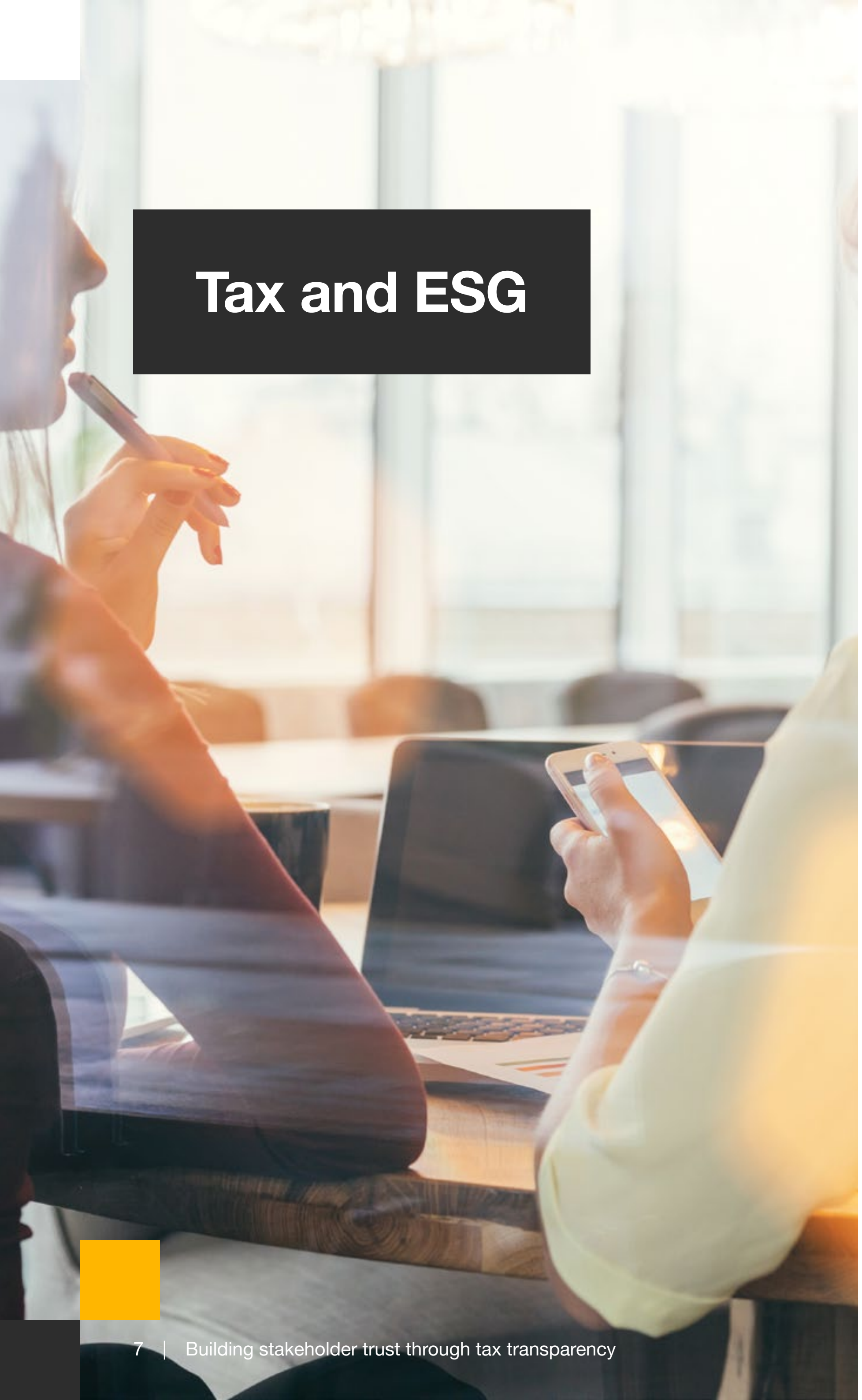
CSRD
EU adopts the Corporate Sustainability Directive requiring certain businesses with operations in the EU to report certain non-financial information against ESG metrics.

TFCD
Finalisation of climate standards by the Task Force for Climate Related Financial Disclosure.

2023

DAC 7
EU Directive which aims to enhance tax compliance in the digital economy within the EU comes into force.

ISSB
The international sustainability standards board are set to release their first sustainability related disclosure standards in June.



Tax and ESG

Tax - the ‘S’ in ESG

The ESG movement is causing companies to reshape their purpose and operating model. 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 integral to the 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.

