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Public tax transparency

Establishing trust in a digital (tax) world

4: Public tax transparency benchmark study

Overview of the public tax transparency series of papers

1. What is public tax transparency about?

- Defining public tax transparency
- Why it's a topic now

2. Is it in your interests to be publicly tax transparent?

- The value of public tax transparency
- Sharing an insider's view

3. How to implement public tax transparency

- What information could be disclosed?
- How to organise action

4. Public tax transparency benchmark study

- How popular is public tax transparency currently?
- Does the data reveal a trend?

Executive summary

For tax experts taking on responsibilities in the area of public tax transparency, it's often important to understand what their peers are doing or about to do. To address this need, we have dedicated the last paper in our series on public tax transparency to a benchmark study.

In this first edition of our Public Tax Transparency Benchmark Study, we have analysed the disclosure levels of 50 among the most noteworthy Swiss-based companies across different industries.

We wanted to find out where public tax transparency really stands today, if we can observe a variance in the different areas of disclosure (Total Tax Contribution ("TTC"), Country-by-Country Reporting ("CbCR"), Tax Strategy and Risk Control Framework ("TSRCF")), and whether a clear trend is recognisable.

What were the overall results?

In any case, striking.

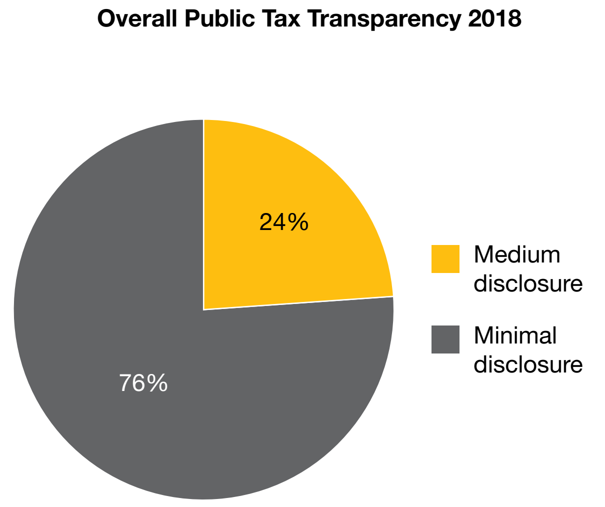
For 2018, we found that 76% of the examined companies provided on average minimal disclosure on their tax affairs. Of the companies surveyed, 24% met the standard of medium disclosure, whereas none of the companies met the standard of advanced disclosure in terms of Overall Public Tax Transparency.

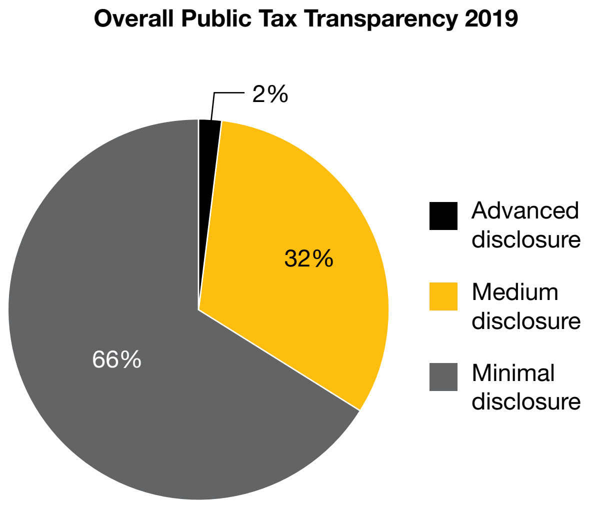
Just one year later, in 2019, the picture has already changed significantly. Two per cent (+2%) of companies have decided to go for full transparency and now qualify for the advanced disclosure category. The second category, medium disclosure, has grown by a third to 32% (+8%). Only 66% (-10%) of the companies remain in the minimal disclosure category.

We must admit that these results have surprised us to some extent. The initial findings from 2018 already showed a higher level of public tax transparency than most tax professionals would have expected to see a couple of years ago. More importantly, a clear trend is visible. In 2019, more than one third of all companies examined already rank as advanced or medium disclosure.

