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Public tax transparency

Building stakeholders' trust through sustainable disclosures

Public tax transparency benchmark study 2021

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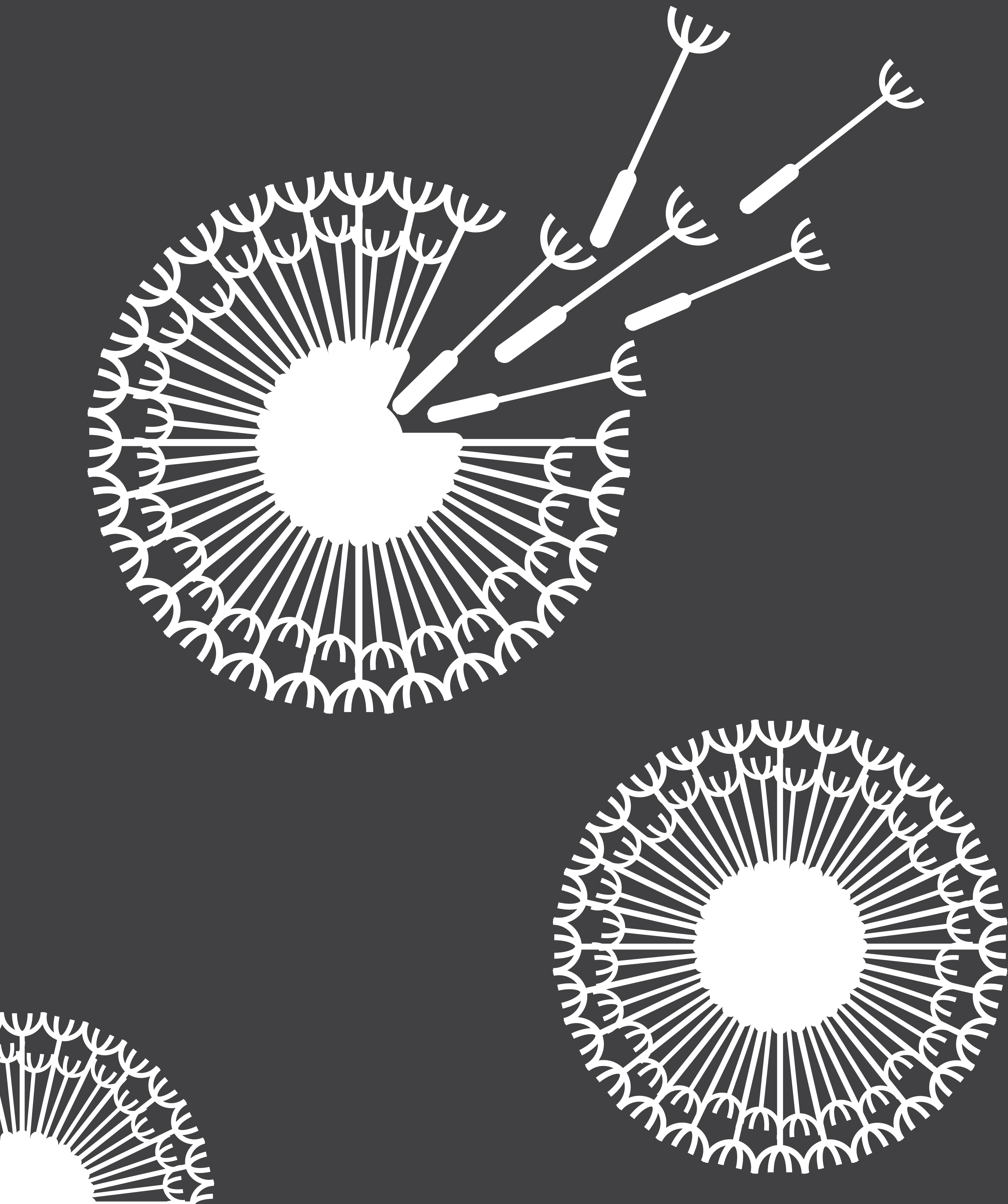


Executive summary

For tax experts taking on responsibilities in the area of public tax transparency, it's important to understand what their peers and best market practice are doing or intend to do. But it's not just a matter for tax specialists: as the topic moves rapidly up the public and corporate agendas, tax transparency is a topic that has to be understood by any corporate decisionmaker – and a matter that no longer concerns the tax function alone, but involves areas throughout the organisation. To address this increasingly pressing need, we have dedicated this paper on public tax transparency to an updated benchmark study for 2021 and more detailed conclusions on where the trends may be headed.

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 a second edition to see how the disclosure levels of the same 50 companies developed during 2020. For the same reason, further supported by various important societal, political, sustainability and regulatory developments, it made sense to continue observing the development of disclosure levels among these companies in 2021, with the results published in the third edition of our Benchmark Study.

