A comparative study of 51 Dutch and 65 EU stock-listed companies

TRANSPARENCY BENCHMARK 2023

Tax Transparency Benchmark 2023

A comparative study of 51 Dutch and 65 EU stock-listed companies

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Preface

We are currently witnessing the transformation of tax transparency, from being perceived as "going beyond compliance" towards becoming more mainstream and embedded in new and upcoming regulations. Companies, as tax-paying entities, are increasingly referring to their obligation to pay tax as a responsibility to both society and the environment in which they operate. In recent years, we have seen the topic of transparency in tax reporting become increasingly important in the public domain. We have seen several tax governance codes being written, published, and integrated in companies; one of the more recent, of course, being the VNO-NCW Tax Governance Code. VBDO, luckily, is not alone in its efforts to advocate for tax transparency to become the norm. We have witnessed the EU Directive on Public Country-by-Country Reporting, as well as the global commitment to a minimum 15% effective tax rate, and tax transparency has become an increasingly important engagement topic for investors. There are more stringent regulations on their way; think of the Corporate Sustainability Reporting Directive (CSRD), and the proposed European directive Business in Europe: Framework for Income Taxation (BEFIT). VBDO welcomes the level of ambitiousness found in these regulations, as well as the clear developments we can see from companies, and yet, there remains much room for improvement. This is especially the case when it comes to the interconnectedness of sustainability and tax, which are often perceived as two completely different, non-connected, parts of an organisation. I am hopeful that the upcoming CSRD, together with the helpful guidance of GRI 207, will encourage companies to become more ambitious in these areas of transparent tax reporting.

Angélique Laskewitz
Executive Director VBDO

Last year, for the first time since the start of our benchmark in 2015, we included 25 companies from seven EU countries. After this first success, we have increased our scope to 65 EU companies from the same seven countries across five different sectors: financial, FMCG, energy, technology, and pharmaceutical. This also means that we have had to say farewell to some companies that had been part of our benchmark for many years. This broadening of our scope has been made possible by the excellent progress witnessed by companies in recent years. We strive to take the lessons learned from these responsible taxpayers with us in the newly broadened scope.

To go beyond “mere compliance” to become a responsible taxpayer, a company must align its core values, organisational culture, and morals, with that of its policies, strategies, and, especially, its way of operating. Understanding the correlation between one’s working culture and the way it operates commercially, is a vital part of driving sustainability and acknowledging the organisation’s role in society. But what does this moral approach to tax entail? How can this be translated to the way an organisation operates? These are questions that are playfully navigated through by Hans Gribnau, one of the guest authors contributing to this report. There is a clear need for and purpose to the regulatory framework surrounding tax – companies are guided and overseen in their operations and encouraged to become an ever more responsible taxpayer – but similarly, there is a true need for a cultural overhaul at companies. A true sense of being actively involved in society and the environment is needed, especially by engaging with more stakeholders to really understand the organisation’s role, its impacts and its dependencies, and to find solutions together to ESG issues. For this to be achieved, collaborating is the key word moving forward. A tax department and a sustainability department can no longer function on different plateaus; they need to find solutions together to provide a pathway within each company.

The results of the 2023 benchmark show that a whopping 96% of the NL companies and 85% of the EU companies in scope disclosed a tax strategy that sets out the company’s views on tax transparency. I am also happy to report improvements in other areas of our benchmark’s Good Tax Governance Principles, especially on disclosures provided by companies on tax havens, country-by-country reporting in line with GRI 207-4, and the integration of tax standards. On the other hand, there is still a lack of proper ESG integration in tax matters (34%), and the percentage of companies involving external stakeholders in the tax process remains staggeringly low at only 27%. To round this off, not one tax in-control statement is issued by the 65 European companies in our scope.

Even with some companies lagging behind – 23 companies (20%) score below our 10-point minimum threshold – we can witness an overall increase in score throughout the 35 criteria. Last year, we applauded the surprise new winner of the benchmark Repsol, which “defeated” our four-time winner NN Group. Whilst both companies remain at the top of our benchmark (this year in third and second position respectively), they have had to make space for a new first-time winner: Philips. The company originally from Eindhoven has worked its way to the top in recent years and crowns its hard work with the first ever full score in our benchmark.

In the end, a benchmark consists not only of our work throughout the year, but also the time, effort, and dedication that companies put into their responses. We have achieved a high response rate in the Netherlands (88%) and are happy to report a well-above expected 65% response rate for the 65 EU companies in our updated scope. While a benchmark provides a ranking exercise in which we can track progress and developments, and see differences between companies, it also, and perhaps even more importantly, provides a platform to engage with these companies on the great topic that is tax transparency. We have enjoyed many of these engagement calls this year and the learning cuts both ways.

I would like to thank Dave Reubzaet, Hans Gribnau, PwC Netherlands, and Peter Paul Boon for their excellent, insightful, and important contributions to this report. This report has been prepared by VBDO with valuable support and assistance from our partner, PwC Netherlands. Of course, I would also like to thank the participating companies for their responses and for their continued development on this material topic.

Our team looks forward to continuing to improve the benchmark and to pushing the boundaries in terms of tax transparency.

Angélique Laskewitz
Executive Director of the VBDO

EURO

Tax Transparency Benchmark 2023

Combined Top 13 EU+NL

Ranking	Company name	Score 2023	Country
1	Philips	40	NL
2	NN Group	39	NL
3	Repsol	38	ES
4-5	Achmea	36	NL
4-5	Aegon	36	NL
6-8	Adyen	35	NL
6-8	Enel	35	IT
6-8	KPN	35	NL
9-13	AXA	33	FR
9-13	ENI Group	33	IT
9-13	Telefonica	33	ES
9-13	ING Group	33	NL
9-13	Rabobank	33	NL

NL company ranking

Ranking	Company name	Score 2023		Score 2022		Score 2021[1]	
1	Philips	40	100%	32	80%	31	89%
2	NN Group	39	98%	36	90%	32	91%
3-4	Achmea	36	90%	29	73%	15	43%
3-4	Aegon	36	90%	32	80%	30	86%
5-6	Adyen	35	88%	30	75%	26	74%
5-6	KPN	35	88%	28	70%	30	86%
7-8	ING Group	33	83%	32	80%	27	77%
7-8	Rabobank	33	83%	24	60%	27	77%
9-10	DSM	32	80%	29	73%	28	80%
9-10	Vopak	32	80%	19	48%	27	77%
11-14	Shell	31	78%	29	73%	28	80%
11-14	Van Lanschot Kempen	31	78%	24	60%	26	74%
11-14	a.s.r.	31	78%	31	78%	28	80%
11-14	Prosus	31	78%	26	65%	20	57%
15	Randstad	30	75%	25	63%	30	86%
16-18	Ahold Delhaize	29	73%	25	63%	24	69%
16-18	ASML	29	73%	26	65%	23	66%
16-18	SBM Offshore	29	73%	24	60%	22	63%

1 In 2022 VBDO updated its methodology for assessing the companies. Due to this, changes were made to the scoring model. Previously, companies were able to score a maximum of 35 points, since 2022 the maximum is 40 points. To be able to compare the results of the last three years and provide insights into the developments of the companies, the scoring is presented as the achieved score and the achieved percentual score.

Ranking	Company name	Score 2023		Score 2022		Score 2021[1]	
19-20	INPOST	28	70%	25	63%	5	14%
19-20	RELX Group	28	70%	25	63%	25	71%
21	Unilever	27	68%	28	70%	27	77%
22	Signify	26	65%	21	53%	28	80%
23-25	ABN AMRO	24	60%	20	50%	21	60%
23-25	AMG	24	60%	23	58%	27	77%
23-25	Heineken	24	60%	22	55%	20	57%
26-27	Fugro	23	58%	17	43%	16	46%
26-27	TKH Group	23	58%	22	55%	19	54%
28	JDE Peet's	21	53%	21	53%	23	66%
29-30	AkzoNobel	20	50%	11	28%	12	34%
29-30	Aperam	20	50%	9	23%	13	37%
31-34	BE Semiconductor Industries	19	48%	11	28%	12	34%
31-34	Corbion	19	48%	12	30%	21	60%
31-34	Flow Traders	19	48%	20	50%	21	60%
31-34	Wolters Kluwer	19	48%	18	45%	19	54%
35-37	CTP	17	43%	13	33%	2	6%
35-37	Eurocommercial Properties	17	43%	17	43%	21	60%
35-37	OCI	17	43%	17	43%	22	63%
38	Arcadis	16	40%	16	40%	21	60%
39-40	IMCD	14	35%	17	43%	21	60%
39-40	Just Eat Takeway.com	14	35%	12	30%	13	37%
41	ASM	13	33%	14	35%	10	29%
42-43	Aalberts	12	30%	8	20%	14	40%
42-43	UMG	12	30%	10	25%	-	-
44	Air France-KLM	10	25%	7	18%	9	26%
45	Fagron	9	23%	11	28%	7	20%
46	Galapagos	8	20%	8	20%	3	9%
47	Basic-Fit	7	18%	7	18%	13	37%
48	Alfen	6	15%	5	13%	1	3%
49	ArcelorMittal	5	13%	4	10%	10	29%
50	Vivoryon	2	5%	5	13%	4	11%
51	WDP	0	0%	0	0%	5	14%

EU company ranking - 2023

Ranking	Company name	Score 2023	Score 2022	Country
1	Repsol	38	38	Spain
2	Enel	35	-	Italy
3-5	AXA	33	23	France
3-5	ENI Group	33	-	Italy
3-5	Telefónica	33	-	Spain
6	Allianz	32	30	Germany
7	Orsted	31	26	Denmark
8-9	Banco Bilbao	29	-	Spain
8-9	Total Energies	29	27	France
10-11	Generali	26	24	Italy
10-11	Vestas Wind Systems	26	-	Denmark
12-15	Bayer	24	24	Germany
12-15	Gruppo TIM	24	-	Italy
12-15	Banco Santander	24	24	Spain
12-15	KBC	24	-	Belgium
16-18	Engie	23	-	France
16-18	Vattenfall	23	21	Sweden
16-18	UCB	23	14	Belgium
19-21	L'Oréal	21	15	France
19-21	Acciona Energia	21	-	Italy
19-21	Tryg	21	-	Denmark
22	Carlsberg Group	20	-	Denmark
23-27	RWE	19	-	Germany
23-27	BNP Paribas	19	18	France
23-27	Recordati	19	-	Italy
23-27	Elia Group	19	-	Belgium
23-27	Novo Nordisk	19	17	Denmark
28-30	Henkel	18	-	Germany
28-30	Intesa Sanpaolo	18	-	Italy
28-30	Royal Unibrew	18	-	Denmark
31-32	Campari Group	17	-	Italy
31-32	Novozymes	17	-	Denmark

Ranking	Company name	Score 2023	Score 2022	Country
33	Nexi Group	16	-	Italy
34-35	SAP	15	23	Germany
34-35	Amadeus IT	15	9	Spain
36-37	Sanofi	14	15	France
36-37	Grifols	14	-	Spain
38	Deutsche Bank	13	14	Germany
39-41	Swedbank	12	-	Sweden
39-41	Nordea Bank	12	-	Denmark
39-41	Netcompany	12	-	Denmark
42-47	The Linde Group	11	-	Germany
42-47	Orange	11	-	France
42-47	Schneider Electric	11	6	France
42-47	Essity	11	-	Sweden
42-47	EDF Luminus	11	-	Belgium
42-47	SimCorp	11	-	Denmark
48	DiaSorin	10	-	Italy
49-50	Handelsbanken	9	-	Sweden
49-50	Rovi Group	9	-	Spain
51-52	Carrefour	8	-	France
51-52	Logista	8	-	Spain
53-56	Eurofins Scientific	7	-	France
53-56	Tele2	7	-	Sweden
53-56	Ageas	7	-	Belgium
53-56	AB InBev	7	4	Belgium
57-58	Beiersdorf	4	-	Germany
57-58	Ericsson	4	-	Sweden
59-61	Sartorius	3	-	Germany
59-61	Deutsche Telekom	3	-	Germany
59-61	Argenx	3	-	Belgium
62-64	Proximus Group	1	-	Belgium
62-64	Telenet Group	1	-	Belgium
62-64	Colruyt Group	1	-	Belgium
65	Pila Pharma	0	-	Sweden

Executive Summary

Last year, the methodology and criteria of the Tax Transparency Benchmark were updated to make it even more robust. This resulted in the average company score dropping from 50% in 2021 to 42% in 2022. Last year was also the first time that the scope included European listed companies as well as Dutch listed companies. This development has progressed in 2023, as we have now included 65 European listed companies (25 last year) alongside 51 Dutch listed companies. With the updated methodology now in its second year, including new ESG-related questions, and a greater scope of companies, the Tax Transparency Benchmark 2023 has much to offer, and we are proud to present the outcomes.

We expected to see a decline in the average company score last year but are pleased to see that it has increased in 2023, from 42% to 47%. The NL companies have scored higher, on average, than the EU companies (56% compared to 41%). It is encouraging to see overall progress, although a critical note should be taken that there is overall room for improvement by the EU companies. This year, we have a broader representation of data from seven EU countries: Belgium, Denmark, France, Germany, Italy, Spain, and Sweden. At least seven companies have been assessed from each country. The selected companies are peers of the Dutch companies included in the benchmark. Companies in scope are selected from the following five sectors: Pharmaceutical, Financial, Technology, Fast-Moving Consumer Goods (FMCG), and Energy. The expanded scope means that it is possible to assess the differences in tax transparency between eight European countries, including the Netherlands, and across five different sectors.

Table 1: Average score per country

	Average score
The Netherlands (51)	56%
Europe (65)	41%
Italy (9)	55%
Spain (9)	53%
Denmark (10)	47%
France (10)	44%
Germany (10)	36%
Belgium (10)	24%
Sweden (7)	24%

There is a significant difference between the top scoring EU countries – Italy (55%) and Spain (53%) – and the lowest scoring countries – Sweden (24%) and Belgium (24%). Differences can be seen across all six principles; we will provide a more in-depth analysis later on.

It was mentioned earlier that the companies are divided into five sectors. Last year, we saw the financial and energy sectors (see Table 2), in particular, achieving high overall scores, whilst the pharmaceutical sector scored the lowest.