However, companies with truly advanced disclosures are currently still more the exception than the rule. But for how much longer? In the 2020 edition of the Public Tax Transparency Benchmark Study, we will probably see an even higher percentage of companies disclosing more, and more substantial, information on their tax affairs.

Figure 1

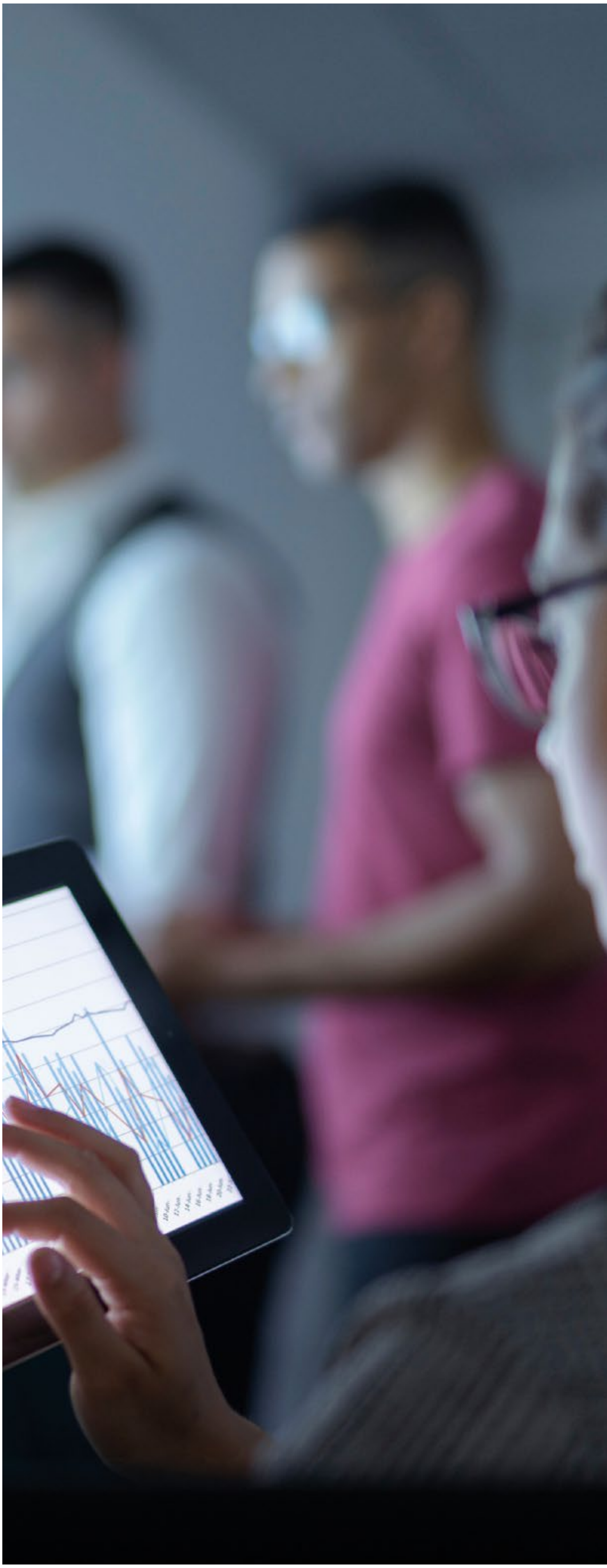




1. Introduction

In the aftermath of the financial crisis of 2007-08, we have seen the topic of public tax transparency constantly gaining momentum. There have been different reasons for this,[1] especially in the last few years. The media, legislators, shareholders, employees and the public have started to clearly express their expectations to companies in terms of being clear and open about their approach to tax. The role of tax functions will inevitably change in the wake of this development. Communicating the positive financial impact of companies on the societies they operate in and managing tax-related reputational risks will play a significant part in this.

We have dedicated a series of four brief papers to this topic. In the first, we examined what public tax transparency is and why it should be of interest for you (now). In the second paper, we explored in detail why public tax transparency is so essential. In the third of the series, we introduced our view of how you can get the most out of public tax transparency and proposed steps to take action. In this, the last piece, we'll be presenting a benchmark study to help you understand how Swiss-based companies are responding.



[1] For more details, see the first paper in this series: 'What is public tax transparency about?'.