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

For 2019 we found that over all the categories examined, the share of companies with an Advanced and Medium level of tax disclosure increased compared with 2018. As a logical consequence, the companies that qualify for Minimal disclosure declined in the same period. Although the number of companies that qualify for the Advanced disclosure category did not change in 2020 (2% in both 2020 and 2019), the share of companies in the Medium category grew by 4% to 36%, and only 62% (-4% versus 2019) of the companies remained in the Minimal disclosure category.

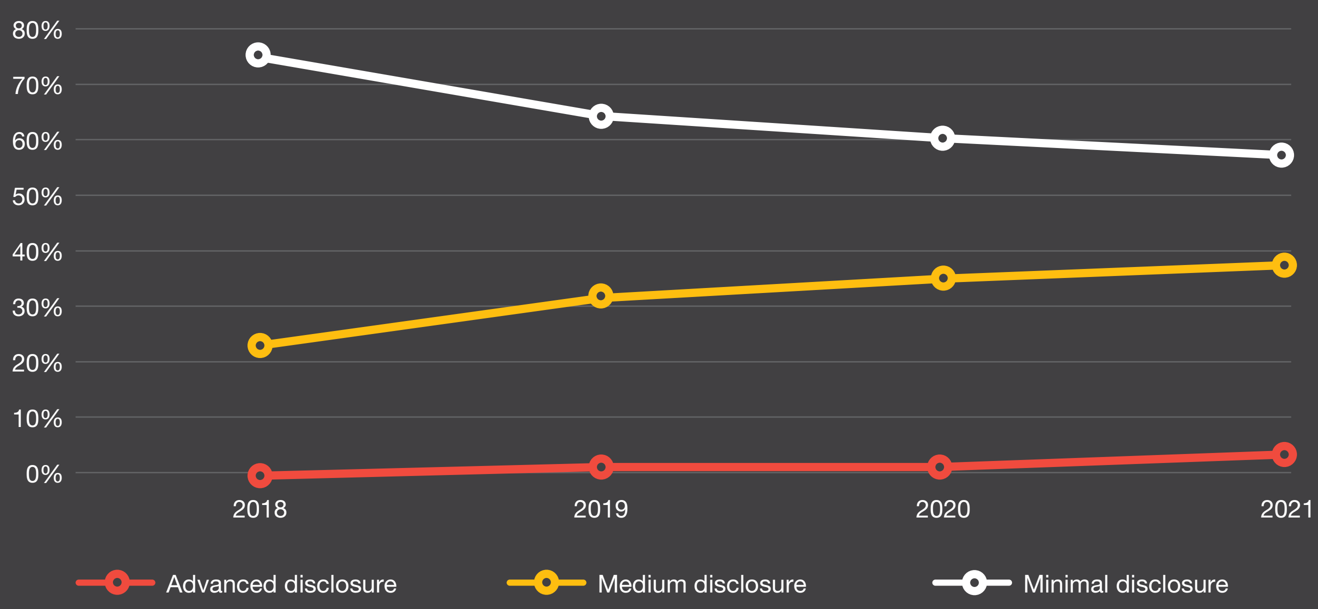
As we had expected, the trend towards tax transparency continued in 2021. The percentage of companies qualifying for Advanced disclosure doubled from 2% to 4%, which is admittedly still a low level. Growth in the Medium disclosure category was also 2% (from 36% in 2020 to 38% in 2021) and the number of companies with Minimal disclosure fell from 62% in 2020 to 58% (see Figure 1).

As for the TSRCF, CbCR and TTC dimensions, we observed stronger movements from 2020 to 2021 than the year before. It appears that companies are continuing to recognise public tax transparency as an important topic in spite of the ongoing COVID-19 pandemic. On the contrary, the COVID-19 pandemic might have accelerated the journey towards greater tax transparency.

Given the significant developments in the sustainability space last year, it's not surprising that the effects have become visible in the market. Added to this, 2021 brought tremendous changes – especially in the sustainability and regulatory environment – itself. It was a year that showed clearly how public tax transparency is a vital part of the broader sustainability topic.

Nevertheless, we believe that the trends we observed in 2021 are only a hint of what is to come. With the pressure of mandatory regulation mounting, the ESG imperative climbing rapidly up the agenda, and corporations expected to be increasingly accountable on any manner of fronts, we foresee a rapid increase in public tax transparency – and particularly in the disclosure of more granular and revealing information on a country-by-country basis – in the near future. Whatever the level and type of disclosure they opt for, it's surely time for companies to understand the landscape and decide where they intend to position themselves.

Figure 1: Overall public tax transparency development since 2018



"2021 brought tremendous changes – especially in the sustainability and regulatory environment. It was a year that showed clearly how public tax transparency is a vital part of the broader sustainability topic."

