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Public tax transparency

Establishing trust in a digital (tax) world

Public tax transparency benchmark study 2020

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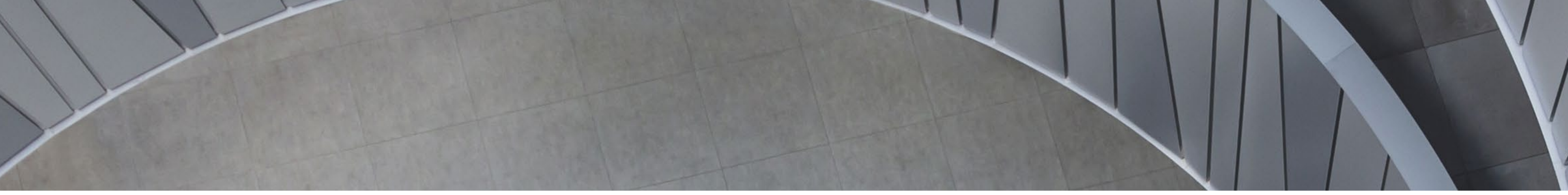


Executive summary

For tax experts taking on responsibilities in the area of public tax transparency, it's often important to understand what their peers and best market practice are doing or about to do. To address this need, we have dedicated this paper on public tax transparency to an updated benchmark study for 2020.

In the first edition of our Public Tax Transparency Benchmark Study, published in 2019, we analysed the disclosure levels of 50 of the most noteworthy Swiss-based companies across different industries. As a clear trend towards more public tax transparency became visible, we decided to follow up with this second edition to see how the disclosure levels of the same 50 companies developed during 2020.

As in 2019, we specifically investigated whether a trend is recognisable in the areas of Total Tax Contribution ("TTC"), Country-by-Country Reporting ("CbCR"), and/or Tax Strategy and Risk Control Framework ("TSRCF").

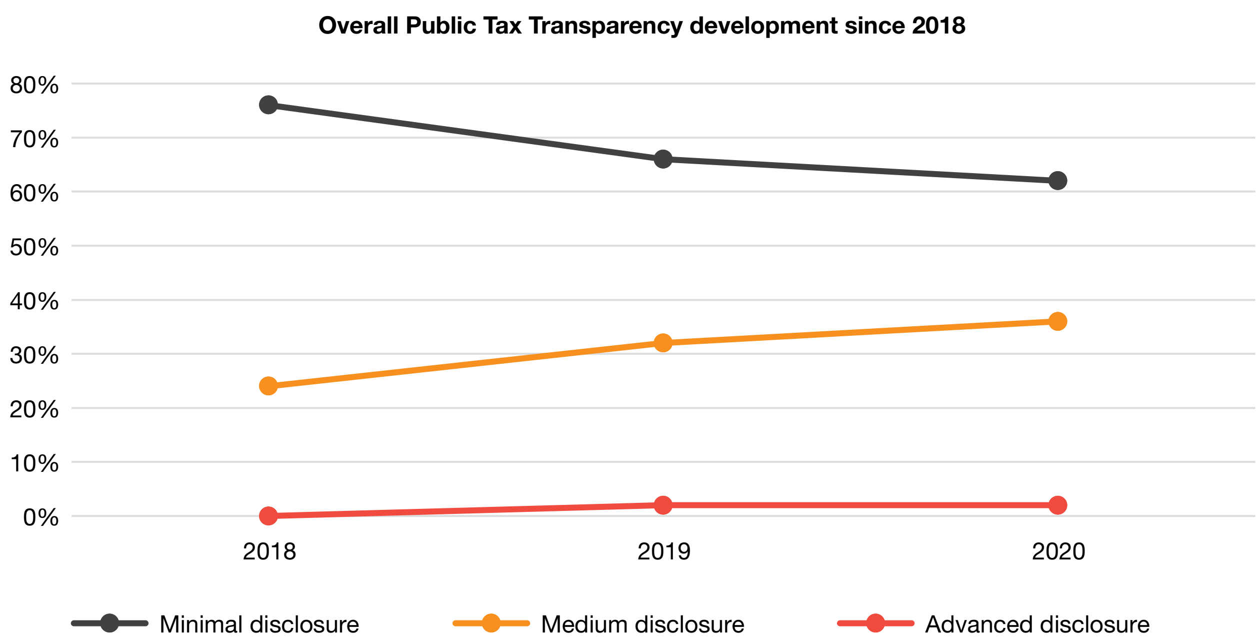
For 2019, we found that 66% of the examined companies provided on average minimal disclosure on their tax affairs (compared with 76% in 2018, i.e. -10%). Of the companies surveyed, 32% met the standard of medium disclosure (compared with 24% in 2018, i.e. +8%), whereas 2% of the companies met the standard of advanced disclosure in terms of overall public tax transparency (compared with 0% in 2018, i.e. +2%).