Investors demand increased tax transparency

While all stakeholders have a close interest in companies’ tax affairs, it is the demands of investors that are driving change within organisations. There is growing interest from the investor community to understand the tax practices of their portfolio companies. This has led to calls for more meaningful tax disclosures so that investors can assess companies’ financial, governance and reputational risks. Action being taken by investors is having a tangible impact for companies.

For example, several institutional investors have released codes of conduct that set out what they expect from investee companies regarding tax transparency and their broader tax practices. One such investor is Norges Bank Investment Management, the Norwegian sovereign wealth fund, which recently divested from four companies due to concerns over their tax transparency.

In the past 12 months alone, several high-profile multinational corporations faced much-publicised shareholder motions urging them to publicly disclose tax data in accordance with the Global Reporting Initiative’s tax standard (GRI 207). Interestingly, the US Securities and Exchange Commission (SEC) supported shareholders’ attempts to file this motion.

For many companies, tax transparency is an opportunity to build trust with investors. And by building trust through tax disclosures, companies can help establish trust in other areas of their businesses.

Tax reporting frameworks

Companies can follow a range of reporting frameworks when considering their approach to sustainability disclosures. Efforts continue by global bodies to harmonise these sustainability reporting standards.

For example, the International Sustainability Standards Board (ISSB) was established to develop a comprehensive global baseline of sustainability-related disclosure standards that provide investors with information about companies' sustainability-related risks. The first standards will be released in June 2023. Given the increasing importance of tax as a sustainability metric, tax transparency is expected to be incorporated into the ISSB framework.

Companies can adopt various tax transparency frameworks when deciding what tax disclosures to make. The Global Reporting Initiative (GRI), the B-Team, World Economic Forum (WEF) and the Principles for Responsible Investment (PRI) are just some of the organisations that have developed tax reporting guidelines and standards.

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

In our experience, the most commonly-adopted tax reporting standard is GRI 207.

GRI 207

The 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, including many Irish companies, use the GRI standards for sustainability reporting. Interestingly, GRI announced last March that it had entered into a collaboration agreement with ISSB to coordinate standard-setting activities.

GRI 207 was a specific standard introduced in 2019 to meet greater stakeholder demands for tax transparency. The standard applies to companies using the GRI framework and is effective for reports published since 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

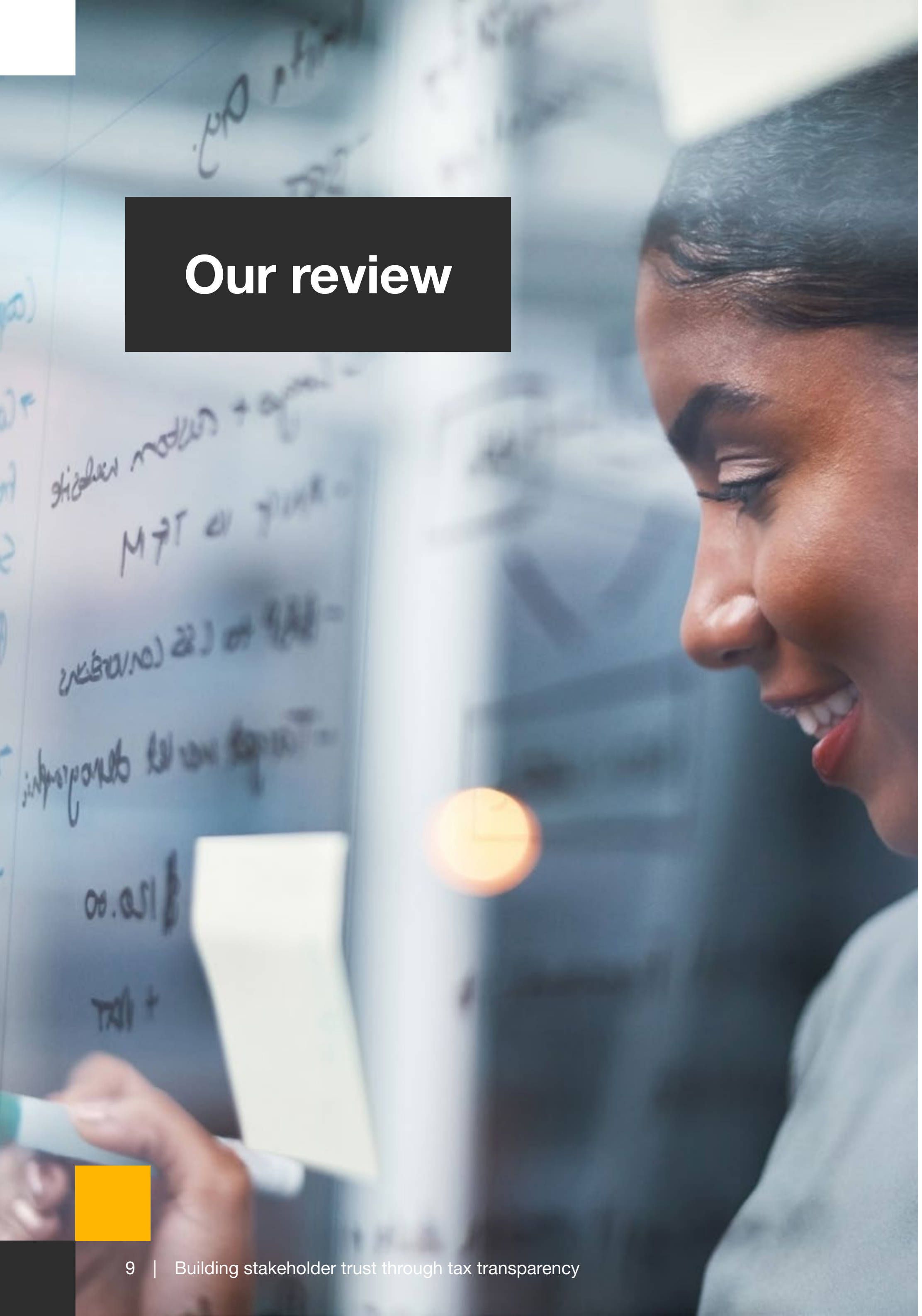
GRI 207 enables companies to report on tax practices as part of their sustainability reporting. It consists of four key disclosures that fall under management approach disclosures and topic-specific disclosures:

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 our tax transparency analysis for this year's report, we reviewed the tax disclosures of all 21 companies listed on the main market of the Irish Stock Exchange *(Euronext Dublin).*[2]

Our review was strictly limited to publicly available information regarding financial years ending in 2021, as published at 31 December 2022. To the extent that they were published on their websites, we reviewed companies' tax strategies, annual reports and ESG 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 in this report relate to companies with a published tax strategy.

For the scope of this year's review, we limited our analysis to companies that have chosen to make public disclosures on tax. In our experience, large companies typically have a tax strategy and a robust tax governance framework. A company may decide not to publish details of its tax strategy or its governance arrangements for many 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.

2 Who were listed on Euronext Dublin in 2021 and remain listed as at 31 January 2023.

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

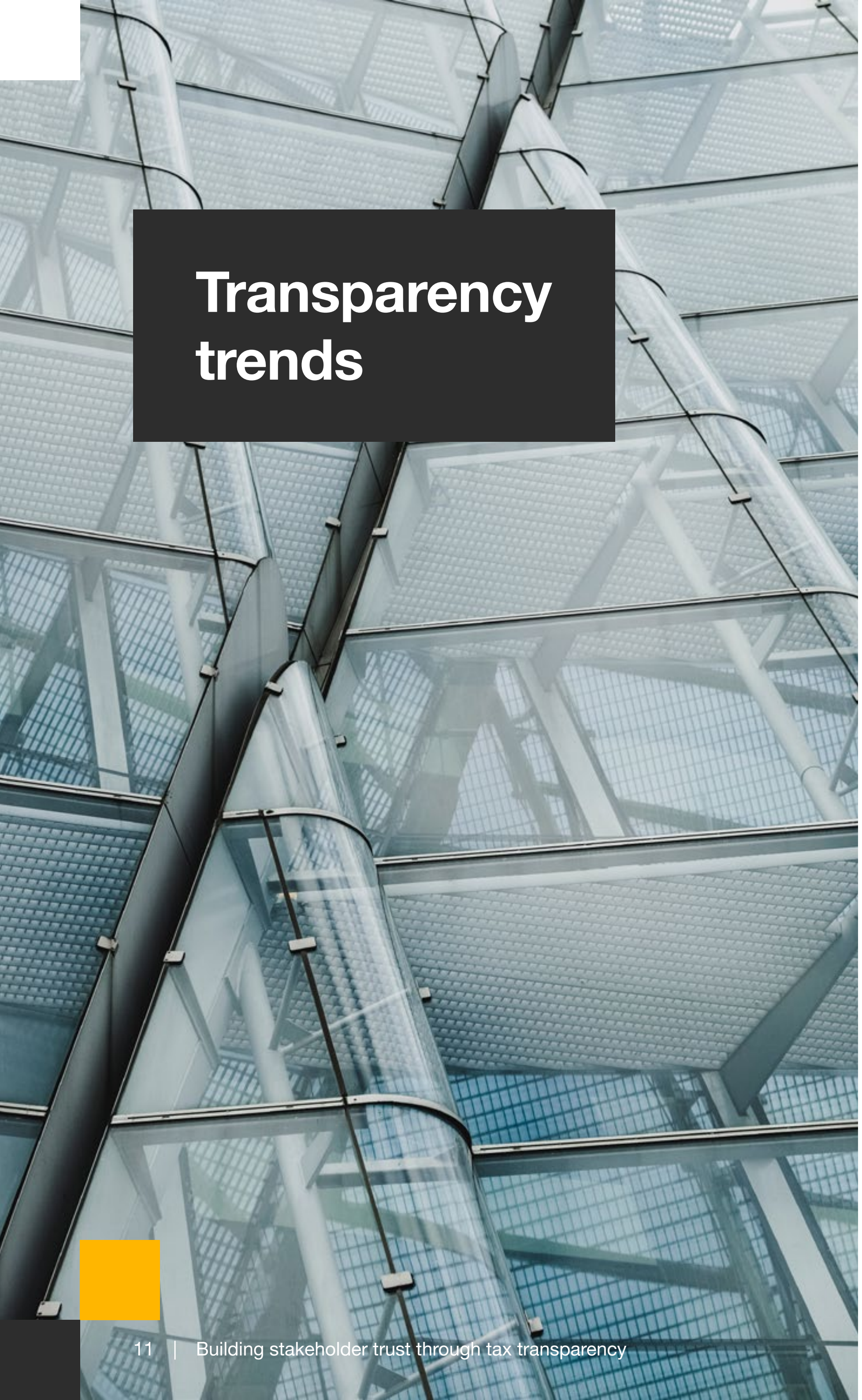
This provides an understanding of who has responsibility, oversight and accountability for tax - not only on a day-to-day basis, but where the ultimate responsibility for tax rests.