2. Objective of this benchmark study

Tax experts taking on responsibilities in this area often want to know what their peers are doing. Our Public Tax Transparency Benchmark Study aims to deliver insight into where the bar of public tax transparency is set today and the direction it will most likely move.

We hope to answer some remaining questions not addressed in the first three papers, such as where public tax transparency really stands today. Are there any differences in the various areas of public tax transparency? Can we identify a clear trend?

While we won't be able to give you final answers to these questions, our study scoping Swiss-based companies is designed to help you find them. By providing an overview of the current public tax transparency situation in Switzerland, it can serve as a compass for all companies that find themselves in the middle of this vast, dynamic upheaval.

3. Scope of this benchmark study

We have analysed the disclosure levels of 50 among the most noteworthy Swiss-based companies across ten different industries.

In the study, we distinguish between three different areas of disclosure: TTC, CbCR and TSRCF.[2] Each area is assigned to the classes "Minimal", "Medium" and "Advanced" according to pre-defined criteria (comprehensive information on the areas and criteria are available in the methodology section in the appendix). Based on that, we evaluated the companies' "Overall Public Tax Transparency Level".

This analysis was conducted both in 2018 and in 2019. Comparing the results from 2018 data with the results from 2019 data, we have tried to identify a trend.

More extensive and detailed information on the methodology is provided in the appendix.

4. Results

Overall Public Tax Transparency level

In the 2018 census, we found that 76% of the examined companies provided Minimal disclosure on their tax affairs. Of the companies examined, 24% met the standard of Medium disclosure, whereas none of the companies finished in the Advanced category in terms of Overall Public Tax Transparency.

One year later, there had been a major shift in the numbers, with 66% (-10%) of the companies in the Minimal disclosure category, 32% (+8%) Medium, and 2% (+2%) already in the Advanced disclosure category. (See Figure 1)

[2] For more information on the different areas, see our third paper in this series: 'How to implement public tax transparency'.

Looking into the different categories, it becomes evident that some types of information are less likely to be disclosed than others. This observation is important, as it allows us to better understand where companies can and will increase transparency and which areas are not commonly disclosed.

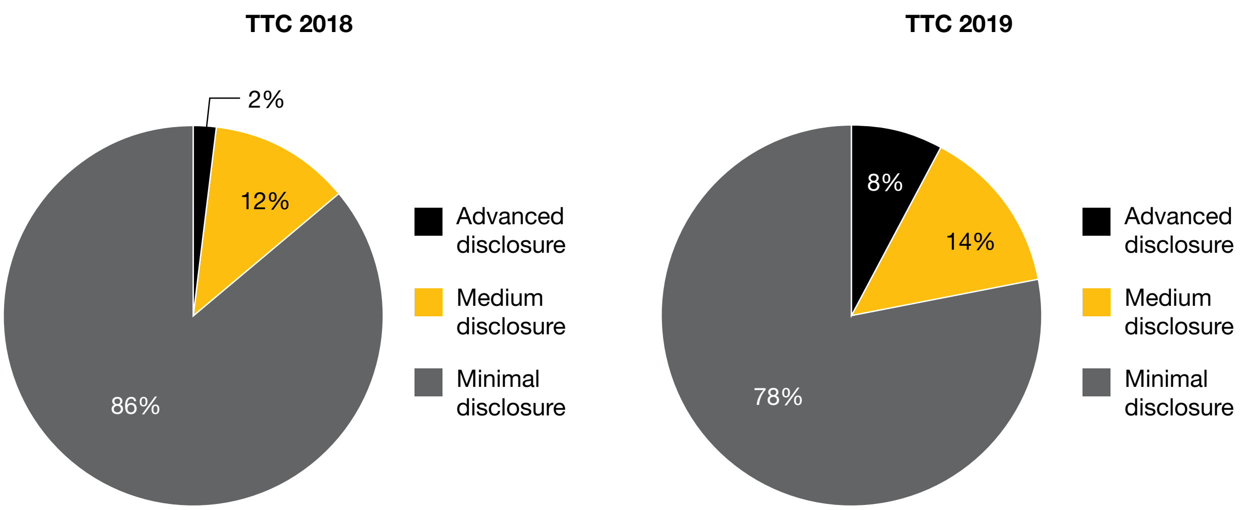
Total Tax Contribution

Whereas the share of companies with Minimal TTC disclosure was above average (86%) for the 2018 data, there are also, comparatively, more companies with Advanced TTC disclosure (2%). Medium disclosure was observed in only 12% of companies.