In 2020, the picture has changed further: Although the number of companies that qualify for the advanced disclosure category has not changed (2% in both 2020 and 2019), the share of companies in the medium category grew 4% to 36%. Only 62% (-4% versus 2019) of the companies remain in the minimal disclosure category. (See Figure 1)

Whereas the trend continues to go in the same direction, the changes from 2019 to 2020 were less significant than the year before. There are multiple reasons for the apparent hesitancy of companies to become more tax transparent during the last year. The most obvious would be the COVID-19 pandemic, which might have shifted the priorities of management in the short term.

This begs the question: Will the trend towards tax transparency further stagnate and, eventually, come to a halt? In 2020 there were also developments in the sustainability space, which is taking up the issue of tax transparency, in accounting standards, industry-owned initiatives, politics and general business recommendations, as well as an increase in calls for more transparency from the public because of COVID-19 rescue packages. Therefore, while 2020 might not paint such a persuasive picture in terms of the numbers for tax transparency, it does in terms of changes in the general economic and societal environment. We therefore believe that 2020 is not the beginning of the exit from the tax transparency highway, but rather a track change into the fast lane.

Figure 1



1. Introduction

The debate around public tax transparency has gained significant momentum in recent years, especially after the financial crisis in 2008/09. As a result, there has been an increase in non-financial tax disclosures – mainly on how companies manage their tax affairs and what their economic contributions are.

Given the unprecedented amounts that governments are spending on COVID-19 rescue packages, there is more pressure than ever for companies to consider public tax transparency strategically and take appropriate action. Stakeholders want to be satisfied that emergency support, including the relevant tax measures, has been claimed legitimately and that companies are contributing proportionately to the recovery of the massive fiscal deficits triggered by the COVID-19 rescue measures.

We have dedicated a series of four brief papers to this topic. In the first, entitled What is public tax transparency about?, we examined what public tax transparency is and why it should be of interest for you (now). In the second paper, entitled Is it in your interests to be publicly tax transparent?, we explored in detail why public tax transparency is so essential. In the third of the series, entitled How to implement public tax transparency, we introduced our view of how you can get the most out of public tax transparency and proposed steps to take action. In the fourth piece, we presented the first edition of our Public Tax Transparency Benchmark Study to help you understand how Swiss-based companies are responding, comparing their disclosures in 2018 and 2019. Moreover, in early spring 2020, we published an article arguing that it was time for companies to urgently consider adopting a policy of public tax transparency. This paper is a continuation of the 2019 Public Tax Transparency Benchmark Study, comparing the 2020 disclosures of the respective companies with previous years.

2. Objective of this benchmark study

Tax experts taking on responsibilities in this area often want to know what their peers and best market practice are doing. Our 2020 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 provide an updated view as to where public tax transparency really stands today. Are there any differences in the various areas of public tax transparency, and where are they going? Can we identify a clear trend?

While we won't be able to give you definitive 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

To ensure that the 2020 results are comparable with the 2019 edition, we have not changed the scope of the benchmark study: We analysed the disclosure levels of 50 of the most noteworthy Swiss-based companies across ten different industries.

As in 2019, we distinguish between three different areas of disclosure: TTC, CbCR and TSRCF.[1] 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.