Table 2: Average score per sector in 2022

	Financial	Energy	Pharma	Technology	FMCG
EU (25)	66%	70%	22%	28%	31%
NL (78)	55%	59%	39%	48%	53%

Table 3: Average score per sector in 2023

	Financial	Energy	Pharma	Technology	FMCG
EU (65)	50%	61%	31%	29%	30%
NL (51)	79%	61%	13%	61%	53%

This year, with the updated scope, changes are expected and Table 3 provides an overview of the average score per sector in 2023. Like last year, we can see that the financial and energy sectors have achieved high scores, and that there has been an increase in the average score for the technology and FMCG sectors. What mostly stands out when assessing this year's score, is the difference between the EU and NL sectorial scores. Apart from the energy sector, each category shows a large difference.

Two editions ago, in 2021, we started to look into the GRI 207: Tax standard. In 2021, only 8% of the NL companies disclosed tax-related information that adhered to the GRI framework. This rose slightly to 9% in 2022. However, in sharp contrast, a staggering 40% of EU companies disclosed tax-related information that adhered to the GRI framework in 2022. In 2023, we have seen a slight increase for the Netherlands to 12% and a slight decrease for Europe to 37%. In addition, with the EU Directive on Public Country-by-Country Reporting (CbCR) in force for the first reporting years beginning on or after 22 June 2024, we are continuing to see an increase in the disclosure of tax information on a country-by-country basis by Dutch companies. 24% of the NL companies fully disclosed this information in 2022; in 2023, this has now increased to 33%. For EU companies included in the benchmark, this percentage is 43%.

This benchmark is about setting the standard for tax transparency, seeking and sharing best practices, and supporting companies in their road towards transparency. This being the ninth edition, we can look back at a long history of progress, especially as some of the companies in the Netherlands have been a core part of this benchmark from the very beginning. The steps taken by companies in their pursuit to transparency and becoming a more responsible taxpayer are important, necessary, and at the same time applaudable as many of these companies are now setting the benchmark for other companies to follow. This year's top three companies are:

Philips (40 points, compared to 32 last year) is not only the highest scoring company in the Tax Transparency Benchmark 2023, but it is also the first company ever to be awarded full marks. Philips stands out in each and every principle in terms of tax transparency. In 2022, Philips ranked second with 32 points, which was already a steady increase compared to its 31 points in 2021, 23 points in 2020, and a much lower 15 points in 2019. This year's result shows that Philips is open to understanding and pushing the boundaries to become an ever more responsible taxpayer. There were no controversies found by the jury regarding the tax behaviour of Philips.

NN Group (39 points, compared to 36 last year) has increased its total score, but has not yet regained its top position. Having led the benchmark for a total of four consecutive years, where it really set the standard for being in control of tax, it was replaced in the rankings by Repsol last year. NN has now the challenge to return to the top once again. There were no controversies found by the jury regarding the tax behaviour of NN Group.

Repsol (38 points, the same as last year) was last year's winner, despite 2022 being the first time it took part in this benchmark. Last year, its tax portal for stakeholders and its comprehensive tax contribution report were especially laudable. However, it did not quite achieve the top score due to the lack of a tax in-control statement from the board. This remains the case for 2023. There were no controversies found by the jury regarding the tax behaviour of Repsol.

It is encouraging to see a company gaining top marks for the first time ever in this year's benchmark, and similarly we are pleased with the overall increase in the average score. Transparency of tax is becoming an increasingly important topic for companies. However, it must also be stated that whilst there is a top, there is also a bottom where we find laggards which are encouraged to seek improvement. These companies need to work to avoid falling further behind.

2 Only two companies assessed in the Netherlands are included in this category, therefore this is not a fully representative indication of the sector. We, however, do report on this sector as it provides some insights into the differences between the NL companies and the EU companies.

Last year, we reported that several major brands scored less than 25% (i.e. below 10 points) in our benchmark. This year, we have 23 companies scoring below this minimum threshold, of which 16 are EU companies and seven are from the Netherlands. This means that, overall, 20% of the companies are lagging.

This ninth edition of the Tax Transparency Benchmark goes into more detail about the developments mentioned above and also highlights key current issues relating to tax transparency. Dave Reubzaet, Director Tax and Sustainability at Deloitte (former Tax Lead at the Global Reporting Initiative), will explain the current and upcoming landscape of tax transparency by delving into the Corporate Sustainability Reporting Directive (CSRD) and the GRI, and how these fit with the EU Taxonomy and Sustainable Finance Disclosure Regulation (SFDR). He provides us with thoughts and recommendations that can be considered when further developing sustainable tax approaches, responsible tax investment strategies, and the use of the GRI tax standard. Job Lutjens, Helena Thijssen, and Nicole Sjouwerman, all from PwC Netherlands, provide us with a deep dive into transfer pricing and the CSRD. Hans Gribnau, professor at Tilburg University, talks about the developments in corporate tax governance and sustainable tax governance. He explains why a narrative of morals, ethics and culture should be an integral part of any corporation and shape the role it plays in society. Finally, we talk with Peter Paul Boon, from NN Group, about the roadmap to taking control of tax. He shares the steps that companies need to take, and how important internal stakeholders are in that process. Every chapter and guest author has been carefully chosen to explore one or more key topics concerning tax transparency, and each contribution aims to motivate companies and their stakeholders to make further progress.

Good Tax Governance Principles

Below, we outline the most significant conclusions for each of the six Good Tax Governance Principles defined by VBDO. Table 3 shows the average score for each of the principles for 2023, as well as for 2022.

Table 4: Average score per principle in 2023 and 2022

Good Tax Governance Principles	Average % by companies per principle			
	2023		2022	
	EU (65)	NL (51)	EU (25)	NL (78)
A: Define and communicate a clear strategy	46%	64%	53%	46%
B: Tax must be aligned with the business and is not a profit centre by itself	39%	45%	37%	33%
C: Respect the spirit of the law. Tax-compliant behaviour is the norm	44%	69%	42%	49%
D: Know and manage tax risks	38%	67%	46%	56%
E: Monitor and test tax controls	55%	74%	63%	55%
F: Provide tax assurance	21%	24%	18%	15%
This number gives the average aggregated result of the six Good Tax Governance Principles	41%	56%	44%	50%

Important observation:

An important observation, relating to Principle F, is the difference between the EU and the Netherlands when it comes to providing assurance on non-financial tax disclosures. Last year, only ten (out of 103) companies provided third-party tax assurance. This year, 30 (out of 116) companies have done so. What really stands out, however, is that this is one of the few criteria for which European companies score significantly higher (24) than NL companies (6).

Summary of results per principle (based on full scope unless otherwise stated).

A. Define and communicate a clear tax strategy

- 90% of the companies (NL 96%, EU 85%) communicate their views on tax via a tax strategy or policy;
- 70% of the companies (NL 77%, EU 66%) report how their tax strategy is aligned with their organisational values; however, only 36% describe how the company monitors this alignment;
- 47% of the companies (NL 59%, EU 37%) state that their tax strategy has been signed off by the executive board, and include how often (i.e. quarterly, annually or on a specific date) the board reviews the strategy;

- In terms of stakeholder inclusion, 33% of the NL companies describe the processes for and outcomes of collecting and considering the views and concerns of stakeholders (including external stakeholders). For the EU scope companies, this percentage is lower at 22%;
- Zooming in on the lobbying and advocacy policies of companies, 39% of the EU companies describe how their approach to encouraging the public debate on tax transparency, public policy lobbying, and/or advocacy on tax is aligned with the tax strategy. This is much higher for the NL companies at 59%;
- With the recent introduction of the criterion concerning how ESG taxes are taken into account, 34% of the companies are now reporting on this;
- A total of seven companies score full marks on this principle – five from The Netherlands and two from the EU scope. A staggering eight companies did not score any points for this principle, meaning that they are therefore missing important elements of good tax governance as described above.

B. Tax must be aligned with the business and is not a profit centre in itself

- Three EU companies and seven NL companies provide information on a country-by-country basis about ESG-related taxes. This is a massive increase from last year, when only Repsol provided such information. However, it must be stated that the percentage still remains very low, with just 9% of the companies in scope reporting on this criterion and we encourage companies to dive into this reporting disclosure;
- Eight companies in total score full marks on this principle, as opposed to only one company last year;
- 81% of the companies (92% NL, 72% EU) state that they declare profits and pay taxes where the economic activity occurs;
- 71% of the companies (88% NL, 58% EU) communicate that they do not make use of tax havens. However, when asked if the company discloses its definition of tax havens and/or non-co-operative jurisdictions, the companies score significantly lower: 51% for NL and 35% for EU;
- A good increase can be witnessed when it comes to describing the role of tax in the value creation model. Last year, just 9% of the NL and 8% of the EU companies were doing this. We can now report that an overall 27% of the companies (29% NL, 25% EU) provide such a description;
- 86% of all companies (90% NL, 83% EU) in scope provide a reconciliation between the effective tax rate and the weighted average statutory tax rate that includes a narrative description;
- There is also an increase in the amount of companies providing full disclosure of country-by-country based tax information in line with GRI 207-4. 14% of the NL and 24% of the

EU companies were doing so last year; this is now up to 31% of the NL and an impressive 42% of the EU companies;

- The inclusion in reports of government payments, subsidies, and incentives on a per-country basis remains limited: just 17% of the NL companies and 14% of the EU companies report this information.

C. Respect the spirit of the law. Tax-compliant behaviour is the norm

- 80% of the NL companies state that their tax planning strategy takes the spirit of the law into account and provide an explanation of how they perceive this, as opposed to only 42% of the EU companies. In both cases, this is an increase from the respective 73% and 32% last year;
- 63% of the NL companies have a training programme in place on how to deal with tax (dilemmas) for their tax, legal and compliance officers, as opposed to 39% of the EU companies;
- Looking at whistleblower policies, we can see that tax is being integrated (or referred to) by 65% of the NL companies and 39% of the EU companies. In both cases, this is a small increase from 2022;
- Principle C is the second highest scoring principle of the six, with an average score of 2.7 points out of the maximum 4 for the NL companies and 1.8 points for the EU companies.

D. Know and manage tax risks

- Interestingly, with 19% of the 78 companies in 2021 scoring the maximum number of points on this principle, and 16% of the 103 companies in 2022, we can conclude that this percentage remains stable, with 18% of the 116 companies in 2023 scoring maximum points. With the number of companies in scope increasing steadily, this means that 21 companies now score the full amount of points for Principle D;
- For Principle D, we seek detailed examples of tax risks reported on by the companies in terms of financial, regulatory, and/or reputational risks. 58% of the NL companies were providing such information in 2022; this has increased to 75%. 53% of the EU companies provide detailed examples of tax risks;
- However, when asked for a commentary on the company's responses to these risks, both scores drop – to 49% (NL) and 37% (EU). Worryingly, a smaller percentage of NL companies provide this than in 2022, when 55% did so;
- One of the greatest differences in score between the two scopes of companies (NL and EU) can be witnessed for the description of the role of technology in tax relevant data management. 67% of the NL companies provide such a description, whilst only 17% of the European companies do so.

E. Monitor and test tax controls

- This principle has the highest average score for both the EU and NL companies, respectively 2.2 and 3.0 (out of 4 possible points);
- 61% of the NL companies describe how the implementation and execution of the tax strategy is monitored, as opposed to 49% of the EU companies;
- 77% of the NL companies describe how tax risks and controls are tested and monitored, while 54% of the EU companies do so;
- 73% of the NL companies include tax risk management when reporting to the audit committee, whereas 57% of EU companies do so.

F. Provide tax assurance

- Last year, ten companies provided third-party tax assurance. This year, six NL companies and a staggering 24 EU companies have provided third-party tax assurance on non-financial tax disclosures. This is one of the few criteria for which European companies score significantly higher than NL companies;
- None of the EU companies, however, provide a tax in-control statement, whereas 20% of the NL companies do so;
- 60% of the NL companies participate in a co-operative compliance programme, as opposed to 29% of the EU companies.

1. All transparent tax ducks in a row

Tax reporting in a European sustainability reporting context

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In my work at the Global Reporting Initiative (GRI), I have engaged with many different stakeholders on the topic of tax and its relevance for sustainable development. This includes discussions with policy makers, standard setters, NGOs, investors, companies, and the media.

According to these engagements, tax clearly is a strange duck in the world of sustainability. It is often not included in sustainable finance frameworks or corporate sustainability strategies, but when you talk about the fundamental role of tax for sustainable societies, many stakeholders see it as a no-brainer to include tax in (soft) regulations and sustainability strategies. This is especially true when one considers the potential harmful impact that avoiding tax can make, as this undermines companies' contributions to other sustainability goals, for example the prevention of biodiversity loss or climate change mitigation.

The relevance of tax is also recognised by various international institutions, including the UN, the OECD, the EU, UN PRI, GRI, and WEF. They all recognise the fundamental role taxes play in sustainable development. They also see how this role has been harmed and spotlighted by numerous tax avoidance scandals. And they see the positive potential when taxes do play a positive role and players fairly contribute, through sustainable (inter)national policies and responsible tax behaviour by business, including financial institutions and companies.

All of these institutions provide guidance in the field of sustainable tax, with the UN PRI being for many years a true front runner in the field of responsible tax investment; the OECD by integrating tax in its responsible business conduct guidelines, and GRI in providing the world's first multi-stakeholder standard for transparent reporting on tax – GRI 207: Tax 2019.

From a regulatory viewpoint, the EU is a front runner with various sustainable tax-related regulations. Besides the pure tax regulations, like the anti-tax avoidance directives and the incoming public country-by-country reporting regulation, tax is also integrated in the EU Green Deal, the sustainable finance framework and the incoming sustainability (reporting) regulations. The strange duck, however, also appears in these EU regulations. Although tax is obviously important, the integration of tax in these sustainability regulations is often more "hidden" or indirect. Which, of course, does not make tax less relevant.

Below, I will briefly explain how the topics of sustainable tax and tax transparency fit with the EU sustainability reporting regulations, covering (and limited in this article to) the Corporate Sustainability Reporting Directive (CSRD), the European Sustainability Reporting Standards (ESRS), the EU Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR). Where relevant, I will point out where the GRI tax standard comes into play.

Before going through the various regulations, it is helpful to read again what sustainable finance in the context of the EU Green Deal is about:

In the EU's policy context, sustainable finance is understood as finance to support economic growth while reducing pressures on the environment to help reach the climate and environmental objectives of the European Green Deal, taking into account social and governance aspects. Sustainable finance also encompasses transparency when it comes to risks related to ESG factors that may have an impact on the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors.[3]

The below discussed regulations are connected and are part of the broader EU sustainable finance framework and Green Deal package. Without all the technical details, and without the various environmental taxes, let me summarise key tax points as follows. Basic knowledge of the various regulations is assumed.