In 2019, the percentage of companies with Advanced TTC disclosure increased further to 8% (+6%), whereas the percentage of companies with Medium TTC disclosure increased slightly versus the year before (14%) and the percentage with Minimal TTC disclosure declined to 78% (-8%). (See Figure 2)

A possible explanation for this distribution is that TTC provides a holistic view of a company's contributions towards the jurisdictions they operate in and is therefore more attractive.

Figure 2

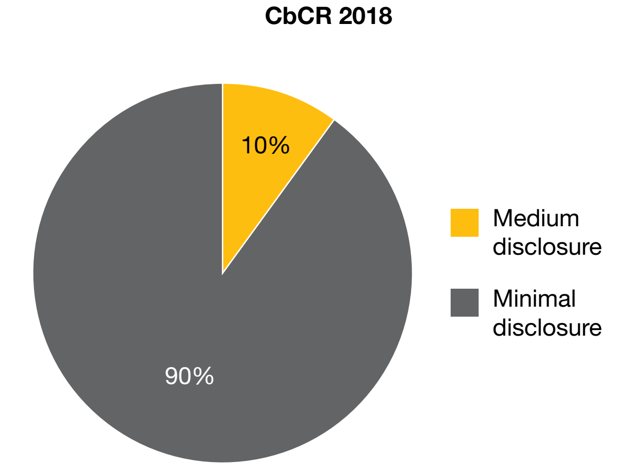


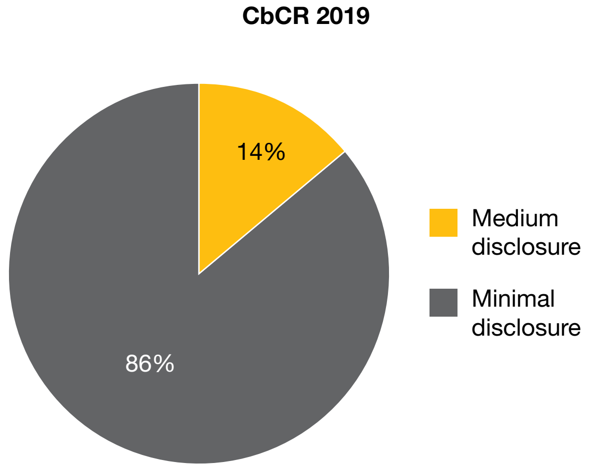
Although we have seen a relatively strong shift towards Advanced TTC disclosure from 2018 to 2019, the trend seems not (yet) to have reached the majority of companies.

Country-by-Country Reporting

Regardless of the ongoing discussions and the public interest in this topic, CbCR is the least transparent category. There is an even higher number of companies with Minimal disclosure in CbCR than in TTC (90%/86% in 2018/19 respectively). Moreover, none of the companies examined disclosed its CbCR in its entirety – neither in 2018 nor in 2019. Taking into account that most of the companies in scope already have to submit CbCR data to the tax authorities, the reason for non-disclosure cannot be that data is not available. (See Figure 3)