1 Introduction

The financial crisis in 2008/09 spurred the evolution of a whole new attitude to corporate accountability and growing sensitivity in terms of tax transparency disclosure. The trend continued with various other political, regulatory, technological and market developments such as the OECD's introduction of BEPS in 2015, the mandatory tax strategy publication in the UK, a growing number of tax-related leaks and the inclusion of a tax strategy section in the DJSI assessment questionnaire. The COVID-19 crisis pushed the issue even further up the public and corporate agendas: Companies that benefited handsomely from rescue packages started coming under pressure from stakeholders to be transparent about their tax-related numbers to demonstrate that they had a legitimate claim to this government support and were contributing proportionately to the recovery of massive fiscal deficits.

This trend did not halt in 2021 – and not just because of COVID-19. For one thing, there are powerful institutional and regulatory drivers behind the public tax transparency trend. These include GRI 207: Tax 2019, in force since 1 January 2021, which requires companies that report according to that GRI standard to disclose information about their management approach to tax, and also includes a section about public CbCR. Just as significant as the GRI standard is the EU's Public CbCR Directive, which entered into force at the end of 2021 and which affects multinational companies, will now have to be transposed into the EU Member States' legislation by June 2023. Quite apart from these institutional and regulatory factors, companies are coming under pressure from stakeholders, including a growing number of investors, to disclose taxes more transparently as part of a rapidly accelerating sensitivity to the ESG agenda, including the sustainability dimension. As we will see later in this report, tax-related behaviour is increasingly read as an indicator of a company's true commitment to sustainability.

The growing importance of public tax transparency has inspired us to produce a series of brief publications designed to help corporate decisionmakers get their heads around the topic and start considering their response. In the first paper, entitled What is public tax transparency about?, we examine what public tax transparency is and why it should be of interest to you (now). In the second paper, entitled Is it in your interests to be publicly tax transparent?, we explore in detail why public tax transparency is so essential. In the third, entitled How to implement public tax transparency, we introduce our view of how to get the most out of public tax transparency and propose steps to take.

> **"This study of Swiss-based companies is designed to help you define your own stance and response to the challenge of public tax transparency."**

The fourth piece we produced was the first and second editions of our Public Tax Transparency Benchmark Study, designed to help readers understand Swiss companies' response by comparing their disclosures from 2018 to 2020. This paper is the third edition of our Public Tax Transparency Benchmark Study, comparing the 2021 disclosures of the respective companies with previous years.

2 Objective of this benchmark study

It’s no longer just tax experts taking on responsibilities in this area who want to know what their peers and the best in the market are up to. Our 2021 Public Tax Transparency Benchmark Study is geared to anyone in a position of corporate responsibility seeking 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. Are there any differences in the various areas of public tax transparency, and where are they going? Can we identify a clear trend?

We’re not proposing a prescribed response. Instead, this study of Swiss-based companies is designed to help you define your own stance and response to the challenge of public tax transparency. We believe it can serve as a compass for any company that finds itself in the middle of this vast, dynamic upheaval.

3 Scope of this benchmark study

To ensure that the 2021 results are comparable with the 2019 and 2020 editions, we have not changed the scope of the benchmark study. Once again we have analysed the disclosure levels of 50 of the most noteworthy Swiss-based companies across ten different industries.

As in the last two years, we distinguish between three different areas of disclosure: Tax Strategy and Risk Control Framework (TSRCF), Country-by-Country Reporting (CbCR) and/or Total Tax Contribution (TTC).[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 have evaluated the companies’ overall public tax transparency level.

This analysis was conducted from 2018 up to 2021. By comparing the data from 2018, 2019 and 2020 with the results from 2021, we have attempted to identify a trend.

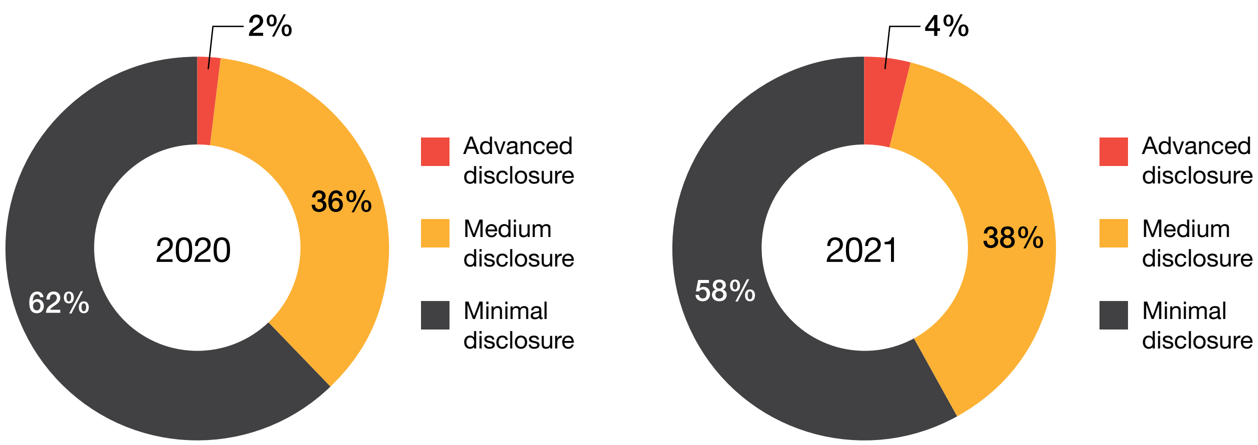
More extensive and detailed information on the methodology is provided in the appendix.