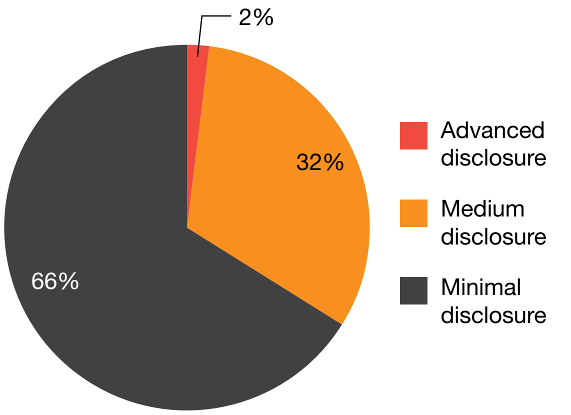
This analysis was conducted in 2018, 2019 and 2020. Comparing the data from 2018 and 2019 with the results from 2020, we have tried to identify a trend.

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

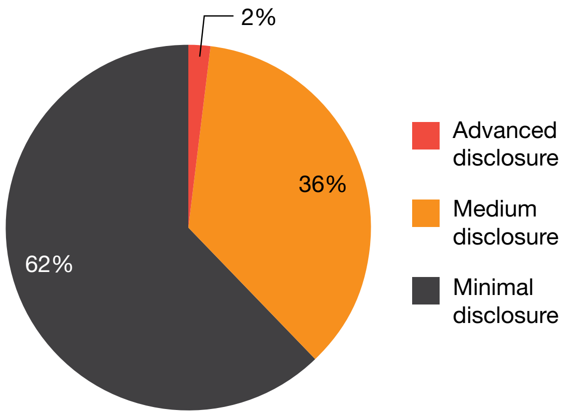
4. Results

Figure 2

Overall Public Tax Transparency 2019



Overall Public Tax Transparency 2020



Overall Public Tax Transparency level

In the 2019 census, we found that 66% of the examined companies provided Minimal disclosure on their tax affairs (-10%). Of the companies examined, 32% met the standard of Medium disclosure (+8%), whereas 2% of the companies finished in the Advanced category in terms of Overall Public Tax Transparency (+2%).

In 2020, the picture has changed further: Although the number of companies that qualify for the Advanced disclosure category has not changed (2% in 2020 and 2019), the share of companies in the Medium category grew further to 36% (+4%). Only 62% (-4%) of the companies remain in the Minimal disclosure category. (See Figure 2)

[1] "For more information on the different areas, see our paper 'How to implement public tax transparency'."

Looking into the different categories, it became evident in 2019 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. The differences between disclosure areas have become even clearer in 2020. For example, there has been no company in scope that increased its CbCR disclosures in 2020 – and CbCR was the least transparent category in the 2019 census. TSRCF, on the other hand, was the most developed of the categories in 2018. Moreover, this category saw the highest increase in Advanced disclosure companies and the greatest decline in Minimal disclosure companies from 2018 to 2019. In 2020, there was a further increase in Advanced and Medium TSRCF companies compared with 2019, and less than half of the companies in scope remain in the Minimal category.

Total Tax Contribution

In 2018, we observed an above-average distribution in TTC towards the Advanced category and the Minimal category. In other words, the number of companies in the Minimal category was greater than average, but the number of companies qualifying for Advanced TTC was above average as well.

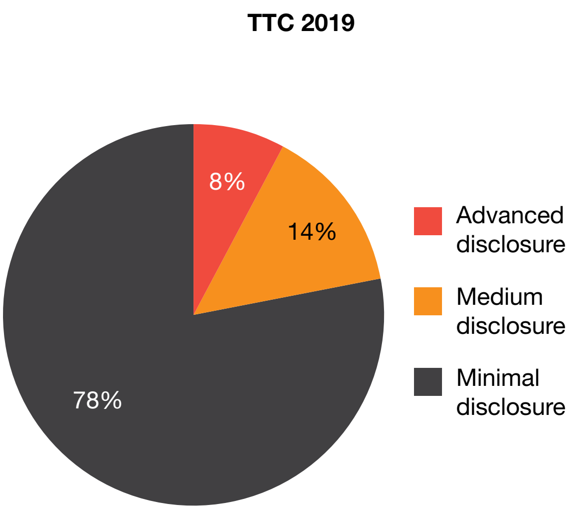
In 2019, we then saw a strong increase in Advanced TTC disclosure to 8% (+6%), whereas the percentage of companies with Medium TTC disclosure increased slightly to 14% (+2%) and the percentage with Minimal TTC disclosure declined to 78% (-8%).

