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Link between tax and sustainability: should companies report on tax in sustainability reports? 2/33/24


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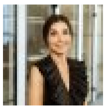
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In a previous article, we used a tax gap example to explain why taxation is a key pillar of ESG. Tax transparency and tax governance in the context of ESG are relevant topics in the PwC network – last year PwC published a study ‘Tax transparency and sustainability reporting in 2023’.

The study looks at the sustainability reports of 269 listed companies (Australia, Brazil, Germany, Ireland, South Africa, Spain, Switzerland and the UK), i.e. whether their reports address tax aspects and how. The study examined what sustainability frameworks (i.e. documents and guidelines) companies use the most often to disclose tax aspects in their sustainability reports. In this article we have summarised information from the study to explain what tax details should be included in a sustainability report.

What sustainability frameworks are used? And how do companies report on taxes?

PwC’s team of professionals found that companies use the following documents, standards and guidelines to disclose tax aspects in their sustainability reports (use the links to view each document):

- GRI 207: Tax 2029 standard
- S&P Global Corporate Sustainability Assessment
- World Economic Forum White Paper 2020 Measuring Stakeholder Capitalism
- OECD Guidelines for Multinational Enterprises on Responsible Business Conduct

The study finds that the GRI standard was used the most often. It contains four requirements to disclose tax information: Disclosures 207–1, 207–2, 207–3 and 207–4. Below we describe and comment on each.

Disclosure 207–1. Approach to tax

Disclosure 207–2. Tax governance, control and risk management

The company is required to disclose its tax strategy or a summary of it, as well as information on the person in charge of the tax strategy. Information on how the company complies with tax laws and regulations and how its tax strategy aligns with its ESG strategy. Authors' commentary: *It makes sense that the company's tax strategy should be aligned with its ESG strategy. While it's not mandatory for Latvian companies to adopt a tax strategy, the company should at least define a responsible approach to paying taxes, for instance, setting the goal of 100% compliance or zero tolerance of the shadow economy (and explain how this works in the company). Information on tax risk management and controls must be given under* Disclosure 207–2*.*	The company is required to explain how it implements and oversees its tax strategy, demonstrating its approach to tax governance, control and risk management. The company should disclose who is authorised and responsible for the tax strategy, how it aligns with the organisational structure and values of the group, and how its effectiveness is assessed. The company should also report on mechanisms it uses to prevent unethical and unlawful tax behaviour, and it should confirm that those mechanisms are reliable. Authors' commentary: *In Latvia, collecting this information will be easy for companies that have a tax risk management policy in place (e.g. gold members of the Advanced Cooperation Programme formerly run by the SRS).*
Disclosure 207–3. Stakeholder engagement and management concerns related to tax	Disclosure 207–4. Country-by-country reporting (CbCR) tax data
Information on how the company works with stakeholders on tax matters. The company is required to report on its cooperation with financial institutions, lobbying activities and tax policy positions on significant tax matters it has published. This disclosure also applies to the company's interactions with other stakeholders interested in its tax matters, such as suppliers, customers and employees. Authors' commentary: *As mentioned, here the company discloses its approach to suppliers as well. We believe that in the context of suppliers we can also evaluate the taxpayer rating assigned by the SRS, considering corporate tax payment and filing discipline, and such a key aspect as wages and salaries matching the average industry level.*	The CbCR information to be disclosed under GRI 207–4 is largely consistent with the EU public CbCR directive and BEPS Action 13. The following details must be disclosed on each jurisdiction in which the multinational enterprise group operates: - Company name - Core business activity - Headcount - Revenue from transactions with related parties in other countries and from transactions with third parties -Profit and loss before taxes - Accrued corporate income tax (CIT), as well as reasons for the difference between the CIT paid/accrued and the statutory rate Authors' commentary: *Latvia has already implemented the CbCR requirement. Disclosing this information in the sustainability report will not place an extra administrative burden on companies covered by this requirement.*

PwC's team of professionals are happy to help your company assess whether it is liable to disclose tax aspects in its sustainability report. We also offer assistance in preparing this report. We are happy to help you devise a tax strategy aligned with your sustainability strategy and best practice. Please let us know if you have any questions.