“This analysis was conducted from 2018 up to 2021. By comparing the data from 2018, 2019 and 2020 with the results from 2021, we have identified a clear trend of increasing in public tax disclosures.”

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

4 Results

Figure 2: Overall Public Tax Transparency

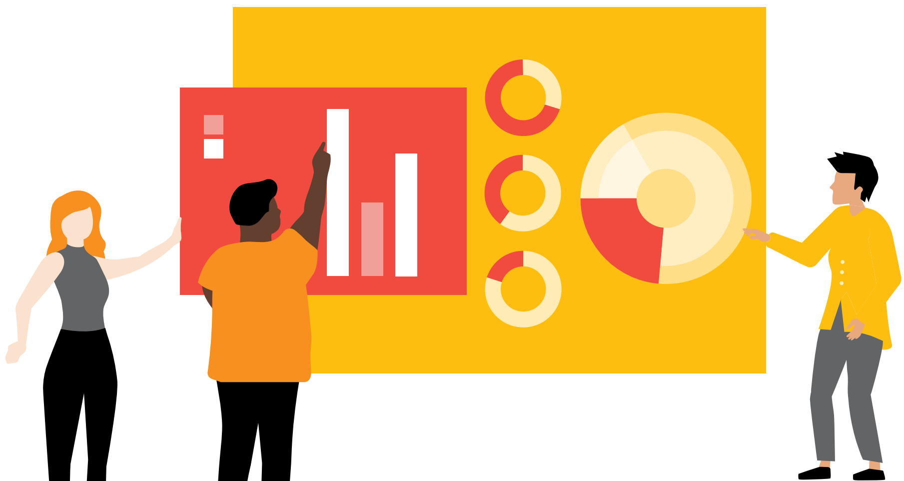


Overall Public Tax Transparency level

In our 2020 survey we found that 62% of the companies in scope provided Minimal disclosure on their tax affairs (-4% versus 2019). Of the companies examined, 36% met the standard of Medium disclosure (+4%), whereas 2% of the respondents finished in the Advanced category in terms of Overall Public Tax Transparency (no change to the prior year).

In 2021, the number of companies that qualify for the Advanced disclosure category has doubled – although on a low level – from 2% in 2020 up to 4% in 2021. Moreover, the share of companies in the Medium category grew to 38% (+2%). Only 58% (-4%) of companies remain in the Minimal disclosure category. (See Figure 2).

By examining the types of tax-related information that are more or less likely to be disclosed, we can get a better understanding of where companies can and will increase transparency. For example, not one single company in the 2020 study increased its CbCR disclosures versus the year before, and while there was an increase in the 2021 study, it was less pronounced than in the other categories. CbCR has remained the least transparent category since the 2019 census. TSRCF, on the other hand, was the most developed of the categories in 2018. Each year from 2018 to 2021, TSRCF also saw the highest increase in Advanced disclosure companies and the greatest decline in Minimal disclosure companies. In 2021, more than one-third of the companies in scope (36%) qualify for Advanced disclosure on TSRCF and just slightly more of the observed companies (38%) remain in the Minimal category. A tentative conclusion would be that companies are already able and willing to disclose their tax strategy in broad strokes, but are still cagey about giving away quantitative data (e.g. income tax accrued by country as part of public CbCR) – something that will inevitably change with mandatory EU public CbCR.



Tax Strategy and Risk Control Framework (TSRCF)

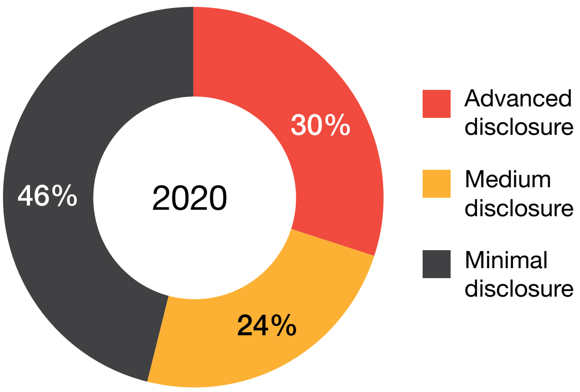
For each year since 2018, TSRCF has shown the highest increase in Advanced disclosure companies and the greatest decline in Minimal disclosure companies. In 2020, the number of Advanced TSRCF companies increased to 30% (+2%) and the number of Medium TSRCF companies to 24% (+4%). At the same time, fewer than half the companies (46%) were in the Minimal category (-6%).