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 are intended to help companies consider the benefits of greater tax transparency based on their specific profile and stakeholder interests. It should also help inform companies' external communications strategies regarding tax.

Below are some key year-on-trends we identified from this year's review.

Tax strategies are being reviewed and built upon

Our review found that a tax strategy, sometimes referred to as a company's approach to tax or tax policy, remains the primary means by which companies make tax disclosures.

While there is no requirement in Ireland for companies to publish a tax strategy, 11[3] of the companies reviewed (or 52%) voluntarily published a tax strategy.

The number of companies publishing a tax strategy did not increase from last year. However, those companies that had published a tax strategy were actively reviewing and updating them.

67%

increase in companies stating that their tax strategy is reviewed regularly

There was a 67% increase in companies stating that their tax strategy is reviewed regularly. There was also a notable increase in the breadth of information disclosed, which evidences the substance of the reviews they are undertaking. These disclosures are explored further below.

We also found that 73% of companies state that there is close alignment between tax and business strategies. Consistency between the management of a company's tax affairs and the wider business strategy is important, demonstrating that tax is aligned with broader commercial objectives.

3 Since the publication of our first report, three companies have delisted from Euronext Dublin including two companies with a published tax strategy. For comparative purposes, these companies have been removed from our statistics.

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

11%

increase in the number of companies that refer to the audit committee in their tax strategy

Evidence of strong governance of tax

In PwC's ESG Investor Survey, 66% of investors wanted to see governance and oversight over sustainability risks and opportunities. In this regard, it is positive that all companies stated that the board has oversight of the company's tax affairs. 73% of companies say that the board and/or audit committee have approved the tax strategy, consistent with last year's findings.

It is common for the board to delegate oversight of tax matters to one of its subcommittees, typically the audit committee. This year, there was an increase of 11% in the number of companies that refer to the audit committee in their tax strategy. This indicates a strong level of oversight on tax matters. We also found that some companies take it a step further by explicitly referencing tax oversight in the audit committee's terms of reference.

Tax governance refers to a company's approach to tax risk management and the responsibility for overseeing 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.

11%

increase in the number of companies that include a statement in their tax strategy outlining how they deal with uncertain or complex tax positions

Protocols in place for dealing with uncertainty

This year's review found that 91% of companies include a statement in their tax strategy outlining how they deal with uncertain or complex tax positions. This represents an 11% increase from last year.

Additionally, 73% of companies refer to uncertain tax positions in their annual reports.

33%

increase in companies that specifically state that they actively engage with both Irish and international tax developments and/or monitor new tax policies

Increased engagement on tax policy

Acknowledging the importance of tax policy and the ever-evolving global tax landscape, we found an increase of 33% in companies that specifically state that they actively engage with both Irish and international tax developments and/or monitor new tax policies.