3 https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en

CSRD/ESRS

If based on the (double) materiality assessment, tax is considered a material topic by the reporting organisation and its stakeholders, then the organisation has to publicly report on this topic. If a topical ESRS is available, then that ESRS must be used. If not, the ESRS acknowledges the possibility for entities to use the GRI standards to report on material topics that are not covered by the ESRS, such as tax.[4] Practically, this means that the GRI tax reporting standard can be used to transparently and comprehensively report on tax. Using this internationally accepted multi-stakeholder standard makes information recognisable and comparable for stakeholders, including investors.

As well as using the GRI tax reporting standard as a topical standard, ESRS 2 also applies. ESRS 2 establishes disclosure requirements on the information that the organisation shall provide at a general level across all material sustainability matters (then including tax) on the reporting areas of governance, strategy, impact, risk and opportunity management, and metrics and targets. In a nutshell, the following reporting areas then also apply for tax:

- Governance: the governance processes, controls, and procedures used to monitor, manage, and oversee tax impacts, risks, and opportunities;
- Strategy: how the organisation's strategy and business model interact with material tax impacts, risks, and opportunities, including how the organisation addresses those impacts, risks, and opportunities;
- Impact, risk, and opportunity management: the process(es) by which the organisation:
  i. identifies tax impacts, risks, and opportunities and assesses their materiality;
  ii. manages material sustainability matters through policies and actions.

Whether or not tax is considered a material topic, depends on the process and outcome of the materiality assessment process, for which criteria have been described in the ESRS and (draft) EU guidance is available. This process builds on the GRI materiality process, which is already used by many organisations worldwide.

In cases where tax is not considered a material topic, for example when other topics are currently considered with higher priority and tax falls below the applied materiality threshold, the organisation can still determine to voluntarily report transparently on tax. This is what many companies are already doing, as can be seen in the years of research for the VBDO Tax Transparency Benchmark and others. An important reason for this voluntary tax transparency is to address societal expectations and thereby rebuild trust.

4 https://www.efrag.org/News/Public-444/EFRAG-GRI-Joint-statement-of-interoperability-

Last but not least, it is important to mention that the CSRD/ESRS are not only applicable for EU companies but also for non-EU companies that meet certain conditions. These foreign companies also must apply the above, but only the impact part and not the financial risk reporting part. So, no double materiality for them, only impact materiality, which is at the heart of the GRI standards and the GRI tax standard.

EU Taxonomy

As part of the EU Taxonomy, which, very simply put, helps to determine to what extent a business activity qualifies as sustainable, tax is seen as one of the minimum safeguards (next to human rights, bribery/corruption and fair competition). Compliance with the minimum safeguards is required for compliance with the EU Taxonomy. For tax, this means amongst others that organisations:

- “should comply with the letter and the spirit of tax laws and regulations…” and
- “should treat tax governance and tax compliance as important elements of their oversight and broader risk management systems…”

The EU Sustainable Finance technical expert group mentions that “endorsement of standard GRI 207 is recommended as an indicator of an undertaking’s more ambitious understanding of tax fairness.”[5] In other words, applying the GRI tax standard helps to comply with the EU Taxonomy minimum safeguards.

SFDR

In the SFDR, tax is relevant in multiple ways, including:

1. As part of the SFDR definition of a “sustainable investment”, “…such investments do not significantly harm any of those [sustainability] objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance…” Investee companies and investors need to apply good tax governance. For the investor, this applies both to its own organisation and as part of the investment process. The GRI tax reporting standard can provide the (internationally accepted) framework for this.
2. As part of the investor’s policies on the integration of sustainability risks in the investment decision-making process. Tax is one of the risks to be covered during the life cycle of the investment.
3. As part of the SFDR principal adverse impact indicators: violations and lack of processes and compliance mechanisms to monitor compliance with OECD MNE Guidelines (including

5 https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf. Page 51.

tax), and investments in jurisdictions on the EU list of non-co-operative jurisdictions for tax purposes.

As said above, the UN PRI is a front runner in this space. They have done valuable research and provided various concrete guidance helping investors and asset managers with the concrete integration of tax in responsible investment strategies. More and more investors are publishing their tax expectations for investees and are using instruments like engagement and voting to table responsible tax behaviour as fundamental for sustainable development and enterprise risk management. Tax transparency is an important starting point in these discussions. Recent examples include the various shareholder votes where investors ask companies like Amazon, Microsoft, and ConocoPhillips to become transparent on their tax approaches, thereby using the GRI tax standard.

Above are key points where tax is relevant in the EU sustainability context. There are, of course, other elements where tax is not mentioned but is still an integral part of required corporate governance and related policies and processes.

Recommendations

To conclude, I have some thoughts and recommendations that can be considered when further developing sustainable tax approaches, responsible tax investment and use of the GRI tax standard.

1. When keeping goals like sustainable development and risk management in mind, think and act beyond compliance. Many companies do so already and provide voluntary transparency on their tax approach to address societal expectations;
2. When transparently reporting on tax, consider not only focusing on tax contributions. An important part of the "positive impact and do no harm" principle is the sharing of information on how you do responsible tax planning, including how you monitor that;
3. When transparently reporting on tax, consider including other taxes (e.g. indirect taxes, wage taxes, etc), including environmental taxes and incentives (e.g. carbon taxes, plastic taxes, etc), as these are also important taxes in a sustainable development context;
4. Integrate your responsible tax approach in due diligence processes. This is in line with the integration of other sustainability topics (such as human rights) and fits within incoming due diligence regulations including the ESRS;
5. Apply a global reporting standard, i.e. the GRI tax standard, which has already been shown by various research as the benchmark. This helps to address various regulations, including the discussed EU regulations. Adhering to such a standard will create a global baseline, reduce the compliance burden and help stakeholders to analyse universal and comparable

tax information more easily. If this is not possible, try to stay close to this standard and explain clearly the deviations, again, to make analysis as easy as possible;

6. Do not step into the (perceived) greenwashing trap by incomplete tax reporting, using a "self-made" or a "business-only" methodology that does not acknowledge the view of multiple stakeholders;
7. Investors, consider the integration of responsible tax beyond public markets, for instance in your private markets investments. Consider public reporting on the outcomes of your responsible tax investment strategies;
8. Ask for external assurance on your public tax reporting to provide confidence to your stakeholders. In the European CSRD/ESRS context, this will be mandatory, so it is good to be prepared.

2. Sustainability reporting and its impact on transfer pricing

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The upward trend in corporate transparency – and sustainability topics in particular – cannot be seen in isolation from the increasing number of regulations that introduce reporting obligations for large companies. One of the key developments set to impact companies is the EU Corporate Sustainability Reporting Directive (CSRD). The CSRD requires all large and listed companies to disclose non-financial information based on the reporting framework set out in the European Sustainability Reporting Standards (ESRS) on a wide range of environmental, social, and governance (ESG) matters from 2024 onwards. By requiring companies to disclose information about various sustainability matters, the CSRD aims to provide investors and other stakeholders with the opportunity to evaluate their sustainability performance and to assess the associated financial risks and opportunities. Although tax is not specifically mentioned in the CSRD, the CSRD may inevitably have an influence on tax reporting.

This article further explores the link between the CSRD and tax, and, more specifically, the impact that the CSRD may have on the transfer pricing of multinational companies. This article specifically focuses on the key areas of transfer pricing directly impacted by the CSRD. However, it is noted that transfer pricing may also be indirectly impacted by the detailed disclosure requirements under the CSRD, as companies, for instance, change their value chains to become more sustainable.

Introduction to transfer pricing

The concept of transfer pricing has been around for many years. Due to the globalisation of businesses, the legislation regarding transfer pricing has seen rapid developments. At the same time, transfer pricing has received increased media and political attention since the tax practices of multinational companies have entered the public domain. But what is the concept of transfer pricing?

Transfer pricing refers to the pricing of transactions between related entities that are part of the same multinational group. Transfer pricing applies to all kinds of transactions, such as loans, services, and the supply of goods, which occur between related parties based in different jurisdictions. Transfer pricing plays a crucial role in the allocation of profits for tax purposes. The prices for transactions between related parties might not automatically reflect an independent market price, since the prices are set by parties operating within a group. This can be a concern for tax authorities: profits can be shifted and, thus, reduce the taxable base in a certain jurisdiction.

To prevent this effect, most countries have introduced regulations stipulating that prices between related parties should be “at arm’s length”. A price is at arm’s length if the price agreed upon in a transaction between two related parties is the same as it would be between two unrelated parties in a comparable transaction.

In order to determine the arm’s length price, different types of transfer pricing methods are used. The choice of the method that is most appropriate will depend on the specific nature of the transaction. The availability of comparable data on transactions and financial results of independent parties also play a significant role.

Complying with the so-called “arm’s length principle” can be complex for multinationals. As they operate in various countries, they may encounter different interpretations of the arm’s length principle and are subject to different legal frameworks in each country.

The arm’s length principle and general application thereof are published in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (Transfer Pricing Guidelines) of the OECD. The OECD plays a leading role in shaping transfer pricing regulations, although the OECD Transfer Pricing Guidelines in themselves are not a legally binding instrument.[6]

6 However, on 12 September 2023, the EU published its Council Directive on Transfer Pricing, in which it proposes to oblige all EU Member States to codify in their national laws that transfer pricing rules are applied in line with the OECD Transfer Pricing Guidelines.

The Dutch Ministry of Finance has expressed that it adheres to the OECD Transfer Pricing Guidelines for interpretation of the arm's length principle and they are therefore of great influence in the Dutch tax practice.

In the Dutch Corporate Income Tax Act, the arm's length principle is codified.[7] Therefore, the arm's length principle applies for all Dutch taxpayers that transact with related parties. Taxpayers involved in intercompany transactions are obliged to prepare transfer pricing documentation that supports the established prices. Moreover, taxpayers that are part of a multinational group that meets the threshold of 50 million Euros consolidated group revenue are obliged to prepare transfer pricing documentation within the so-called Master File and Local File formats, as prescribed by the OECD. The Master File provides an overview of the global operations and transfer pricing of a multinational group. The Local File gives an overview of the business of one specific local company, analyses its functions, assets, and risks and the arm's length nature of its intercompany transactions. Preparing transfer pricing documentation requires extensive knowledge from various perspectives, including a company's value chain, business operations, profit allocation and transaction flows.

Introduction to CSRD

When the CSRD takes effect, companies can no longer report on their sustainability performance at their own discretion, as the ESRS set out the reporting framework. ESRS 1 (general requirements) and ESRS 2 (general disclosures) are general in nature, contain basic principles and prescribe what should be reported on governance, strategy, and decisions related to materiality. The other ten standards cover different ESG aspects, including climate change, workforce, and business conduct. To determine which sustainability matters are most material to them, companies in scope of the CSRD will have to undertake a "double materiality assessment". This means that they will have to assess their impact on people and the environment (inside-out view) and consider the (new) risks and opportunities created by sustainability-related developments and events (the outside-in view). It is important to highlight that topics outside of the scope of the ESRS can also be deemed material.

There are several possibilities in which the CSRD may impact tax reporting. Firstly, the CSRD may create tax reporting obligations via the double materiality assessment. If tax is deemed to be a material topic, companies will have to prepare entity-specific disclosures in a prescribed format (in line with GRI 207).[8] If tax is not deemed to be a material topic, companies may still be required to report on other material topics because companies will have to assess on any

7 Art. 8b of the Dutch Corporate Income Tax Act 1969

8 GRI 207 is the (voluntary) reporting standard on tax developed by the Global Reporting Initiative.

material topic the possible financial risks and opportunities arising from ESG-related taxes and regulations.

Secondly, the CSRD's impact on tax reporting can be derived from the requirement to report according to ESRS 2 (general disclosures) regardless of the outcome of the materiality analysis. Under ESRS 2, the explanation of the strategy and business model must be in line with a company's approach to tax. As an example of the aspects that can be covered by the strategy, ESRS highlights "aggressive strategies to minimise taxation, particularly with respect to operations in developing countries".

Finally, the CSRD may create tax reporting obligations due to the interaction with the EU Taxonomy, which is a classification system establishing a list of environmentally sustainable economic activities, and the OECD's Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD MNE Guidelines). Under the CSRD, companies will have to report on the environmental aspects of their activities. Consequently, they need to determine if these activities qualify as "sustainable economic activities" based on the criteria set out in the EU Taxonomy. In cases where activities are aligned with the EU Taxonomy, certain so-called "minimum safeguards" (derived from the OECD MNE guidelines) should be taken into account when reporting on these activities. The EU's Final Report on Minimum Safeguards advises how to apply the minimum safeguards and refers to tax as one of the four core topics. According to this report, alignment with the minimum safeguards ensures the treatment of tax governance and compliance as an important element of oversight and the existence of tax risk management strategies under ESRS 2 (general disclosures).

Impact of CSRD on transfer pricing

For many multinational companies, tax may not be a voluntary area of attention and disclosure under the CSRD. This has direct consequences for companies' transfer pricing.
Multinational companies should be aware of the following three key areas of transfer pricing directly impacted by the CSRD:

1. Tax and transfer pricing strategy
2. Transfer pricing (risk) analysis
3. Transfer pricing documentation

Tax and transfer pricing strategy – As mentioned, the CSRD is (indirectly) linked to the OECD MNE Guidelines. Chapter XI of the OECD MNE Guidelines stipulates that, "in particular, enterprises should comply with both the letter and spirit of the tax laws and regulations of the countries in which they operate."[9]

This translates to the question of how companies, in relation to their transfer pricing, ensure they comply with both the letter and the spirit of the law. This, therefore, goes beyond what companies say about transfer pricing in their tax strategies. It requires them to act in accordance with their tax strategies and to be able to test and demonstrate this.

It is helpful in this regard if companies have a tax (and transfer pricing) control framework in place which helps them to ensure that the right governance and processes are in place, controls and responsibilities are clearly defined and implemented, and any public statements – as well as transfer pricing documentation – are an accurate and complete reflection of the actual situation.

Transfer pricing risk analysis – The CSRD also requires each company to report on ESG risks for their "material topics" based on the double materiality assessment.

Within the area of transfer pricing, risk analyses are performed as part of establishing arm's length prices for intercompany transactions (i.e., analysis of the relevant functions, assets, and risks of each party in the transaction) and are documented in transfer pricing documentation (both in the Master File and Local File). These risk analyses should consider any (material) ESG risks identified under the CSRD to determine how they affect contributions to value creation. Furthermore, it should be assessed whether these ESG risks have an impact on the comparability analysis used for determining the arm's length pricing.