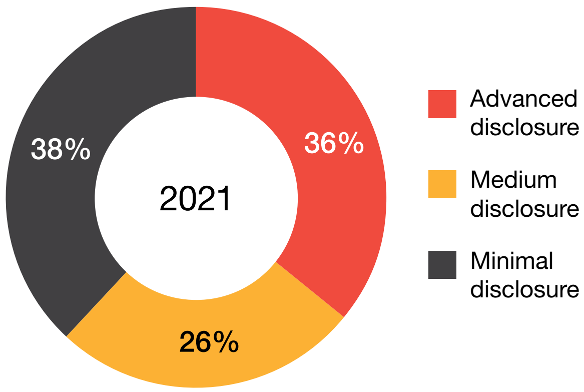
Also in 2021, TSRCF is the category in which the greatest change can be seen in our survey. Companies who qualify for Advanced increased by 6% to more than one-third of all companies in scope. On the other hand, the number of Minimal disclosures decreased to 38% (-8%), whereas Medium TSRCF companies increased to 26% (+ 2%) (see Figure 3).

As a conclusion, companies tend to disclose more about their management approach than publicly show their tax numbers – which is understandable giving that it's less of a risk (or perceived risk) to describe the tax approach in broader strokes than to reveal granular information on actual tax-paying behaviour.

This trend was also observed by PwC Germany in their publication about the tax transparency of the DAX-40-companies in 2021.[2] This study showed that more than two-thirds of the 40 companies in scope disclosed information about their management approach which is covered by the GRI Disclosures 207-1, 207-2 and 207-3. By contrast, only 5% of the companies have implemented GRI 207-4 regarding CbCR disclosure. As we said before, a reason for this difference is that companies might fear competitive disadvantages and reputational damage if they publish the tax paid in the different countries in which they operate, whereas disclosing a tax strategy or describing the approach to tax management does not entail that many risks.

Figure 3: Tax Strategy and Risk Control Framework (TSRCF)





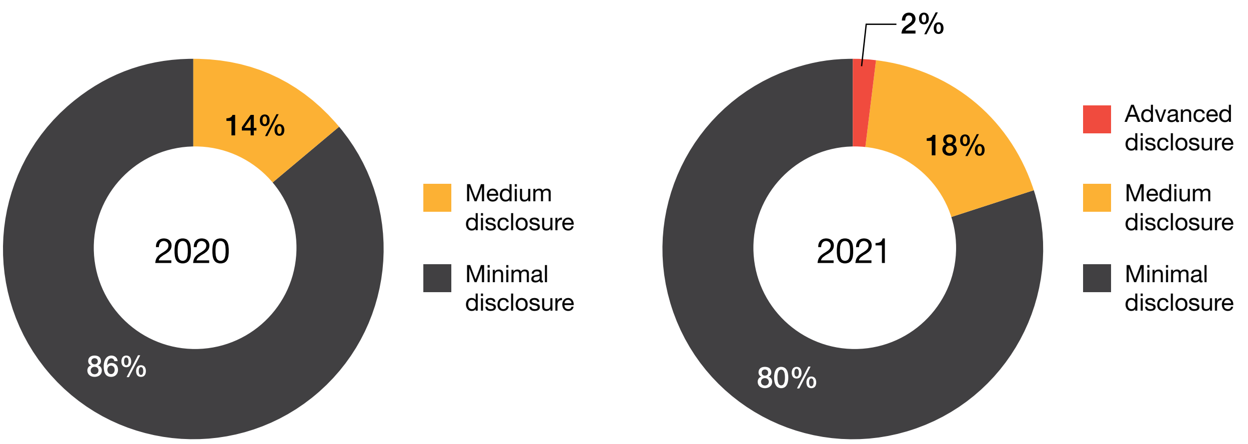
"In 2021, more than one-third of the companies in scope (36%) qualify for Advanced disclosure on TSRCF and just slightly more of the observed companies (38%) remain in the Minimal category."

[2] Steuerliche Transparenz der DAX-40-Unternehmen im Jahr 2021 – Eine Untersuchung der steuerlichen Transparenzberichterstattung in Deutschland anhand des Standards «GRI 207: Tax 2019»

Country-by-Country Reporting (CbCR)

As mentioned above, CbCR is the least transparent category. In every year that we have observed (since 2018), CbCR has had the highest proportion of companies with Minimal disclosure. In 2020 and 2019, the percentage of companies with Minimal disclosure was 86% and there were no companies with Advanced CbCR disclosure. However, in 2021 we see signs that companies are making some effort to public CbCR-related information: the Minimal disclosure level declined to 80% (-6%), while there were increases in both Advanced disclosure, up to 2% (+2%), and the Medium disclosure category, which rose to 18% (+4%) (see Figure 4).

Figure 4: Country-by-Country Reporting (CbCR)



After no changes in 2020, in the latest survey there is a slight trend towards disclosing CbCR information to stakeholders. In light of the public and political interest in CbCR, this development comes as no surprise.