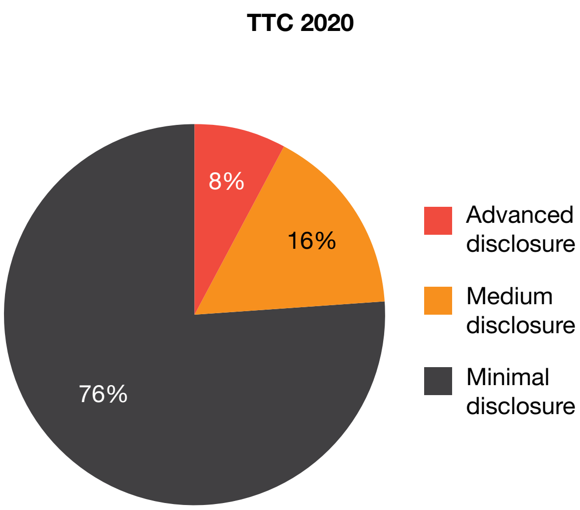
As in the Overall Public Tax Transparency category, there was no change in Advanced TTC in 2020, and the number remains at 8%. Of the companies in scope, 2% went from Minimal TTC to Medium disclosure, resulting in 16% Medium TTC and 76% Minimal disclosure. (See Figure 3)

Although – as we argued in our 2019 study – TTC provides a holistic view of a company's contributions towards the jurisdictions they operate in, it takes a lot of effort in terms of internal discussions, data collection, structuring and review, risk assessment and categorisation of tax types in order to publish TTC numbers. Given the economic and administrative burden that many companies have been facing during the COVID-19 crisis, it may well be the case that projects to publish TTC numbers have been put on hold during 2020.

Regardless of the internal challenges that TTC disclosures may pose, the public did not remain silent around this issue during 2020. For example, during the winter 2020 meeting of the World Economic Forum (WEF) in January 2020, a draft consultation paper recommending that businesses adopt public CbCR of tax liabilities was published by the International Business Council (IBC). The consultation paper, and in particular the proposal for public CbCR, received a mixed reception, with some concerns being raised, which led to a revision. This consultation paper was followed by the white paper "Measuring Stakeholder Capitalism – Towards Common Metrics and Consistent Reporting of Sustainable Value Creation". The white paper argues in favour of a revised core metric with an expanded metric including the options of including the taxes collected element of TTC and/or geographic analysis of that data. These revised metrics were made public at the WEF Sustainable Development Impact Summit in September 2020. The IBC white paper seems to be the beginning of a movement towards the public disclosure of TTC and not just public CbCR (for example the debate at the OECD, EU and the US, as well as a core metric of the GRI 207: Tax Standard, see below *Country-by-Country Reporting).*