Transfer pricing documentation – Due to the introduction of sustainability and tax transparency reporting requirements (including the CSRD), much more information is being publicly disclosed by companies. Therefore, in the annual preparation process of transfer pricing documentation (such as the Master File and Local File – which are required to be prepared by tax authorities and are generally non-public), it is critical to ensure that the information included therein is aligned with the information disclosed by the company in the public domain (such as information disclosed under CSRD and the EU's public country-by-country report).

9 Par. 1, Chapter XI, OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (2023)

Specifically, under the CSRD, the “general disclosures” have several important overlaps with transfer pricing concepts, requiring the company, for instance, to describe the value chain, contributions, material risks, and key business relationships. These CSRD disclosures must reflect the story as described in the transfer pricing documentation and vice versa. Co-operation between the tax departments and the departments responsible for sustainability reporting is therefore recommended.

Along with the above key areas of direct impact, there is also the indirect impact of sustainability reporting on transfer pricing, as it is expected that the detailed disclosure requirements under the CSRD will affect how companies do business (e.g., changing the manufacturing footprint, redirecting supply chains, introducing sustainable business models, etc.). Within these developments, companies will need to carefully consider tax and transfer pricing – following both the letter and the spirit of the law.

Conclusion

The CSRD requires companies to publish a lot of specific information on sustainability topics within their organisation. For many companies, tax may be a material topic to report on under the CSRD, which has a direct link to their transfer pricing. Multinational companies, especially, should consider the impact of the CSRD in relation to their tax and transfer pricing strategy, transfer pricing risk analyses, and transfer pricing documentation. In this regard, a company’s tax control framework can play a key role, as well as the structure of its tax function. Most importantly, when it comes to transfer pricing, companies should not only have a tax strategy in place in line with the letter and the spirit of the law, but also act in accordance with it to fulfil their CSRD obligations.

It is recommended that tax departments connect and co-operate with the departments within the organisation responsible for sustainability reporting (sustainability, compliance, legal, finance etc.) at an early stage to ensure alignment between CSRD reporting and transfer pricing.

3. The missing element: moral culture

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1. Introduction

In the 21st century, multinational companies' tax behaviour has become a subject of interest to much larger circles of actors than just tax authorities.[10] A topic which seemed for a long time only of interest to a limited group of experts – tax professionals – has gained the interest of a wide number of parties. The media are closely following multinational companies (MNC) and have been reporting stories about tax avoidance and/or companies not paying their "fair share" of taxes. It appears that the group of stakeholders in the tax management of companies is not limited to shareholders and tax authorities. Taxes are seen as contributions to a sustainable society. They have become a sustainability concern, like for example, climate change. As such, they are a foundational aspect of sustainable development nowadays. Without tax, there is no sustainable development.

Sustainability is also high on the corporate governance agenda and translated into their "environmental, social and governance" (ESG) policies. Taxes are crucial to sustainable development and so society expects companies to contribute their fair share of taxes. This requires corporations to gear their (tax) governance towards sustainability; it requires sustainable corporate tax governance.

10 I share Charkham's preference for the term "company". See J. Charkham, Keeping Better Company: Corporate Governance Ten Years on, Second Edition, Oxford: Oxford University Press 2005, page 1: "The term 'company' is better than 'corporation' as it reflects the human dimension; companies are collections of people not just inanimate structures."

2. Sustainable corporate governance

What is corporate governance? It is hard to find a single, accepted definition of corporate governance. Definitions substantially differ according to which country is being considered.[11] The UK Cadbury Committee offers a very basic definition: corporate governance is "the system by which companies are directed and controlled."[12] According to the Dutch Corporate Governance Code, governance is "about management and control, about responsibility and influence, and about supervision and accountability."[13]

The purpose of a company is the starting point for its governance. Thus, the governance of a firm "in all its guises should define how a company assures the delivery of its purpose."[14] For a long time, many companies seemed to aim for short-term maximisation of shareholder value, which was translated into aiming for the highest possible profit after tax through tax minimisation. But we may observe an international trend toward sustainable value creation with attention to people and climate. The Dutch Corporate Governance Code states, "The company strives to create sustainable value over the long term."[15] The 2018 report of the British Academy is very explicit on sustainable value: "The purpose of corporations is not to produce profits. The purpose of corporations is to produce profitable solutions for the problems of people and planet."[16] Commitment to this corporate purpose "creates reciprocal benefits for the firm, its stakeholders and society at large."[17]

Acting in the best interests of the company indeed allows management to take the interests of stakeholders other than shareholders more seriously. Such a pro-social purpose "is eminently legal" – since "directors have very wide latitude."[18] In this vein, Henderson and Eric Van den

11 J. Solomon, Corporate Governance and Accountability, Chichester: Wiley, 4th edition 2013, page 5.

12 The Committee on the Financial Aspects of Corporate Governance [Cadbury Committee], The Financial Aspects of Corporate Governance, London: The Committee on the Financial Aspects of Corporate Governance and Gee and Co, December 1992, para. 2.5. Ltd. Retrieved from https://www.ecgi.global/sites/default/files/codes/documents/cadbury.pdf.

13 Corporate Governance Code Monitoring Committee, The Dutch Corporate Governance Code, 2022, page 5; https://www.mccg.nl/publicaties/codes/2022/12/20/dutch-corporate-governance-code-2022.

14 C. Mayer, Prosperity: Better Business Makes the Greater Good, Oxford: Oxford University Press 2018, page 114. He argues that the value(s) of a corporation determine(s) its purpose and goals (page 113).

15 The Dutch Corporate Governance Code, 2022, page 5.

16 The British Academy, Reforming Business for the 21st Century: A Framework for the Future of the Corporation, 2018, page 24; https://www.thebritishacademy.ac.uk/sites/default/files/Reforming-Business-for-21st-Century-British-Academy.pdf.

17 The British Academy, Reforming Business for the 21st Century, 2018, page 17. See also the Davos Manifesto for the World Economic Forum meeting in January 2020: "The purpose of a company is to engage all its stakeholders in shared and sustained value creation." It is about "corporate global citizenship" and a company is required "in collaborative efforts with other companies and stakeholders to improve the state of the world." World Economic Forum, The Universal Purpose of a Company in the Fourth Industrial Revolution, 2 December 2019. https://www.weforum.org/agenda/2019/12/davos-manifesto-2020-the-universal-purpose-of-a-company-in-the-fourth-industrial-revolution/.

18 R. Henderson, Reimagining Capitalism: How Business Can Save the World, Penguin 2020, page 36.

Steen define "purpose" as "a concrete goal or objective for the firm that reaches beyond profit maximisation; a person's 'reputation' as others' beliefs about that person, i.e., about her type; and a person's 'identity' as her own beliefs about herself and her type."[19] So both organisations and people have a purpose.[20]

A pro-social purpose fits well in the concept of corporate social responsibility (CSR). In Carroll's famous CSR pyramid, companies voluntarily accept ethical obligations on top of legal and economic obligations towards society.[21] The ethical layer is a voluntary layer as it is, but in light of the role large companies play in society and in their interaction with the natural world, it should be prioritised by the company. Healthy institutions, good infrastructure and a macroeconomic environment, highly educated people (employees), consumers with great purchasing power, and natural resources enable businesses to thrive. A company depends on society and the natural world; in this sense, it is a matter of being "in-service of". Thus, a purpose which includes sustainability can be seen as an extension of corporate social responsibility, broadening and updating it. Social responsibility follows from the contract between society and business; the essence of which is that "companies shall not pursue their immediate profit objectives at the expense of the longer-term interests of the community."[22]

The concept of sustainable development is made more concrete in the United Nations' Sustainable Development Goals (SDGs).[23] The 17 SDGs embody a variety of stakeholders' interests. They "lay out a coherent road map – widely embraced by the business community – for building a just and sustainable world."[24] They are ways of taking into account companies' economic, social and environmental impact. Companies are, therefore, increasingly thinking in terms of concepts such as "Governance, People, Planet & Prosperity", in which their strategic objectives are anchored in their ESG policy. Large multinationals play a crucial role here, e.g. because of their ecological footprint and global value chains that cross national borders.[25] Some

19 R. Henderson and E. Van den Steen, "Why Do Firms Have 'Purpose'? The Firm's Role as a Carrier of Identity and Reputation", American Economic Review: Papers and Proceedings 105, no. 5 (May 2015), page 327.

20 Purpose is not necessarily different from mission but typically more concrete.

21 A.B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders", Business Horizons July-August 1991, pages 39-48 and A.B. Carroll, "Corporate Social Responsibility: Perspectives on the CSR Construct's Development and Future", 60 Business & Society 6 (2021), pages 1258-1278.

22 A. Cadbury, Corporate Governance and Chairmanship: A Personal View, Oxford: Oxford University Press 2002, page 160.

23 A/RES/70/1, Transforming our world: the 2030 Agenda for Sustainable Development, Resolution adopted by the General Assembly on 25 September 2015. https://sdgs.un.org/documents/ares701-transforming-our-world-2030-agen-21254.

24 Henderson 2020, page 27.

25 B. Sjåfjell, "Sustainable Value Creation Within Planetary Boundaries—Reforming Corporate Purpose and Duties of the Corporate Board", 12(15) Sustainability 6245 (2020). More than two-thirds of world trade occurs through global value chains; World Trade Organization, Technological Innovation, Supply Chain Trade, and Workers in a Globalized World: Global Value Chain Development Report 2019, WTO: Geneve, 2019, page 1.

companies are larger than small states, and they influence society and the everyday lives of countless people – not just their employees – and the environment in no small measure. As such, they wield enormous power and as such, they are indispensable to attain sustainable development. Corporate power comes with responsibility, that is, responsibility for the "coherent road map" laid out by the SDGs. ESG can be seen as a corporate translation of the worldwide SDGs. There is an unmistakable link between ESG and the SDGs, as the one enables the other to thrive. Unsurprisingly, (institutional) investors are increasingly assessing companies on their ESG policy and performance. Thus, though the SDGs are primarily to be pursued by governments, they also require a sustainability commitment from companies. They'll have to take ESG seriously.

3. Sustainable tax governance

Therefore, the purpose of many companies nowadays includes the CSR and sustainability elements "People, Planet, and Profit/Prosperity" (from which logically follows a fourth P – "Paying a fair share"), which companies' tax policy must therefore be in line with.[26] Value creation in this "triple bottom line" must lead to more sustainable business practices. Consequently, companies' tax policies and tax strategies should focus on sustainability. Corporate tax governance, as part of corporate governance, concerns the way in which management and supervisory bodies exercise their duties and responsibilities with regard to taxation within a company, and the communication and accountability.

4. Paying a fair share

Paying a fair share is the substantive element of good tax governance; the second, procedural, element is transparency.[27] Transparency enables internal and external stakeholders to hold a company to account with regard to its tax policy and actual tax behaviour. Given the often-diverging visions and expectations of stakeholders, it will not be easy to reach consensus on what exactly constitutes good tax governance. "In particular, stakeholders will have different expectations on what measures should be in place within an MNE to ensure that taxes are managed ethically."28 Stakeholder dialogues enable stakeholders to exchange and debate views on their expectations. One cannot take into account societal expectations without giving stakeholders a voice, without involving and consulting them; (multi-)stakeholder dialogues can be helpful in this respect. Transparent decision-making procedures may enhance stakeholders'

26 E. van der Enden & Bronte C. Klein, Good Tax Governance … Govern Tax Good, 2020; https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3610858.

27 On "substantive" and "procedural good tax governance", see: H.J.L.M. Gribnau & A.-G. Jallai, "Good Tax Governance: A Matter of Moral Responsibility and Transparency", 5 Nordic Tax Journal (2017) 1, 70-88; https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3021914 and Ave-Geidi Jallai, Good Tax Governance: International Corporate Tax Planning and Corporate Social Responsibility - Does one exclude the other?, PhD thesis, Tilburg University, Tilburg 2020, pages 161-170.

28 The Conference Board / B team / European Business Tax Forum, Best practices for good tax governance 2022, page 10; https://ebtforum.org/good-tax-governance/.

understanding of the way a company balanced their different interests, arguments, and expectations.

Interpreting and applying tax regulations often raises moral questions. The legal system is inevitably imperfect. Legal rules can be used and complied with in different ways, with different moral impacts. Phrased in general and abstract terms, their application to particular situations is necessarily often unclear. Furthermore, gaps and grey areas in tax laws are a common phenomenon. Moreover, there is often a (moral) choice between different legal rules, and rules can be manipulated – violating the spirit of the law. Of course, corporations, like all taxpayers, have a right to arrange their tax affairs in such a way as to achieve a favourable tax treatment within the limits set by the law. Sustainable social responsibility, however, entails the ethical obligation to go "beyond compliance" with the law, which is at odds with complying with the (tax) law in a minimalist way.[29] This requires embedding ethics into corporate sustainability thinking, and acknowledging the spirit underlying tax regulations and the need for moral considerations and judgments. Thus, a company moves from the economic and legal layer further in the pyramid to the ethical layer, which reflects the substantive part of good tax governance. In brief, companies should value long-term sustainability and taxes are an important means of achieving the SDGs. This requires compliance with the letter and spirit of the law, amounting to paying a fair share of tax. Good tax governance should ensure responsible tax behaviour, such as tax planning.

5. Tax transparency

Transparency is the procedural component of sustainable tax governance; it is about the communication of relevant information to enhance accountability. Transparency can be defined as the accessibility of information to stakeholders of organisations, regarding matters that affect their interests.[30] Accessible and relevant information tailored to the needs and knowledge of the stakeholders may enable them to understand companies' behaviour. And if necessary, companies can be held accountable for behaviour that stakeholders consider irresponsible and unsustainable. Different stakeholders have different objectives and consequently are in need of different types of information. Van der Enden and Klein categorised the users of public data in two groups: investors and other stakeholders. "It is important to be aware of that as managing one's stakeholders is about managing their expectations and satisfying their information needs."[31]

29 H. Gribnau, "Corporate Social Responsibility and Tax Planning: Not by Rules Alone", Social & Legal Studies 2015 Vol. 24(2), pages 225–250; http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2610090.

30 D. Tapscott & D. Ticoll, The Naked Corporation: How the Age of Transparency Will Revolutionize Business, London: Penguin Canada 2004, page 41. They argue that businesses must become transparency literate to better understand what transparency means.