On a political level, public CbCR has been a topic in the EU for many years. In 2021 there was a significant development: on 11 November the EU Parliament voted to pass changes to amend Directive 2013/34/EU, which deals with the financial reporting of certain types of undertakings. The amendments have become known as public country-by-country reporting (CbCR) requirements. They came into force on 21 December 2021 and must be transposed by 22 June 2023. The agreed changes to the EU Accounting Directive will require certain multinational groups or standalone entities, whether headquartered within the European Union or not, to publicly disclose country-by-country data for each EU Member State, each of the countries that are on the EU list of non-cooperative jurisdictions for tax purposes (the EU's 'blacklist'), and each of the countries that have been included for two consecutive years on the list of jurisdictions that do not yet comply with all international tax standards but have committed to reform (the EU's 'grey list').

Another highly relevant development is the GRI 207: Tax 2019 Standard, which became effective as of 1 January 2021 and also contains a section about public CbCR disclosure.

One explanation for the low levels of CbCR disclosure we've seen in our surveys relative to the other categories is that it's a big step for companies to take to disclose tax in such revealing detail. One reason for this could be the fact that disclosure may entail competitive, reputational and misinterpretation risks. These risks need to be managed, for example by including the appropriate narrative to accompany the numbers so that non-tax professional readers can also correctly understand the data. In a way, tax transparency reports also serve as educational papers for non-tax professionals to better understand the tax numbers. But with so many CbCR requirements gaining traction and soon to become mandatory, we see potential for a rapid rise in CbCR disclosure.

Total Tax Contribution (TTC)

In 2018, for TTC we observed an above-average distribution 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 also higher than the number in the overall tax transparency level.

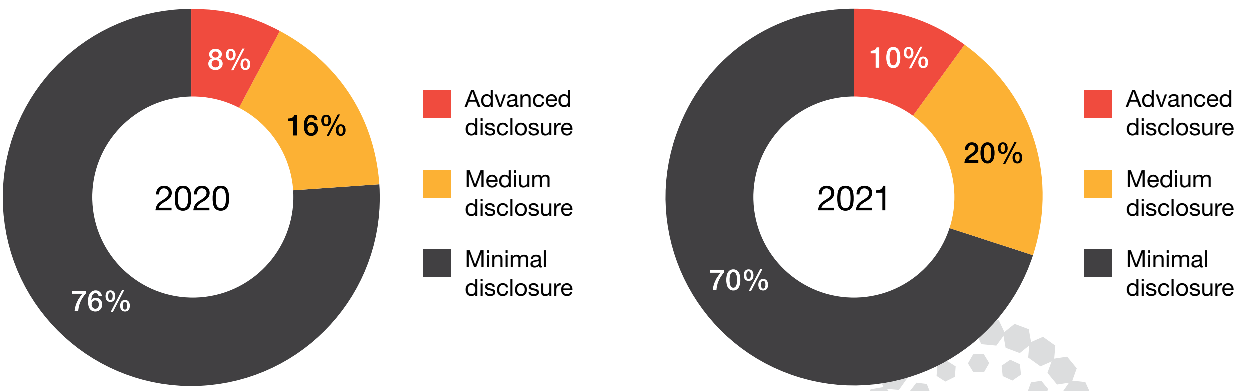
Whereas in 2019 we saw a strong increase in Advanced TTC disclosure to 8% (+6% year on year), there was no change in 2020. In the Medium disclosure TTC category, an increase of 2% in both years could be observed, with the net result that 16% of the companies in scope qualified for Medium in 2020. The percentage of companies in the Minimal TTC disclosure category fell from 86% in 2018 to 78% in 2019 and 76% in 2020.

The Advanced category grew even further in the 2021 study. Now 10% (+2%) of the companies in scope qualify for this disclosure level. The companies with Medium disclosure also grew to 20% (+4%), while those at the Minimal disclosure level declined to 70% (-6%) (see Figure 5).

In other words, the development in TTC disclosure from 2020 to 2021 was much more pronounced than the year before. One reason for this could be that in 2020, companies were caught off guard by the COVID-19 crisis and therefore had fewer resources to devote to TTC disclosure. Nonetheless, the strong development in TTC disclosure in 2021 might come as a surprise, especially given that this area saw fewer developments on the regulatory, political and sustainability fronts than either TSRCF or CbCR.

One reason for the increase could be stakeholder pressure and the rapidly growing importance of ESG. As mentioned in last year's study, the public has become increasingly vocal on these matters, with stakeholders calling for sustainable behaviour throughout the entire economy. The disclosure of total tax contributions can be seen as an indicator of sustainability. The rationale is clear: tax contributions finance governments, and the amount of tax a government receives from its private and corporate citizens influences its ability to enforce sustainability. The increase in TTC disclosure could indicate that companies have had the chance to respond to these stakeholder demands and have given the topic more weight again.