Figure 3



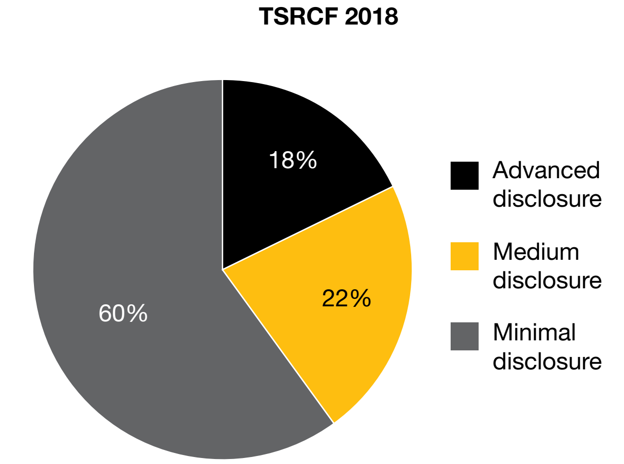


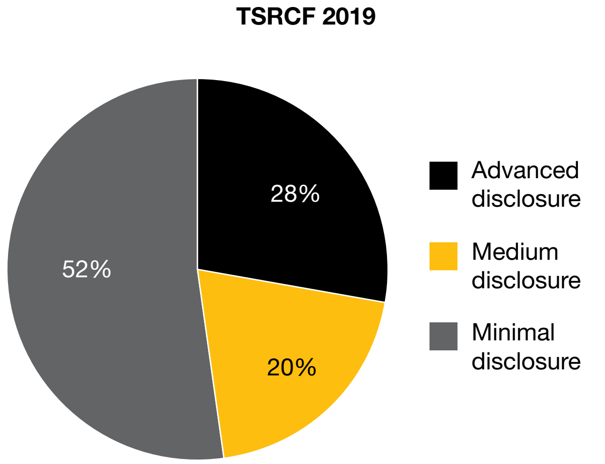
Although there has been a decrease in companies with Minimal CbCR disclosure (down 4% from 2018 to 2019), there is not yet a large-scale move towards full CbCR disclosure. One of the reasons why CbCR is not popular may be the fact that it does not give a full picture of a company's total economic contribution in the jurisdictions where it operates.

Tax Strategy and Risk Control Framework

With the lowest percentage of Minimal disclosure (60%) and the highest percentage of Advanced disclosure (18%) in 2018, TSRCF started off already more developed than the other categories. Furthermore, the highest increase in Advanced disclosure companies (+10%) and the greatest decline in Minimal disclosure companies (-8%) from 2018 to 2019 can be observed in the TSRCF category. Interestingly enough, the number of Medium disclosure companies also declined (-2%). (See Figure 4)

Figure 4





In spite of the decline in Medium TSRCF disclosure, we interpret this result as an increase in the importance of tax as a component of corporate strategy. This observation is crucial, because before a discussion about tax transparency can take place, the topic has to be recognised as a decisive component not only of financial management, but also of a company's leadership, reputation, risk, and role in society. Seeing more companies publishing a TSRCF that contains the necessary components, thus proving that the issue has been addressed internally, is a sign that the perception of tax is changing and might be interpreted as a precursor of future change in the Overall Public Tax Transparency level.

5. Conclusion

The results show that a lot more tax information is disclosed than most tax professionals would have expected to see about ten years ago. A shift is clearly recognisable across all the organisations in scope.

However, companies with Advanced disclosure are currently still more the exception than the rule. The majority of the 50 companies examined, 66%, are still classified as having Minimal Overall Public Tax Transparency.

We want to emphasise that there is no such a thing as an optimal disclosure level that applies for any business. The content of what's reported in the context of public tax transparency may vary from organisation to organisation. Before taking the step of becoming publicly tax transparent, each company has to think strategically about what exactly it wants to disclose, what points it intends to stress, and what specific context it wants to set the data in. Depending on an organisation's needs and situation, it's crucial to find the right focus and balance.

Nevertheless, the general trend towards becoming more publicly tax transparent is clear, and we don't think it will reverse again. Quite the contrary: in the 2020 edition of the Public Tax Transparency Benchmark Study we expect the disclosure level to continue to rise.

Appendix: Methodology

As mentioned, we have analysed the disclosure levels of 50 among the most noteworthy Swiss-based companies across ten different industries.

The disclosure levels for TTC, CbCR and TSRCF were assigned to the classes Minimal, Medium and Advanced. The analysis has been conducted in 2018 and 2019.

Defining the criteria

The first step was to define the criteria for the classes Minimal, Medium and Advanced in each of the categories TTC, CbCR and TSRCF.

Total Tax Contribution

To qualify for Advanced tax transparency regarding TTC, a company must disclose the sum of worldwide group taxes:

- Split into borne and collected taxes, and
- Split according to an additional, relevant differentiation or with some additional information.

A possible additional, relevant differentiation might be a split of borne and collected taxes into corresponding sub-categories. Borne taxes, for example, could be split into direct taxes, irrecoverable VAT, and property taxes borne, whereas collected taxes could be dissected into payroll taxes, output VAT, etc. Other possibilities would be to split borne and collected taxes into different countries, regions, etc.

From there, we developed a standard for Medium TTC transparency, which requires that either the sum of worldwide group taxes

- paid/borne, or
- collected

be disclosed.