14%

increase in the number of companies that discussed transfer pricing in their tax strategies

A timely focus on transfer pricing

This year's review found an increase of 14% in the number of companies that discussed 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 making a statement to this effect in their tax strategies.

Regarding accounting periods commencing from 22 June 2024, multinational entities with operations in the EU will be required to publish country-by-country breakdowns of corporation tax paid and other information on their jurisdictional footprint. This will bring a renewed focus on companies' transfer pricing arrangements.

Explicit statements on the use of tax havens

Jurisdictions which are branded as tax havens or uncooperative are subject to continued scrutiny. This year we saw an increase in companies voluntarily choosing to disclose information on entities operating in such jurisdictions. Some companies explain that these are legacy entities acquired as part of wider acquisitions and explicitly state that the entities are not used for transactions that do not have proper commercial substance. This is a good example of how tax disclosures can build on bare data in financial statements and provide context to stakeholders.

Continued 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 to manage that risk. Disclosures in this area provide comfort that tax is embedded within a company's broader risk management framework.

91% of companies state that they have a specific tax risk framework, while the majority refer to controls being in place to manage this risk. Consistent with last year, 64% of companies explicitly reference the company's tax risk appetite, while many companies state that they have specific arrangements to actively monitor tax risk.

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.

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.

More disclosures are being made on total tax contributions

This year, we found that 45% of companies disclosed some level of information on their total tax contribution (TTC) either in their tax strategy or broader ESG reports. Some companies go a step further and include an additional narrative around their statutory/effective tax rate.

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 the impending public CbCR regime focusing on corporation tax borne by a company, it is not surprising that companies voluntarily disclose information on their TTC to improve understanding and provide visibility of their wider contribution to public finances. Sector taxes, such as irrecoverable VAT (for banks) and business rates (for retailers), can be more significant than corporation tax.

In PwC's ESG Investor Survey, 60% of investors stated that they want companies to report their impact on the environment or society now and in the future. Of those, 66% also want to see companies disclose the monetary value of that impact. TTC reporting allows companies to demonstrate to investors the financial contributions they make to society.

Tax is being incorporated into ESG reporting

This year's review found that 73% of companies referenced tax in their broader ESG reports. This is clearly an acknowledgement from companies that tax is an important ESG metric that their stakeholders are interested in. Incorporating tax into ESG reports presents an opportunity for companies to demonstrate how they are adopting sustainable tax practices.

Of those companies reporting on tax in their ESG report, two additional companies disclosed some elements of the GRI 207 standard compared to last year.

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.

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 disclosure strategy

Trust can be built by companies that adopt a strategic response to tax disclosure. Disclosures can explain and inform the company's narrative around how it is taxed and its 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. These 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 explaining 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.

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 several factors, including its brand values and stakeholder interests.

The key actions to take now

Engage the board

Increasing investor pressure on tax means tax transparency is now a board-level issue. It is important to have full engagement between the board, the tax function and those responsible for ESG matters. Tax needs to be fully aligned with your organisation's broader sustainability strategy.

Prioritise your tax strategy

For those companies not yet making disclosures, the priority should be developing a formal tax strategy. This will be the first document stakeholders look for when assessing the company's approach to tax and its tax transparency. It can help you control the narrative.

Consider what, and to whom, you are reporting

Tax is a broad subject. Understand the material tax matters your stakeholders want to know about and why. Critically review your current disclosures to see if they align with stakeholders' expectations. Once you have decided what disclosures to make, then you will need to consider whether the target audience will be able to understand each disclosure. Including additional information to help explain the disclosure and provide additional context may be beneficial.

Establish the optimal reporting framework for the company

There is no optimal level or one-size-fits-all approach to tax transparency. Each company's perspective differs and will be driven by several factors, including your brand values and stakeholder interests. Decide what reporting framework works best for you.

If the company already uses a reporting framework, such as GRI, for its wider sustainability reporting, ensure that your current tax disclosures align with that framework.

Establish processes and procedures for tax disclosures

Regardless of what disclosures you make, establish formal procedures and governance to ensure that the company can stand over both the qualitative and quantitative disclosures it makes.

We are here to help you

The tax transparency landscape is evolving. Companies need to adapt to keep up with stakeholder expectations on tax disclosures. We can support you in defining your tax transparency strategy and understanding your tax disclosure obligations. We can also provide you with your own transparency assessment, so you can benchmark how your tax disclosures compare to your peers. Contact us today.

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

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