Figure 5: Total Tax Contribution (TTC)



> **"Companies were caught off guard by the COVID-19 crisis and therefore had fewer resources to devote to TTC disclosure."**

5 Conclusion

Our 2021 research has shown steady growth in the percentages of companies in Switzerland that are tax transparent. However, in continuation of the trend of the previous years, we observed a noticeable increase in all areas.

While COVID-19 has possibly hindered concrete implementation, it has also accelerated the factors – many of them ESG-related – driving the trend to tax transparency. Without wishing to overdramatise, the modest growth in disclosure in 2021 could merely be the calm before the storm.

We know from talking with clients that tax transparency is high on the internal agenda. Companies are seeing that tax transparency sends a powerful message about their commitment to the environment and society. They're understanding that with the agreed amendment to the EU Accounting Directive on 21 December 2021, public CbCR will no longer be voluntary, and that other tax transparency initiatives globally are forcing the agenda. They're also realising that carefully considered tax transparency, including a compelling narrative, is an opportunity rather than a risk or inconvenience. It's only a matter of time before these realisations translate into firm disclosure – at whatever point on the scale between minimal and advanced.

The message is that while there's no one-size-fits-all approach to tax transparency, it's something that has to be thought about and prepared for now. Do you have a tax strategy? How important is tax transparency for you? How prepared are you? What data will you need, and where will you extract it?

The challenge of tax transparency isn't limited to Switzerland. Our experience and findings are backed up by various other reports relating to tax transparency that are currently being published from all over the globe, and more specifically by research into leading companies' stance in, for example, Europe (EBTF)[3], Germany[4], the Netherlands[5], South Africa[6], Spain[7] and the UK[8].

As developments heat up both in Switzerland and internationally, we already look forward to next year's benchmark study and the story it tells about the decisions companies in this country are making on tax transparency. It's an exciting journey for all of us!

[3] Total Tax Contribution – A study of the largest companies headquartered in Europe (European Business Tax Forum)

[4] Steuerliche Transparenz der DAX-40-Unternehmen im Jahr 2021 – Eine Untersuchung der steuerlichen Transparenzberichterstattung in Deutschland anhand des Standards «GRI 207: Tax 2019»

[5] Tax Transparency Benchmark 2021 – A comparative study of 77 Dutch listed companies

[6] Building public trust through tax reporting – A review of the tax disclosures of the top 100 companies listed on the Johannesburg Stock Exchange in 2020

[7] Contribución Tributaria Total del IBEX 35 en 2020

[8] Tax transparency: A new reporting landscape – Trends in voluntary tax reporting

"Companies are seeing that tax transparency sends a powerful message about their commitment to the environment and society. They're also realising that carefully considered tax transparency, including a compelling narrative, is an opportunity rather than a risk or inconvenience."

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 TSRCF, CbCR and TTC were assigned to the classes Minimal, Medium and Advanced. The analysis has been conducted in 2018, 2019, 2020 and 2021.

Defining the criteria

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

Tax Strategy and Risk Control Framework (TSRCF)

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 includes 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 leaves out more than three of the five elements – or that do not have a TSRCF published in the first place – are labelled Minimal.

Country-by-Country Reporting (CbCR)

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.

Total Tax Contribution (TTC)

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.

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 Minimal TSRCF disclosure, Medium CbCR disclosure and Medium TTC disclosure. It scores 0 points for its Minimal TSRCF disclosure, 1 point for CbCR disclosure and 1 point for TTC disclosure, resulting in a total of 2 points. The mean is

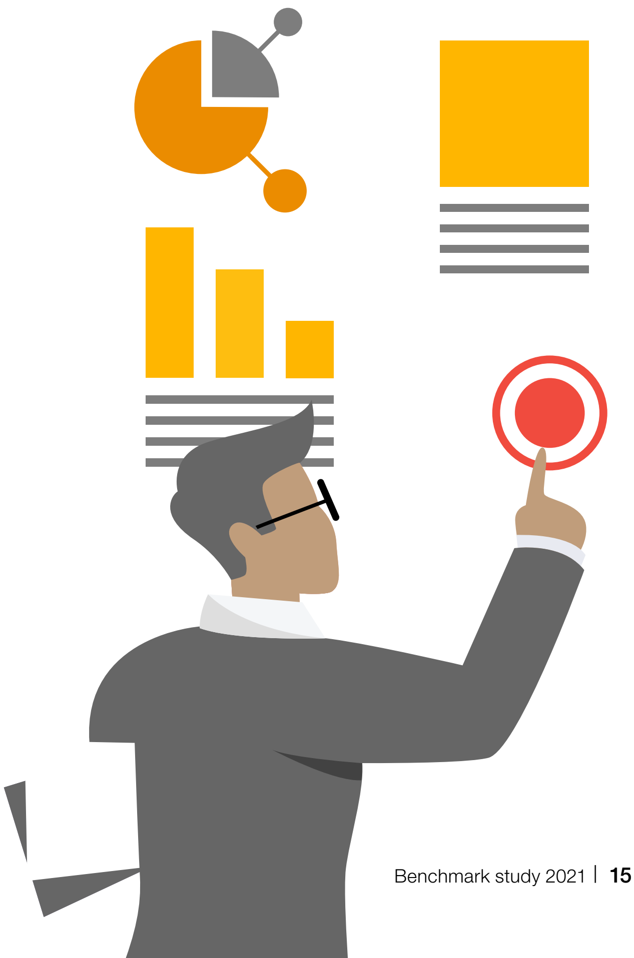
2 ÷ 3 = 0.67. As 0.67 is greater or equal to 0.5, this value is rounded up to 1, the nearest integer. A value of 1 corresponds to Medium, which is why Example Ltd has a Medium Overall Public Tax Transparency level.