31 E. van der Enden & B.C. Klein, "Understanding Tax in the Changing Sustainability Reporting Landscape", in VBDO, Tax Transparency Benchmark 2022, page 19.

Tax complexity means, however, that reporting inevitably has a certain degree of complexity: overly simple, one-dimensional information can mislead stakeholders. Being open and transparent towards society shows the people in the company that you actually do what you say. In addition, those doing the right thing benefit because "it makes it harder for others to hide in the shadows, and focuses the attention of scrutineers."[32]

Accessible and adequate tax information can lead to a better understanding of companies' tax behaviour (and the tax system) and is a precondition for a better informed and more nuanced public debate. Transparency has an educational function because it allows stakeholders to gain more insight into the many complex, highly technical (corporate) taxation issues and to discuss these with companies. But it is not a one-way street, as Gutmann emphasises. Corporations should also want to be educated themselves "about societal perspectives, concerns, needs etc."[33] Indeed, businesses must become literate about transparency, develop competency and skill, and understand its dynamics and boundaries.[34]

Transparency can be active or forced. Active transparency is voluntary and purpose-driven: companies consciously opt for openness and transparency in order to achieve their purpose. Forced transparency happens when a company is transparent under pressure from others, for instance stakeholders or the media. Investor organisations are a well-known example: they (sometimes) link taxes to companies' sustainability policies and urge for transparent tax reporting. Forced transparency can also be mandatory. Think of the mandatory country-by-country reporting to the tax authorities (only). Other stakeholders also insist on transparency, that is public transparency, for their assessment of companies' tax sustainability performance. In Europe, the public country-by-country reporting directive has been in force since December 9, 2021.35 This mandatory provision of information probably does not contain sufficiently detailed tax data to enable a proper analysis of the tax behaviour of multinationals. Responsible (sustainable) tax governance entails for companies to go "beyond compliance" in this respect as well; their tax transparency should go beyond existing legal public reporting obligations.

32 J. Hirschhorn, Tax in a Transparent World (2019) 11; https://www.ato.gov.au/Media-centre/Speeches/Other/Tax-in-a-Transparent-World/.

33 D. Gutmann, "Corporate Groups in the Age of Communication", European Taxation April 2023, page 155.

34 Tapscott & 2004, page 40.

35 W. Netjes & D. Freyer, "Tax Transparency Is Here to Stay: An Analysis of the Public CbCR Directive", 50 Intertax (2022) 8 & 9, pages 1-7.

The Tax Transparency Benchmark comprises information about a number of items which together give stakeholders a picture of companies' tax behaviour.
VBDO provides an example of guiding principles:
(1) Define and communicate a clear tax strategy;
(2) Tax must be aligned with the business and is not to be regarded as a profit centre in itself;
(3) Respect the spirit of the law. Tax compliant behaviour is the norm;
(4) Know and manage tax risks;
(5) Monitor and test tax controls;
(6) Provide tax assurance.

6. Corporate culture

6.1 Culture

An important issue not yet explicitly present in the Tax Transparency Benchmark is culture, although it is a main driver of companies' tax behaviour – in terms of their actual management of both their tax liability and transparency. The behaviour, intentions, and practices reported on by companies reflect aspects of their culture, but there are other aspects which would be of interest to stakeholders as well. Before pointing these out, I will elaborate on the concept of "culture" and importance thereof.

The Dutch Corporate Governance Code states as Principle 2.5: "The management board is responsible for creating a culture aimed at sustainable long-term value creation for the company and its affiliated enterprise."[36] The realisation of a company's purpose very much depends on its organisational culture. As Hofstede and Hofstede point out, culture is a "collective phenomenon, because it is at least partly shared with people who live or lived within the same social environment, which is where it was learned."[37] They see culture as mental software: collective patterns of thinking, feeling, and acting. It is the collective programming of the mind that distinguishes the members of the organisation from others. Mindsets are thought guiding and action guiding. They carry thoughts and values of persons and organisations into action.[38]

Culture manifests itself in symbols, heroes, and rituals (including the use of language in text and talk), which together can be subsumed under the term "practices". More important than practices, however, are values; they form the core of culture.[39] A value refers to goodness that is

36 The Dutch Corporate Governance Code, 2022, page 33.

37 G. Hofstede & G.J. Hofstede, Cultures and Organizations: Software of the Mind, New York [etc.] McGraw-Hill 2005, page 4.

38 K. Goodpaster, Conscience and Corporate Culture, Blackwell Publishers: Oxford 2007, page 35.

39 Hofstede & Hofstede 2005, page 8.

worthwhile or desirable taken purely for its own sake. In other words, values are "goods that by their nature enhance life or a world or negatively are things that by their nature would make a life or a world less desirable."[40] As such, they direct our actions as "standards by which we order our lives."[41] Examples of moral values are friendship, honesty, freedom, autonomy, equality, justice, and solidarity. Such more or less enduring preferences about what is desirable or good for their own sake are widely shared. They are so fundamental to us that we define our identity through values.42

6.2 Morality[43]

Being part of society entails moral rights and obligations. The central question of morality then is how one should live in relation to other individuals. How should we treat other individuals in society and take into account their interests – and not only our own interests?[44] Taking the moral point of view is to consider the interests of those affected by our actions. It is not just about what is normal to do, but what is proper, (morally) right to do. What is good behaviour towards others and what is the good society to which one should aspire? Other individuals are "others with whom we interact personally, as well as those more distant who may be affected by what we do", in the words of Paine.[45] However, while it is necessary to consider others' interests, morality does not demand that one does this at the expense of one's own personal needs and aspirations. Moral agents may see to their own interests or the interest of their families as having special standing.[46] A moral point of view does not require that individuals behave in an altruistic way, but rather that they see their personal interests, objectives, and ideals in relation to those of other individuals in society. For an organisation to take the moral point of view, it must have leaders and a decision-making structure that allows it to consider the interests of those it affects, with special emphasis on those it wrongs or harms.[47]

As Paine argues, morality is as much an organisational as a personal issue: "organisations shape individuals' behaviour." [48] Corporations have an internal decision-making framework which

40 J. Kupperman, Value … And What Follows, New York/Oxford: Oxford University Press 1998, page 3.

41 R. Pettinger, Introduction to Management, Basingstoke: Palgrave Macmillan 2007, page 377.

42 Vgl. Ch. Taylor, Sources of the Self: The Making of the Modern Identity, Cambridge: Cambridge University Press 1989, pages 27-28.

43 For a previous version of sections 6.2 and 6.3, see H. Gribnau, E. van der Enden & K. Baisalbayeva, "Codes of Conduct as a Means to Manage Ethical Tax Governance", Intertax 46 (2018), 5, pages 397-398; https://ssrn.com/abstract=3308122.

44 P. Bloomfield, "Introduction", in P. Bloomfield (ed.), Morality and Self-Interest, New York/Oxford: Oxford University Press 2007, pages 3-4.

45 L.S. Paine, "Moral Thinking in Management: An Essential Capability", Business Ethics Quarterly 1996, 6 (4), page 478.

46 Bloomfield 2007, page 3.

47 N.E. Bowie, "Organizational Integrity and Moral Climates", in G.G. Brenkert and T. L. Beauchamp (eds.), The Oxford Handbook of Business Ethics, Oxford: Oxford University Press 2009, page 702.

48 L.S. Paine, Managing Organizational Integrity, Harvard Business Review (March-April 1994), page 107.

results in decisions that cannot directly be traced back to individual actors. By way of decision-making structures, corporations establish an explicit or implicit purpose for decisions which "clearly transcends the individual's framework for decisions."[49] Corporations make decisions of their own, to be distinguished from decisions made by individuals. Moreover, the presence of organisational norms and an organisational culture, which delineates acceptable standards of behaviour, is a key feature of companies. The organisational culture consists of a set of shared values, meanings, beliefs, and behaviours setting out what is generally regarded as right or wrong within the company. Organisational culture influences the ethical decision-making and behaviour of individual members. It has been "widely identified as a key issue in shaping ethical decision making."[50] Part of the organisational culture is thus its approach to moral issues. The organisational culture should be an ethical culture: the organisation shows a positive approach to moral issues and moral actions by not only having principles but by living by them. Members of an organisation are required to ascribe to a number of shared values and principles that are at the heart of its culture.

6.3 Moral culture

This also goes for corporations. Corporations – like individuals – with integrity are "steadfast in their commitment and actions to moral principle."[51] Such a corporation is operating ethically or morally, it lives up to and fulfils its responsibilities.[52] Corporate culture can then be defined as a corporation's "unique body of knowledge that is nurtured over a long period of time resulting in commonly held assumptions, values, norms, paradigms and world views."[53] These shape the behaviour and thinking of the people within the organisation.[54] Thus, corporate culture can be seen as mental software, and guiding corporate action.

To promote ethical behaviour, ethics should be institutionalised into the organisation. Top management sets the tone for a pattern of moral conduct throughout the corporation. Management's actions and strategies should, thus, consciously create and improve an ethical or moral culture in which ethical behaviour and policies are "displayed, promoted and rewarded."[55] Moral corporations, therefore, have a certain sort of culture or climate: they have "shared

49 A. Crane and D. Matten, Business Ethics, Oxford: Oxford University Press 2007, page 45.

50 Crane and Matten 2007, page 159.

51 Bowie 2009, page 701.

52 R.T. DeGeorge, Business Ethics, Prentice Hall 1999, page 213.

53 W. Visser et al., The A to Z of Corporate Social Responsibility, Chichester: Wiley 2010, page 98.

54 Visser et al. 2010, page 98.

55 A.K. Buchholtz and A.B. Carroll, Business & Society, Seventh edition, South-Western 2008, page 317. To their minds, this is one of the differences between a compliance-orientation and an ethics-orientation and they see the former as being more rule-bound while the latter is "more philosophical or principles-based."

perceptions of prevailing organisational norms established for addressing issues with a moral component."[56] In their actions, they take the moral point of view for they consider the interests of those affected by their actions.

Standards of behaviour reflecting this moral point of view should be established and communicated to all managers and employees by top management. These standards of behaviour can be communicated by the use of codes of ethics or codes of conducts. These codes are a phenomenon of the past 40 years or so and typically address, among other topics, ethical management practices.[57] Codes of conducts clarify what is meant by ethical behaviour and serve to achieve moral consistency throughout the company. However, such codes of ethics by themselves are not a reliable indicator of an organisation's commitment to ethics (Enron, for example, had a very good code of ethics, but a very bad moral culture, even before its collapse).[58] Codes should be supported by a pervasive moral culture. To be effective, they should be "implemented strongly and embedded in the organisational culture."[59] Codes and the moral standards contained therein do not apply themselves. They should be applied by members of the organisation in particular situations. To enhance their application, employees and managers should be guided by a decision-making structure and internalise organisational ethical standards.

According to Bowie, a corporation with a moral climate (culture), the central idea of organisational integrity, has two different attributes. "It has both shared perceptions as to what constitutes moral behaviour and processes for dealing with ethical values."60 Some of these shared perceptions are based on core values or principles that govern corporate behaviour. Bowie maintains that part of the norms and values that contribute to a moral climate are a commitment to stakeholder management and both substantive and procedural norms of fairness. Norms of fairness regard, for instance, the internal and external distribution of profits, rewards, and tasks, and just procedures that are impartial, that is, "not biased in a direction that shows self-interest or that uses criteria unrelated to merit."61

In this vein, the explanatory note of Principle 2.5 Dutch CGC reads: "Culture can be defined as the values that implicitly and explicitly inform employees' actions and the resulting behaviour. Culture is a frame of reference on the basis of which one's own actions and those of others are reviewed.

56 B. Victor & J.B. Cullen, The Organizational Basis of Ethical Work Climates, Administrative Science Quarterly 33 (1988), 108-1 as quoted by Bowie 2009, page 702.

57 Buchholtz & Carroll 2008, pages 330-331.

58 Bowie 2009, pages 712-713.

59 Buchholtz & Carroll 2008, page 331.

60 Bowie 2009, page 702.

61 Bowie 2009, page 707.

A healthy culture helps to prevent misconduct and irregularities."

6.4 Governance of ethical tax behaviour

The tax governance principles in VBDO's benchmark reflect various aspects of companies' tax culture. But how do stakeholders know that the company is really respecting the letter and the spirit of the law? Public country-by-country reporting does not contain all the information required to answer this question. Perhaps it is understandable that a company does not disclose very detailed information about every kind of tax paid in every country. But more specific information with regard to its tax practice would be helpful. Does the company have specific tax values and principles? On the basis of which values and principles did the company decide not to engage in a specific tax planning structure? The same goes for "legacy structures": how does the company deal with them; what is done to finish or phase these out?

Tax values and the (often more concrete) principles that follow are at the heart of a company's tax culture. Being transparent about the process of identifying tax values and principles gives stakeholders insight into what really drives companies' tax behaviour. The same goes for examples of ethical management practices in which – often conflicting – tax values and principles are weighted and applied. Does the company support moral learning and development, which empower individuals ("empowering ethics")?[62] Do they stimulate and teach organisational members to be "morally assertive", daring to question whether or not what is expected in their role is morally appropriate, and use their personal ethics to mediate companies' priorities?[63] Are employees trained in detecting, managing, and voicing ethical dilemmas? Is the norm to voice any moral concerns during meetings with colleagues? "Groupthink", the tendency to produce conformity among members of a group because they seek and maintain harmony in a group, may account for the absence of rival points of view. When this occurs, members of a team avoid disrupting a strong team culture and "assumed consensus" by avoiding expressing their doubts – and often (a member of) the group protects top management from information that might damage their confidence. This "cognitive trap" creates "a way of not-seeing and eliminates possible actions associated with alternative views of the world."[64] To avoid groupthink, the group might encourage members of the team to voice concerns and critique or "a team can allocate the role of the devil's advocate" to one or two people.[65] In this way, ethically challenging situations could be discussed in an open and non-hierarchical setting. Ethical thinking should, of course, be

62 B. Kjonstad & H. Wilmott, "Business ethics: restrictive or empowering?", Journal of Business Ethics 1995: 14, pages 445-464 prefer "empowering ethics" instead of restricting ethics through codes.

63 T.J Watson, "Ethical choice in managerial work", Human relations 56 (2) 2003 pages 167-185. See S.R. Clegg et al., Managing and Organizations: An Introduction to Theory and Practice, Los Angeles [etc.]: Sage, Second Edition 2008, page 415.