Figure 3



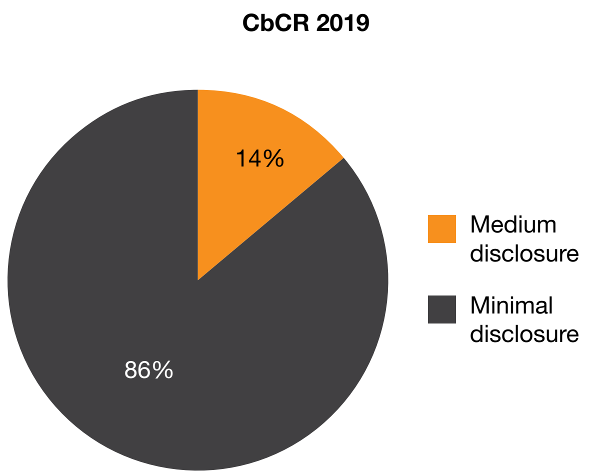


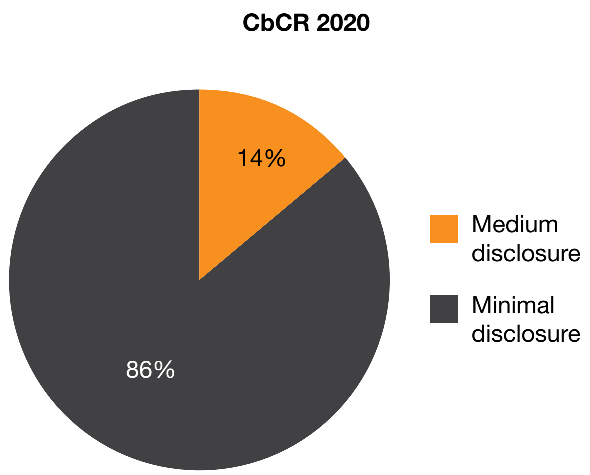
Country-by-Country Reporting

As we already discovered in 2019, CbCR is the least transparent category. This was evidenced by the fact that CbCR had the highest number of companies with Minimal disclosures in 2019 (86%) and no company with Advanced CbCR. In 2020, we further see that there was no company in scope that increased its CbCR disclosures.

Contrary to TTC, the stagnation in CbCR cannot be explained by additional administrative efforts, as most of the companies in scope already have to submit CbCR data to the tax authorities. (See Figure 4)

Figure 4





Can we therefore conclude that CbCR is an area that is unlikely to become more transparent in the future? While it is too early to make such an assessment, the public and political interest in CbCR points to the contrary.

On a political level, a public CbCR debate has recently started at the OECD, which we do not expect to end in the near future. Several members of the European Parliament have sent a letter to the EU Competitiveness Council configuration demanding that – in the face of the COVID-19 crisis – public CbCR be brought back on the Competitiveness Council's agenda. In addition, the Portuguese EU Presidency published a proposal in January 2021 for a directive regarding disclosure of income tax information by certain undertakings and branches. This plays into the wider picture of public CbCR having been a topic at the EU level for many years.

Moreover, on 6 March 2020, 33 US Senators and Representatives signed a letter to the OECD urging the organisation to strengthen CbCR rules in the course of its upcoming review of current standards and to require corporations to publicly disclose this CbCR. At the same time, another piece of legislation was introduced in the House of Representatives. The proposed legislation, the Disclosure of Tax Havens and Offshoring Act, would amend the Securities Exchange Act of 1934 by directing the U.S. Securities and Exchange Commission (SEC) to mandate that disclosures of CbC financial reports of MNEs be publicly available.

One of the most significant developments from NGOs has probably been the introduction of a tax standard by the Global Reporting Initiative (GRI) in December 2019, which became effective on 1 January 2021 and requires companies – among other things – to publish their CbCR in order to be compliant.