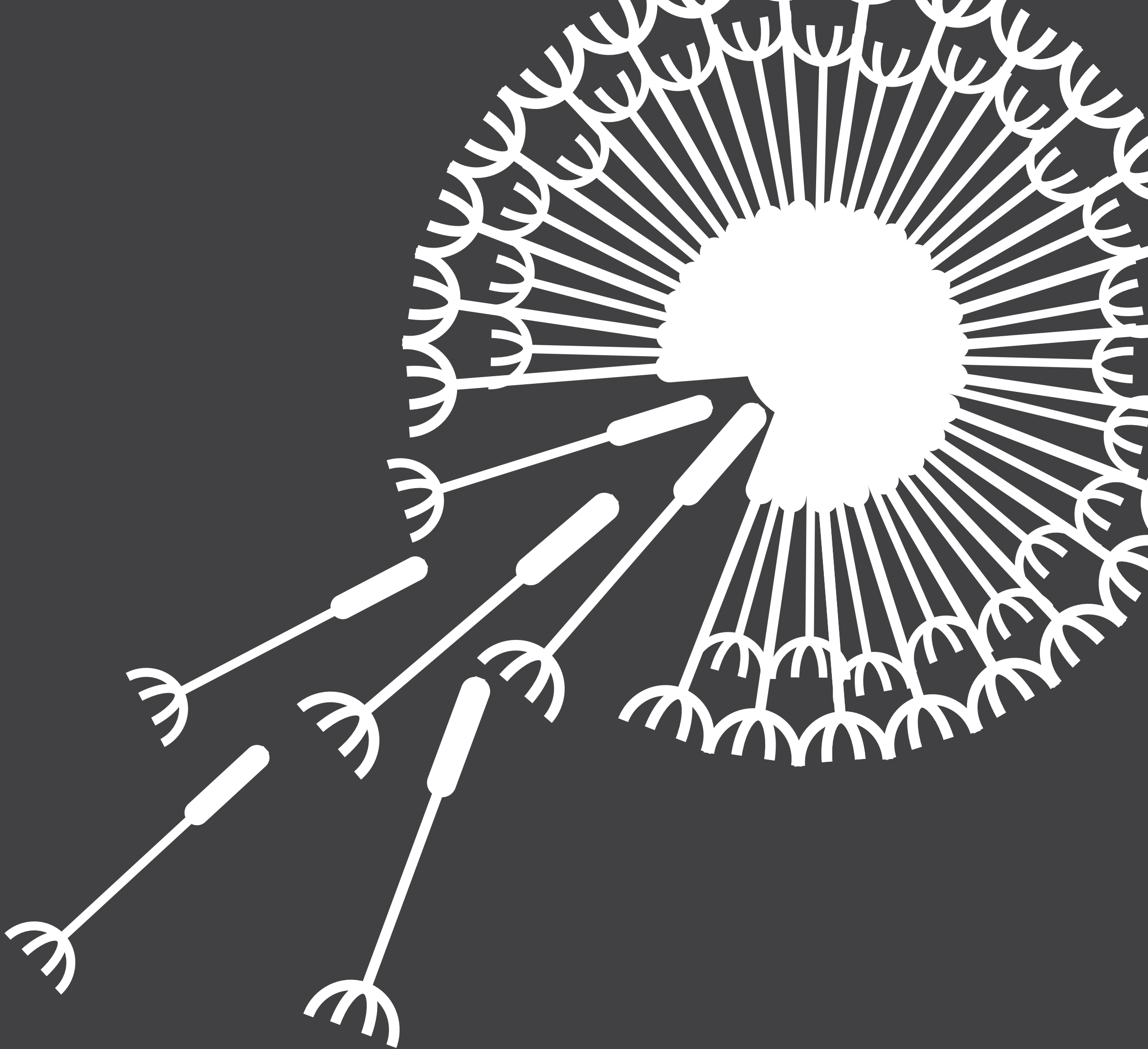
Scope of research

The Public 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 Public Tax Transparency Benchmark Study 2021 looks at reports from FY2020 and tax strategies that apply to FY2021. To check the availability of disclosures, we performed 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 2021 census were not yet available, we tentatively assumed the results from the 2020 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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