64 G. Morgan, Images of Organization, Thousand Oaks [etc.]: Sage 1986, page 202.

65 S.R. Clegg et al. 2008, page 103.

developed at all levels, especially at the top of the hierarchy. A moral culture trickles down from the very top of an organisation. The management board should reprimand unethical behaviour. Commitment from the top to the company's moral values should be evidenced by its behaviour – clearly visible to all.[66] What's the tone top management sets? Is tax connected to the company's purpose – which requires intrinsic pro-social ethical motivation? Does its behaviour evidence that tax is an integral part of its sustainability agenda?

Collective patterns of thinking, mindsets, guide thoughts and actions of individuals and organisations. They "translate" values into action. However, narrow or compromised mindsets can preclude or dissuade (groups of) individuals from considering moral dimensions in their decision-making of the decision or action.[67] Mindsets are both the ground of all our experiences and sources of phenomena like "blind spots": decision makers often fail to see "ethics" in a given ethical dilemma. They fail to see their actions in an objective light. In many situations, their biased view stymies decision makers to recognise the need to apply the type of ethical judgement "they may have learned in ethics courses to their decision-making process."[68] Therefore, a healthy moral culture would require the company and its tax department to discuss its own mindset. "What are our blind spots?" should also be a question to be regularly debated, preferably also with stakeholders.

7. Conclusion: A new tax governance principle?

A company's moral culture is key to its moral performance and is a prerequisite for the creation of sustainable value over the long term. The management board is responsible for creating a healthy moral culture. Communication about the ways this culture is promoted and reinforced enables stakeholders to hold the board to account. Companies already communicate their values, but stakeholders want to know how these values are translated into practice. How do they inform a company's tax strategy and its (major) concrete decisions? What kinds of problems are perceived as tax dilemmas from a moral point of view, that is, from the set of moral values endorsed by the company? Transparency's educational function allows stakeholders to gain more insight into a company's moral tax culture and may provide companies with valuable feedback. More information is needed about organisational values and the ensuing practices to enable stakeholders to assess companies' tax behaviour. Governance codes could pay more attention to this issue to help companies to transpire ethical tax behaviour as part of their governance.

66 W.M. Hoffman, D.M. Driscoll and M Painter-Morland, "Integrating ethics into organisational cultures", in C. Moon & C. Bonny (eds.), Business Ethics: Facing up to the issues, London: Profile Books 2001, page 43.

67 P.H. Werhane et al., Obstacles to Ethical Decision-Making: Mental Models, Milgram and the Problem of Obedience, Cambridge: Cambridge University Press 2013, page 6.

68 M.H. Bazerman & A.E. Tenbrunsel, Blind Spots: Why We Fail to Do What's Right and What to Do about It, Princeton and Oxford: Princeton University Press 2013, page 30.

VBDO's Tax Transparency Benchmark regards corporate tax governance. The benchmark could perhaps also take ethical tax behaviour on board. A new principle could then be fleshed out with several criteria that refer to the main aspects of management and control, responsibility and influence, and supervision and accountability of tax behaviour from a moral point of view. They would formulate what a healthy organisational moral culture and good practice would look like; how are the company's moral values applied in tax practice? These criteria would be like the tone at the top, supporting and stimulating moral learning and development, encouraging criticism and voicing rival points of view, identifying and discussing moral dilemmas and possible blind spots, and accounting for stakeholder perspectives on ethical tax behaviour.

4. Being in-control of tax – how can this be achieved?

An interview with Peter Paul Boon
Global Director of Group Tax at NN Group

Four-time winner of the VBDO Tax Transparency Benchmark – that is no small feat, and no other organisation can state the same. How has this been achieved?

When I started at NN in 2017 (a few years after the benchmark began), we started building a new tax team to reposition tax within NN. We had already written a tax transparency report for internal purposes to get a better understanding of the role of tax within the organisation. At the time, in discussion with the CFO, I was wondering whether to make this document public, since there was much to share about our approach to tax. Doing so would be closely aligned with how NN views its role in society as a corporate citizen and with our values: care, clear and commit. We had already externally published our Tax Charter to make clear what the role of the Group Tax function is within NN. Once we internally received the green light from our CFO and the chair of the Audit Committee, we could move ahead and start preparing for the publication of our first tax transparency report. With the first publication we took a hurdle because having it published once meant there would also be a second time. The yearly tax transparency report has, since its first publication, been the pride of our team. The process of getting it done was part one. The other part, its content, was every bit as important – knowing and deciding what needed to be in the report, how to include stakeholders and stakeholder management rather than only shareholders, looking beyond taxes and recognising the important role NN plays in society. Tax, as a subject and part of an organisation, needs to be in line with the core values of the company so that they can strengthen each other. In our view, the content and the process of publishing the

report are still improving every year. The idea that something can go wrong should not be feared. We of course could get questions on the items we report, but what is wrong with that? Then we will answer them, learn from them and even improve ourselves. So far, we have only received positive feedback, especially on the report describing our engagement with the tax authorities.

Getting the report published, clarifying the role of taxes paid by an organisation as a way of taking part in society, and building upon that takes leadership, as does creating a good and clear vision. How do you see that?

It is not that the vision was not already there, but it had to be given substance and we, as a team, developed it further. And for sure, leadership is one of the elements needed, but it is really about the way we handle that as a team. We have this quote as a team, “We do not provide an answer to a question, but a solution to a problem.”

We need to be commercially engaged, adding value to the organisation, and that value is not necessarily only about taxes, but also about enabling your internal clients and your organisation’s operations to optimise their work using an efficient tax method. Keeping that in mind, the way we operate since then is only logical; I would say that is the most important element. It is not about finding smart solutions, writing difficult internal memos, and only thinking of yourself and your own team but about being a partner to your stakeholders.

To fulfil this role within the organisation, you need a team that is diverse in competencies and which holds many capabilities, but which shares the same level of engagement and values.

In 2023, only 20% of the Dutch companies in our benchmark scope, and a staggering 0% of the EU companies, provide a tax in-control statement. NN Group was not only one of the first to do so but has for some time been categorised as demonstrating a best practice in this area. What do you think the barriers are for other organisations in following suit and providing such a statement?

Tax in control means that tax is well integrated in the organisation and its business operations, as well as in its governance. The difficulty, perhaps, with tax teams is that they are often seated at the headquarters of an organisation, where they hope to be involved in and kept informed by the rest of the organisation.

My vision on being in-control: you need to ensure that you have all your colleagues in the organisation as ambassadors that support and help advocate for the tax values and principles, and that they live up to these standards.

So how does this work in practice at NN?

You make this happen by being present in the organisation, engaging with other departments within the organisation, being visible, and sharing knowledge by organising training and courses. This leads to conversations, which help us to improve and to gain a better picture of the company and the potential risks. Where adjustment is needed, we adjust, and so we continue to improve our vision and approach to tax and being in-control.

The work that we do is 20% content-driven tax advice and 80% managing tax matters within NN – knowing what is happening in NN, getting the right information, and ensuring we remain tax compliant. The 80% takes the most time, and is the most challenging part, because in the end we are only a team of 16 professionals in a very large organisation covering a wide scope of different taxes and reporting obligations. We cannot be everywhere all at once, so we also need people to come to us. Our experience is that they are doing this because they realise that we add value to them and have a driving purpose.

This benchmark does not only analyse the tax policy, strategy, and reports from a "controlling" function; we expect far-reaching transparency and a clear vision on adding value to the society in which the company operates. What does transparency mean to NN Group and how does this play a part in its tax policy?

Transparency means that you are doing the right thing in all your operations, even when no one is looking. In other words, whether or not something will be discovered is not relevant. This also relates, of course, to integrity. The question, "Can you justify what you do?" is not only relevant to the expert who will understand the complexities, but also to those who lack the expertise. And this also relates to common sense; it is completely normal to pay taxes.

"Tax in control" is but one aspect of an organisation saying, "We are in control and nothing goes wrong." But of course, there is always something that can go wrong, especially in a large international company like NN with 16,000 colleagues. So, the next step is: what do you do when eventually something does go wrong and how do you ensure it does not happen again? Recognising and properly acting upon things that go wrong is even more important.

Getting back to being in control of tax. This is part of a tax policy, but of course, it is also part of the culture in an organisation. Would you say that it is actually way more important to have the right mindset, and that policy comes afterwards?

Yes, I fully agree. Of course, as a listed insurance company, we operate in a strict regulatory environment, which means we need a stringent risk and compliance function. So in a way, we are organised to do things as required. But apart from this requirement, we have a strong social responsibility embedded in our strategy and culture, which our tax team endorses. I believe that if you are working in an organisational culture, or business model that is primarily about financial targets and scoring with a mindset of “ignorance is bliss”, then you will encounter many obstacles as a tax team. Thankfully, at NN we do not have such a culture. Our strategy and culture are focused on creating long-term value for all our stakeholders, including our customers, our colleagues, shareholders, and society at large. This is the underlying principle of everything we do, and this is also reflected in our approach to tax. So yes, it all starts with the right culture and mindset.

DNA, organisational culture, and policy… the way a company operates is, of course, strongly correlated to those working at a company as well as who they are working for. As an insurance company, it makes sense that a more social approach is part of the way it operates, because it plays an important and very visible part in the life of each of its customers.

As an insurance company, we play a role in key events of our customers’ lives and help them deal with expected, as well as unforeseen, changes. During these moments of truth for our customers, it is our responsibility to deliver. This is really in our DNA,and that prevents us from using meaningless words and statements.

5. Methodology

The Tax Transparency Benchmark 2023 is based on the benchmark methodology for Good Tax Governance Principles designed by VBDO and Oikos in 2014.[69] VBDO intends to update the benchmark methodology questions every three years. In that light, the benchmark was thoroughly overhauled in 2022 to better reflect the latest status, trends, and developments on tax transparency, as well as to include new tax laws, regulations, and ESG expectations. This update resulted in an adjustment of some of the criteria, stricter assessment (from "tell me" to "show me") and the addition of new criteria. New questions include those on ESG and tax; how the company monitors the alignment of its tax strategy with the organisational values and overall business strategy; tax havens; government incentives; advocacy; and how tax relates to the value creation model. The eighth edition of the benchmark was the first time this updated methodology was used, and VBDO has received feedback on the materiality of the new criteria. For this year's benchmark, we have been able to use this feedback to strengthen the current methodology. This has led to minor changes in the questions, which can be found in Appendix I. VBDO encourages companies to adapt to the changing environment and continuously seek to improve the quality of their reporting.

Companies in scope are assessed against the measurable criteria using publicly available information for the relevant financial year. In order to encourage companies to contribute to the ongoing debate about good tax governance and tax transparency, companies are evaluated on their current practices and are able to provide feedback on their assessed score. We are pleased to report that a total of 75% (compared to 78% last year) of the 116 companies (103 last year) made use of this opportunity. We are especially pleased with the 88% feedback score from NL companies, and pleasantly surprised by the level of commitment to providing feedback shown by the EU companies, 65% of whom fed back. We have noticed that companies that provide feedback tend to also rank higher on the benchmark. This would imply that these companies are more active and inclined to improve the degree of transparency with regard to their tax approach, which we find very encouraging.

Quick facts
51 NL companies (AEX + AMX)
65 companies from seven other EU countries
35 criteria worth 40 points in total
88% feedback response rate from NL, 65% from EU

69 VBDO & Oikos (2014), Good Tax Governance in Transition, Transcending the tax debate to CSR.

Scope

Last year was the first time that we assessed European companies for this benchmark. For the pilot, we selected 25 companies from seven countries. Following the successful pilot and the positive progress regarding tax transparency made by the assessed companies, we decided to broaden the European scope by including more European companies while decreasing the number of Dutch companies. The 2023 benchmark includes 51 Dutch companies and 65 EU companies from seven countries (Belgium, Denmark, France, Germany, Italy, Spain, and Sweden) across five sectors (pharmaceutical, technology, financial, FMCG, and energy). The full list can be found in the overall ranking section at the beginning of this report. With regards to those companies in the Netherlands, the benchmark focuses on AEX and AMX companies and also includes two of their non-listed peers.[70]

Criteria

The Tax Transparency Benchmark is based on the guiding Good Tax Governance Principles designed by VBDO and Oikos30 that were created to help create a common language on what good tax governance looks like. The Good Tax Governance Principles are as follows:

A. Define and communicate a clear tax strategy;
B. Tax must be aligned with the business and is not a profit centre in itself;
C. Respect the spirit of the law. Tax-compliant behaviour is the norm;
D. Know and manage tax risks;
E. Monitor and test tax controls;
F. Provide tax assurance.

Each principle is separated into various elements and converted into measurable criteria. Appendix B provides a comprehensive list of these measurable criteria. The standard maximum number of points awarded for each criterion is one point. However, for the questions on country-by-country reporting; monitoring the implementation and execution of the tax strategy; and tax assurance, a maximum of two points can be allocated.

70 Two of the participating companies are non-listed (finance) and part of VBDO's network. These companies are Achmea and Rabobank.

Approach

In order to be able to assess companies on all the criteria of the Tax Transparency Benchmark, the companies' annual reports were reviewed together with other relevant and publicly available documents (e.g. the tax strategy, the sustainability report, a transparency report, governance documents, strategy documents, and so on). For each company in the benchmark, the scores were aggregated and subsequently returned to the company to allow for feedback. Where applicable, the feedback from the companies was incorporated in the results. To make the results as measurable and comparable as possible, a strict definition of the criteria was used.

As in previous years, following the results of our study, a top 13 best performing companies was selected. In order to be able to reach an independent verdict on the Tax Transparency Benchmark, an expert jury was appointed by VBDO to weigh the results and assess the validity of the results. See Chapter 8 for the jury report.

Jury

Appointed by VBDO, the expert jury consisted of six honourable members acting in a personal capacity. All of them are experts in the fields of good tax governance and tax transparency but they come from different backgrounds:

- Klaas Bangma, Economic Policy Advisor at FNV;
- Irene Burgers, Professor of Economics of Taxation and Professor of International Tax Law at Groningen University;
- Michiel van Esch, Active Ownership Specialist at Robeco;
- Hans Gribnau, Professor of Tax Law at Tilburg University and Leiden University;
- Anna Gunn, Tax Researcher and Blogger at Leiden University and Artikel 104;
- Xander Urbach, Advisor Responsible Investment & Governance at MN.