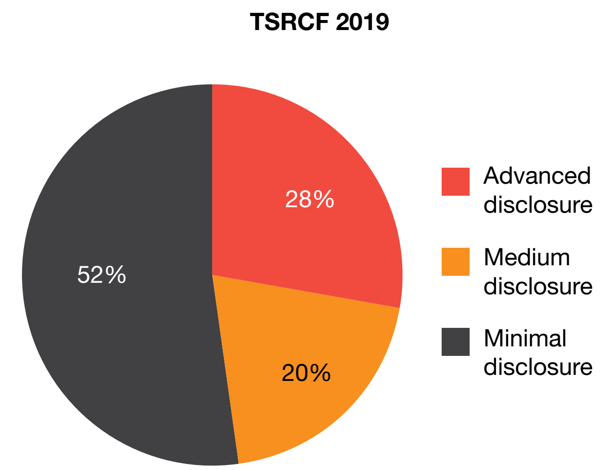
Tax Strategy and Risk Control Framework

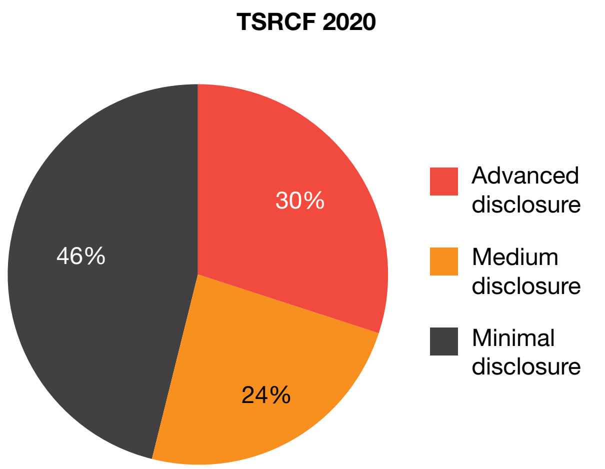
TSRCF started off already more developed than the other categories in 2018. Furthermore, the highest increase in Advanced disclosure companies (+10%) and the greatest decline in Minimal disclosure companies (-8%) from 2018 to 2019 could be observed in the TSRCF category.

This dynamic continued in 2020: The number of Advanced TSRCF companies increased to 30% (+2%) and the number of Medium TSRCF companies to 24% (+4%). At the same time, fewer than half the companies (46%) are now in the Minimal category (-6%).

As in 2019, 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. Following this interpretation, we can see that increased demand for public tax transparency from external stakeholders has an impact on the internal discussions that companies are having. We still see TSRCF results as a precursor of future change at the Overall Public Tax Transparency level. (See Figure 5)

Figure 5





5. Conclusion

The findings of the 2020 Public Tax Transparency Benchmark Study underscore our conviction that public tax transparency will become the norm in the years to come. To understand our reasoning, it's important to distinguish between certain short-term developments that have apparently slowed momentum in disclosure and the longer-term underlying trends.

While the 2020 edition of the study shows, as anticipated, that the disclosure levels of the companies in scope have continued to rise, the shift was less dramatic than in 2019. While we do not want to speculate on the reasons for that, we believe that this is mostly related to the COVID-19 pandemic, which might have shifted the priorities of management in the short term.

However, because of COVID-19 rescue packages, there has also been an increase in demand for more transparency from most stakeholders. Some governments restricted access to COVID-19 stimulus packages where groups use perceived "tax haven" arrangements – something the insurance industry should note given the prevalence of insurance activity in traditionally low- or no-tax jurisdictions. An example of this is France, which has ruled out coronavirus aid for companies registered in tax havens or with subsidiaries in such places. This trend is unlikely to go away any time soon. Further debates around and generally in support of tax transparency have been held at the OECD, EU and the US, as well as in the sustainability space (e.g. the GRI 207: Tax Standard, the WEF "Measuring Stakeholder Capitalism – Towards Common Metrics and Consistent Reporting of Sustainable Value Creation" report). So 2020 did not show us that public tax transparency is coming to a halt, but that the world is about to get ready to become more transparent.

This conclusion is further supported by the fact that we observed the highest increase in transparency in the TSRCF area, which we see as evidence for the recognition of public tax transparency as a decisive component, not only of the tax governance framework, but also of a company's leadership, reputation and role in society.

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.

Appendix: Methodology

As mentioned, we analysed the disclosure levels of 50 of 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, 2019 and 2020.

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 in terms of 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 the income taxes they have 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 from a small section of the annual report entitled “tax strategy” 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 to be 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 is 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 2019 looks at companies’ tax reports that relate to FY2018 and tax strategies that relate to FY2019 or earlier. Analogously, the PwC Tax Transparency Benchmark Study 2020 looks at reports from FY2019 and tax strategies that apply to FY2020. 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 2020 census were not yet available, we tentatively assumed the results from the 2019 census.

Even though this method is no guarantee of finding every relevant piece of information, we found it to be more suitable than 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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