Any company that does not meet both of these standards will fall under the Minimal category.

Country-by-Country Reporting

While companies have to provide the tax authorities with certain information on their income taxes paid in different countries, currently there is no obligation to publicly disclose such information.

To be rated Advanced in terms of CbCR disclosure, a company needs to disclose information on total revenue, revenue from third parties, revenue from intra-group transactions, the number of employees, profit before tax, and corporate income tax paid per country. All this information has to be provided for each country, or at least each region, that the company performs business activity in.

Many companies choose to disclose only parts of their CbCR. If this includes either

- corporate income tax per country/region, or
- total revenue, revenue from third parties, revenue from intra-group transactions, number of employees and profit before tax per country/region,

these companies will be assigned to the Medium CbCR category.

Likewise, the Minimal category comprises any company that does not meet both aforementioned standards.

Tax Strategy and Risk Control Framework

Most companies publish tax strategy documentation (for example under the UK Finance Act 2016, Schedule 19, which requires certain companies to do so). Nevertheless, a TSRCF can be anything between a small section of the annual report entitled ‘tax strategy’ up to an in-depth, multi-page breakdown of a company’s tax policy. We therefore have to be more specific about what we mean by the term TSRCF. We concluded that there are five elements a TSRCF has to include in order to fulfil its function as a tax affairs guideline:

- A description of the position/function the entity sees itself in with respect to global taxation
- A statement of willingness to comply with tax/legal/regulatory requirements
- A statement about the management of tax risks
- A statement about the approach to tax team management (leadership and governance)
- An idea of how the aforementioned should be achieved

We deem the transparency level of companies whose TSRCF include all five of the abovementioned points as Advanced. Companies that fail to do so but publish at least two of five elements are classified as Medium. Companies whose TSRCF leave out more than three of the five elements – or that do not have a TSRCF published in the first place – are labelled Minimal.

Overall Public Tax Transparency level

The Overall Public Tax Transparency level is established in accordance with the three criteria described above. To assess it, each attribute is assigned a numeric value depending on whether it’s Minimal, Medium or Advanced. For each company, the mean of the three numeric values is calculated and rounded. Converting the rounded mean value back into the categories gives the company's Overall Public Tax Transparency level.

Minimal disclosure in any category will be assigned 0 points, Medium disclosure 1 point and Advanced disclosure 2 points. The mean value resulting from the values for all three categories (adding up the three values and dividing the sum by 3) is then rounded to an integer. The resulting integer can then be translated back to an Overall Public Tax Transparency level on the "Minimal/Medium/Advanced"-scale.

Let's assume, for example, that 'Example Ltd' has Medium TTC disclosure, Medium CbCR disclosure and Minimal TSRCF disclosure. It scores 1 point for TTC disclosure, 1 point for CbCR and 0 points for its Minimal TSRCF disclosure, resulting in a total of 2 points. The mean is 2 ÷ 3 = 0.67. As 0.67 is greater or equal to 0.5, this value is rounded up to 1, the nearest integer. A value of 1 corresponds to Medium, which is why Example Ltd has a Medium Overall Public Tax Transparency level.

Scope of research

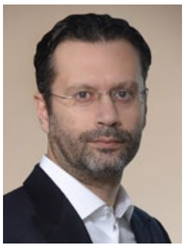
The PwC Tax Transparency Benchmark Study 2018 looks at companies' tax reports that relate to FY2017 and tax strategies that relate to FY2018 or earlier. Analogously, the PwC Tax Transparency Benchmark Study 2019 looks at reports from FY2018 and tax strategies that apply to FY2019. To check the availability of disclosures, we performed an internet research for each criterion and each company.

However, in special cases (for example where a possibly relevant document was referenced on a different company resource but this link was invalid) we did not reach out to the respective companies directly. In cases where relevant disclosures for the 2019 census were not yet available, we tentatively assumed the results from the 2018 census.

Even though this method is no guarantee of finding every relevant piece of information, we found it to be more suitable than an automated research. This is because transparency is ultimately about informing people, not computers. If only computers – and not people – are able to find a certain piece of information, then this information is, for transparency purposes, rather irrelevant.

Questions?

If you would like more information on public tax transparency or wish to discuss the topic, please contact:



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