6. Results

In this chapter, we present the results of the 2023 Tax Transparency Benchmark. Last year, the methodology was updated and the scoring model was extended from 35 to 40 points. Therefore, it was not possible to compare all results of 2022 to the years prior. This year, despite some differences in scope, we can once again compare our results (at least to some extent) to the previous year's. This year, we can also further analyse the 116 companies in scope, as well as look for similarities and differences between the two scopes (NL and EU). In addition, we can provide a deep dive into the differences and similarities between the seven selected EU countries, which are all represented by up to ten companies in the overall scope.

1. NL (51 listed companies)
2. EU (65 listed companies, from seven countries)
3. Seven EU countries: Belgium (10), Denmark (10), Germany (10), France (10), Italy (9), Spain (9), Sweden (7)

Looking back

In the figure below, we present the total average score for this year, as well as for previous years to provide the historic perspective. When the benchmark started in 2015, the average score was only 25%. Since then, this gradually improved to 50% in 2021. That year, of course, marked the end of only assessing Dutch companies, and in 2022 we saw an overall decline due to the inclusion of EU companies. Dutch stock-listed companies have become more transparent in their tax reporting over the years and frequent engagement on this topic has had, at least to some extent, a positive influence on the average score. Looking at the years 2022 and 2023, the overall average score is lower than previous years. We saw a steeper drop in 2022 to 42%, and yet a good bounce back to 47% in 2023, despite the scope being extended to include 65 EU companies, of which most are first-timers to the benchmark.

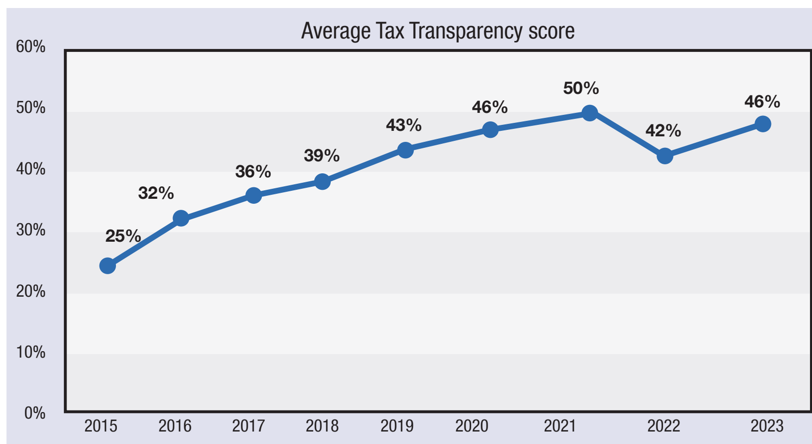


Figure 1: Average tax transparency score

Looking at the 2023 results

As can be seen in Figure 1, in 2023, the overall score of the companies has risen compared to 2022. However, it must also be stated that not all companies contributed to this increase. This year, we have 23 companies scoring below the minimum threshold of 25% (i.e. below ten points) on our benchmark. Sixteen of these companies are from the EU and seven are from the Netherlands. Combined, this means that 20% of all companies in scope are lagging.

We can also look more closely at the differences between the EU and NL scope. In the figure below, we can see that the NL scope scores considerably higher than the EU scope.

Table 5: Average score per scope

	Average score
The Netherlands (51)	56%
Europe (65)	41%

One important potential reason for the higher average score of the Dutch companies in scope, is the many years of VBDO's engagement with them on the topic of tax transparency and responsible tax. Looking at the historic development of this score, we can expect an increase for the EU companies in the coming years.

It is very encouraging to see more companies responding to our assessments and providing feedback on their company profiles, especially with so many new companies joining the benchmark for the first time. The response rate increased from 77% in 2021 to 78% in 2022. In 2023, 88% of the Dutch companies have fed back. There are over 45 new companies in the EU scope, so we are very pleased to share that we have seen a 65% response rate from the EU companies, resulting in an overall response rate of 75% (87 out of 116 companies). One of the contributing factors has been the many discussions that VBDO has had with companies relating to tax transparency, and the overarching growing interest in this topic shown by both sustainability and tax professionals from stock-listed companies in Europe.

In addition to the differences between the two overall scopes (EU and NL), we can this year also look at the differences between each of the participating countries. With the expansion of the EU scope to 65 companies from seven countries, it becomes increasingly interesting to seek an understanding of the differences. Whilst good tax governance and the integration of sustainability is not limited to a country or region as it should be part of each and every tax strategy, there are many other factors to be taken into account when comparing the results of different countries. For instance, the regulatory frameworks of not only countries, but also sectors, are sometimes significantly different, as are the cultural and ethical norms.

Table 6: Average score per country

	Average score
The Netherlands (51)	56%
Europe (65)	41%
Italy (9)	55%
Spain (9)	53%
Denmark (10)	47%
France (10)	44%
Germany (10)	36%
Belgium (10)	24%
Sweden (7)	24%

Looking at the figure above, it becomes apparent that there are vast differences in terms of tax transparency between these countries. We can see the Netherlands (56%) being joined at the top of the ranking by leading countries such as Italy (55%) and Spain (53%). On the other hand,

we have countries such as Belgium (24%) and Sweden (24%) scoring an average below even the 10-point minimum threshold. These results are concerning and we encourage companies to improve tax transparency.

Last year also marked the first time that this benchmark looked at five different sectors, enabling us to not only assess differences and comparisons between sectors, but also between countries.

Table 7: Average score per sector in 2023

	Financial	Energy	Pharma	Technology	FMCG
EU (65)	50%	61%	31%	29%	30%
NL (51)	79%	61%	13%	61%	53%

The results from last year gave a limited perspective on the five sectors, since only a few companies were assessed. This year, each sector is better represented, which leads to a better understanding, and so more insights are provided in this report. For instance, we can see that the pharmaceutical sector is scoring significantly lower than high scoring sectors such as the energy and financial sectors. There are also significant differences between European companies and their Dutch peers, especially in the technology and FMCG sectors, whilst the scores for the energy sector are relatively similar. One reason why the Dutch financial sector is scoring so much higher than other sectors may be the long-term engagement of this sector on this topic as well as the fact that it benefits from a very stringent regulatory framework and oversight by authorities. In a way, this should provide a blueprint for other sectors to follow.

Main findings of the Tax Transparency Benchmark 2023

In this section, we provide a quantitative and qualitative explanation of the outcomes of the Tax Transparency Benchmark 2023. Since the benchmark methodology changed in 2022, this year we are more able to provide comparisons with last year and, where possible, we will do so. It remains, however, a limited exercise, since the 2023 scope has changed significantly from 2022. In addition, some criteria remained the same during last year's overhaul, so where possible, we will show results dating back to 2018. The following pages cover the overall and most significant results of our benchmark study.

71 Only two companies assessed in the Netherlands are found in this category, therefore this is not a fully representative indication of the sector. We, however, do report on this sector as it provides some insights into the differences between the NL companies and the EU companies.

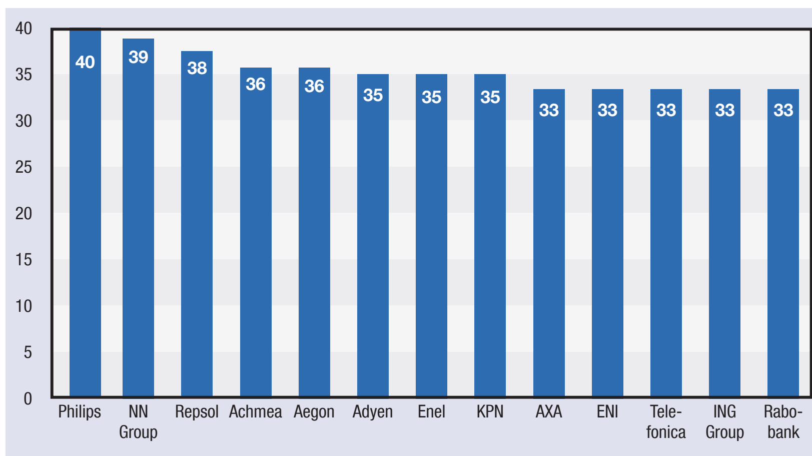


Figure 2: Scores achieved by the top 13 companies, 2023 (Ranking TTB23 - Top 13 NL+EU)

Results per principle

A. Define and communicate a clear tax strategy

An appropriate tax strategy is accessible and clearly communicated (transparent). It contains the company's vision and objectives regarding taxation. It is aligned with the organisational values, the business strategy, and the sustainability strategy. It takes stakeholders' interests into consideration, explains the company's view on its relationship with the tax authorities, and describes its vision and the role of technology.

Top scores

A total of seven companies have scored the maximum number of points for the first principle, compared to three in 2022. Last year we saw the inclusion of how tax is taken into account to address specific ESG issues and marked a steep drop in the average score of this principle compared to 2021 and previous years. One positive development that we have seen this year is more companies taking ESG into account when formulating their tax strategy. Currently, 34% of the companies take ESG taxes into account. The seven companies that best defined and communicated their tax strategy in a clear manner were Philips (Netherlands), Achmea (Netherlands), Aegon (Netherlands), DSM (Netherlands), Rabobank (Netherlands), Van Lanschot Kempen (Netherlands), and Repsol (Spain).

Main results (full NL+EU scope, unless otherwise stated)

- 90% of the companies (NL 96%, EU 85%) communicate their views on tax via a tax strategy or policy;
- 70% of the companies (NL 77%, EU 66%) report how their tax strategy is aligned with their organisational values; however, only 36% describe how the company monitors this alignment;
- 47% of the companies (NL 59%, EU 37%) state that their tax strategy has been signed off by the executive board, and include how often (i.e. quarterly, annually or on a specific date) the board reviews the strategy;
- In terms of stakeholder inclusion, 33% of the NL companies describe the processes for and outcomes of collecting and considering the views and concerns of stakeholders (including external stakeholders) and give concrete examples. For the EU scope companies, this percentage is lower at 22%;
- Zooming in on the lobbying and advocacy policies of companies, 39% of the EU companies describe how their approach to encouraging the public debate on tax transparency, public policy lobbying, and/or advocacy on tax is aligned with the tax strategy. This is much higher for the NL companies at 59%;
- With the recent introduction of the criterion concerning how ESG taxes are taken into account, 34% of the companies are now reporting on this;
- A total of seven companies score full marks on this principle – five from the Netherlands and two from the EU scope. A staggering eight companies did not score any points for this principle, meaning that they are therefore missing important elements of good tax governance as described above.

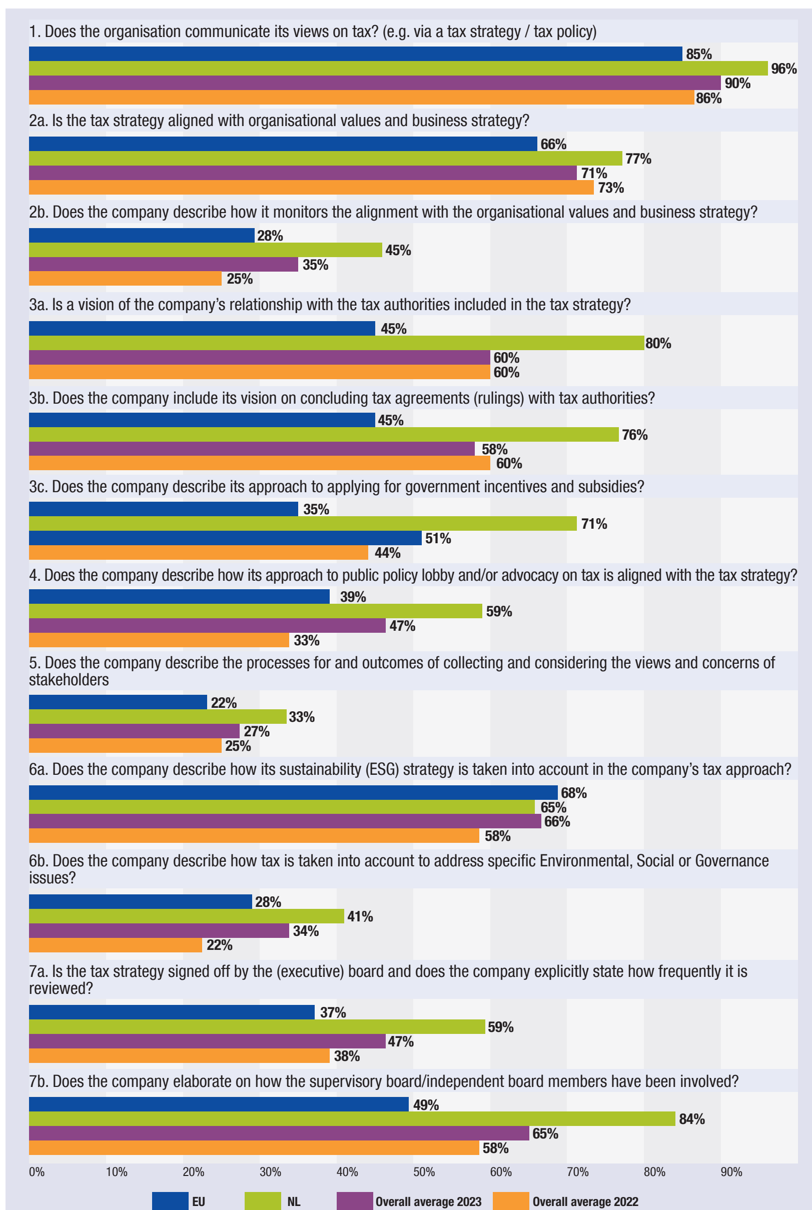


Figure 3: Scores on Principle A

The average score for Principle A is 54% (of the full scope), compared to 49% last year. The NL companies score significantly higher (with an average score of 64.2%) than the EU companies, which score, on average, 46%. The increase in overall average score could be ascribed to multiple developments relating to the principle. For instance, there is an increase in the percentage of companies scoring a point for the first (and most important) question about stating the company's view on tax in its annual report, tax strategy or a policy document. The NL companies score very high with 96% for this criterion and the overall percentage of companies achieving a mark is 90%. Other indications of progress for Principle A can be found in criterion 4: describing "how its approach to encouraging the public debate on tax transparency, public policy lobbying and/or advocacy on tax is aligned with the tax strategy" (33% in 2022 → 47% in 2023); criterion 6b: a description of how tax is taken into account to address ESG issues (22% in 2022 → 34% in 2023); and criterion 2b: a description of the monitoring of the alignment of the organisation's values and business strategy (25% in 2022 → 35% in 2023). On the other hand, we can see the results for some criteria stagnating or even declining; most notable for this are criterion 2a on whether the tax strategy is aligned with the organisation's values and business strategy (73% in 2022 → 71% in 2023) and criterion 3b "vision on concluding tax agreements (ruling) with tax authorities" (60% in 2022 → 58% in 2023). With upcoming regulations, such as the Corporate Sustainability Reporting Directive (CSRD), it is increasingly important for companies to involve stakeholders in the process of setting the tax strategy. In 2022, only 25% of companies in scope had integrated this properly, and in 2023 this has only slightly increased to 27%. Often, companies do mention their approach to involving stakeholders, but miss obtaining a point for this criterion because they do not provide concrete examples. In order for stakeholders to ascertain that the tax strategy is embedded within the company and supported by the top, it is important that the tax strategy or policy documents are explicitly signed off by the board. In 2021, 57% of the companies (78% of NL companies) had integrated this important governance step; however in 2022, this had massively decreased to 35% (NL & EU scope). That decrease could specifically be explained by the fact that VBDO is now asking for an explicit mention of the frequency of the board review and sign-off (as mentioned in GRI 207-1). Companies often refer to this process as being done "regularly", which is a vague and unclear description of the frequency. In 2023, the average score has climbed to 47%. The NL companies score higher on average (59%) than the EU companies (37%) on this specific criterion.

One final note regarding Principle A, there is an especially high difference between the EU companies and the NL companies when addressing the vision on tax and relation with the tax authorities. We have not found a clear explanation for this difference however, it would be interesting to seek a better understanding with more detailed research.

B. Tax must be aligned with the business and is not a profit centre in itself

Tax should not be seen as an isolated business component but as an integral part of the company and as part of the broader business strategy. As such, tax should not be the exclusive domain of the tax department. In principle, a company should declare profits and pay taxes where it conducts business activities and should be transparent on how this is done.

Top scorers

Vattenfall (Sweden), Repsol (Spain), Enel (Italy), Philips (Netherlands), NN Group (Netherlands), Achmea (Netherlands), Adyen (Netherlands), and Aegon (Netherlands) score the maximum number of points on the second principle, compared to only one (Repsol) last year. One of the major developments for the principle is the increase in companies that describe the role of tax in the value creation model. This has increased from only 9% last year to 27% overall this year. Likewise, we can ascribe the increase in companies scoring maximum points to more companies providing full disclosure of country-by-country reporting in line with GRI 207-4. Interestingly, this is also one of the few criteria (more on this later) where EU companies score significantly higher than NL companies in this benchmark.

Results

- Three EU companies and seven NL companies provide information on a country-by-country basis about ESG-related taxes. It is worth mentioning that last year only Repsol provided such information. However, it must be stated that the percentage still remains very low, with just 9% of the companies in scope reporting on this criterion, but it is a well promising start;
- Eight companies in total score full marks on this principle, as opposed to only one company last year;
- 81% of the companies (92% NL, 72% EU) state that they declare profits and pay taxes where the economic activity occurs;
- 71% of the companies (88% NL, 58% EU) communicate that they do not make use of tax havens. However, when asked if the company discloses its definition of tax havens and/or non-co-operative jurisdictions, this decreases to 42%;
- A good increase can be witnessed when it comes to describing the role of tax in the value creation model. Last year, just 9% of the NL and 8% of the EU companies were doing this. We can now report that an overall 27% of the companies (29% NL, 25% EU) provide such a description;
- 86% of all companies (90% NL, 83% EU) in scope provide a reconciliation between the effective tax rate and the weighted average statutory tax rate that includes a narrative description;
- There is also an increase in the amount of companies providing full disclosure of coun-

try-by-country based tax information in line with GRI 207-4. 14% of the NL and 24% of the EU companies were doing so last year; this is now up to 31% of the NL and an impressive 42% of the EU companies;

- The inclusion in reports of government payments, subsidies, and incentives on a per-country basis remains limited: just 17% of the NL companies and 14% of the EU companies report this information.

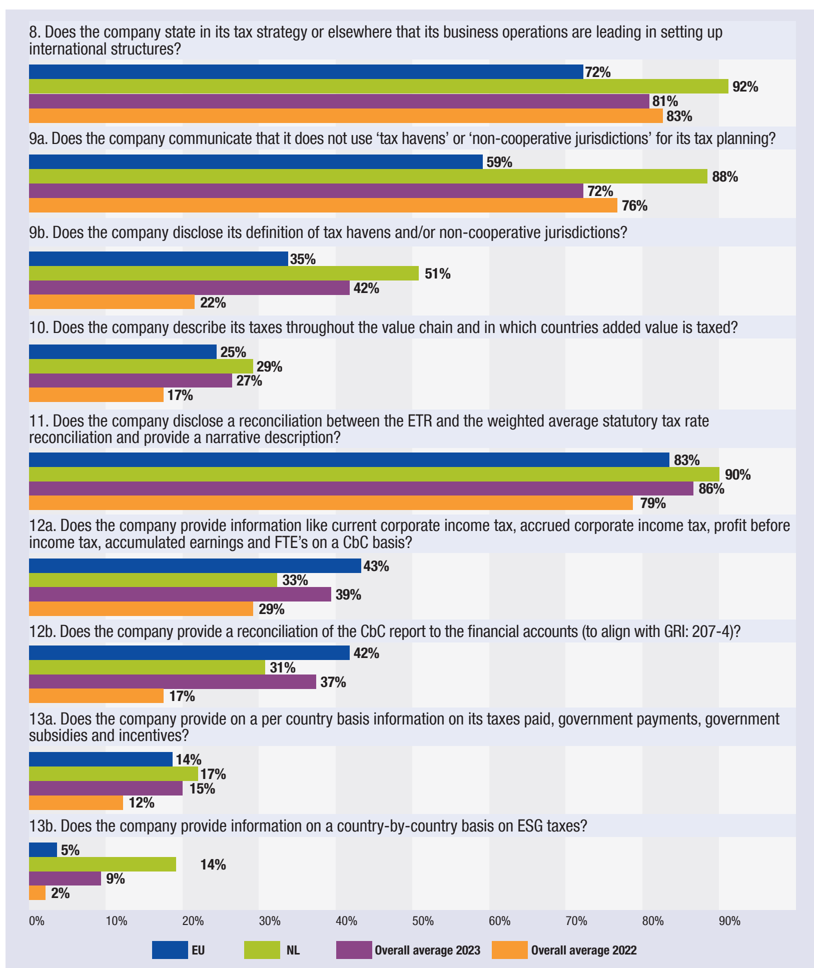


Figure 4: Scores on Principle B

The average score for Principle B is 42%, which makes it the second lowest scoring principle of the six. However, the average score has increased slightly from last year's 34%. Similar to Principle A, and to the overall score of the benchmark, the NL companies score higher (with an average score of 45%) than the EU companies, which score, on average, 39%. The lower difference between the two scopes (EU and NL) can be ascribed to the better application of country-by-country reporting by EU companies. An improved score on most of the different criteria of principle B has led to an overall increase of the score on this principle. However, we do see a decrease in criterion 8 "tax must be aligned with the business and is not a profit centre in itself" from 83% in 2022 to 81% in 2023. In addition, the score for criterion 9a, "explicit communication anywhere that the company does not use 'tax havens' or 'non-co-operative jurisdictions' for its tax planning" has decreased from 76% to 72%.

The progress regarding country-by-country reporting is especially encouraging to see and the difference between the EU companies (see figure X – criteria 12a-13b) and NL companies could partly be ascribed to local regulations. For instance, one of the countries in scope, Spain, has implemented public country-by-country reporting from 2022 onwards, and other countries are now following suit. We should witness a steep increase in public country-by-country reporting in the coming years with the EU directive having entered into force.

On a final note, the 2023 benchmark results show a very significant increase in criterion 12b, where we seek the company's alignment with GRI 207-4, from 17% overall on average last year, to 37% this year. This increase can partly be attributed to the financial sector, and especially banks. Whilst financial institutions are exempted from reporting under the EU public country-by-country reporting directive, EU banks are required under the Capital Requirements Directive IV of the European Union to publicly disclose tax payments, profits, and economic activity consolidated for each country in which they operate[72].

C. Respect the spirit of the law. Tax-compliant behaviour is the norm

A company should aim to comply with the spirit as well as the letter of the law. This means e.g. that the intention of the legislator should also be used as a guiding principle for the company to ensure tax-compliant behaviour. By definition, the spirit of the law can be open to interpretation. Therefore, discussions are required with internal stakeholders, including tax, legal, compliance, and CSR officers, as well as external stakeholders, such as investors, government officials, tax authorities, and civil society organisations. Being compliant with tax laws and regulations, statutory financial obligations, and international accounting standards, is the core responsibility of the tax function.

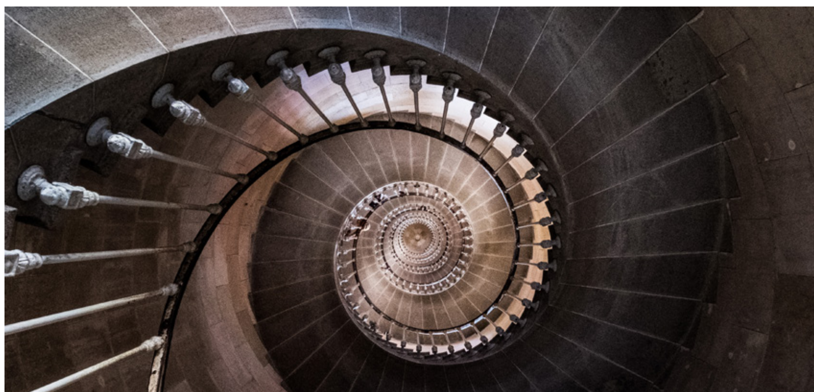
72 https://www.taxobservatory.eu/repository/banks-country-by-country-reporting/

Top scorers

A total of eight EU companies and 21 NL companies score the maximum number of points on the third principle, compared to 20 companies in total last year. In contrast to the previous two principles, Principle C has a maximum of 4 points that can be scored by the companies. The following companies score all 4 points: Achmea (NL), Adyen (NL), Aegon (NL), Advanced Metallurgical Group (NL), ASML (NL), a.s.r. (NL), Corbion (NL), DSM (NL), ING Group (NL), Inpost (NL), KPN (NL), NN Group (NL), Philips (NL), Prosus (NL), Rabobank (NL), SBM Offshore (NL), Signify (NL), Vopak (NL), FUGRO (NL), Randstad (NL), Ahold Delhaize (NL), Enel (Italy), Repsol (Spain), Telefonica (Spain), Gruppo TIM (Italy), KBC (Belgium), Orsted (Denmark), RWE (Germany), and Generali (Italy).

Results

- 80% of the NL companies state that their tax planning strategy takes the spirit of the law into account and provide an explanation of how they perceive this, as opposed to only 42% of the EU companies. In both cases, this is an increase from the respective 73% and 32% last year;
- 63% of the NL companies have a training programme in place on how to deal with tax (dilemmas) for their tax, legal and compliance officers, as opposed to 39% of the EU companies;
- Looking at whistleblower policies, we can see that tax is being integrated (or referred to) by 65% of the NL companies and 39% of the EU companies. In both cases, this is a small increase from 2022;
- Principle C is the second highest scoring principle of the six, with an average score of 2.7 points out of the maximum 4 for the NL companies and 1.8 points for the EU companies.



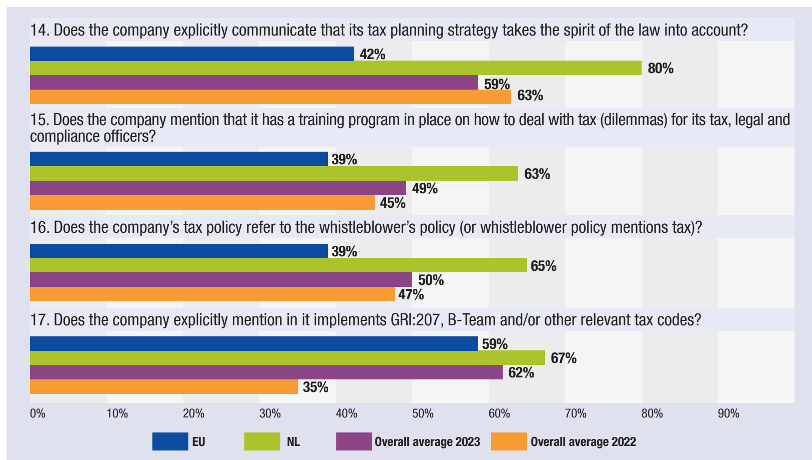


Figure 5: Scores on Principle C

The average score for Principle C is 55%, which makes it the second highest scoring principle of the six. Similar to Principles A and B, and to the overall score of the benchmark, the NL companies score higher (with an average score of 69%) than the EU companies, which score, on average, 44%. The difference in average score between the two scopes, however, is significantly larger than for the first two principles. We continue to see an increase in the number of NL companies that explicitly state that their tax planning takes the spirit of the law into account (73% in 2022 → 80% in 2023). There is a similar increase for the EU scope (32% in 2022 → 42% in 2023). An explanation for the EU companies having a lower average score on the Principle as a whole, could be attributed to the high increase in EU companies in scope compared to last year (65 this year, 25 last year). On the other hand, the stricter application of this criterium by VBDO this year, might explain the lower score. Companies were asked to provide an explanation on how it takes the spirit of the law into account (e.g. by explaining how they apply the alignment with the OECD guidelines for multinationals, chapter 11 'taxation' in practice by giving concrete examples).

Both criteria 15 and 16 show a relatively small increase from 2022, and both show a difference between the two scopes (EU and NL) in line with the overall benchmark score. It is especially remarkable to see the low average score of the European companies when it comes to knowledge-building as this is an important part of a company's tax-compliant behaviour. It could be the case that training is provided but that reporting on it, lags behind. Training should make it easier for employees to deal with tax dilemmas, and therefore companies should provide

training that ensures tax issues are dealt with in accordance with the company's organisational values. Companies should also support employees to determine how to apply the spirit of the law in specific circumstances. The number of companies providing such training programmes has increased significantly for the NL companies (42% in 2022 → 63% in 2023); however, the European companies are severely lagging with only 39% having such a programme in place. Historically speaking, we are pleased to see this percentage has tripled for NL companies since 2018, when only 20% of the NL companies provided training. It is important that employees and other stakeholders know how to speak up when confronted with a tax-related concern. In 2022, we started asking for an explicit reference to the whistleblower policy in the tax policy or a reference to tax issues in the whistleblower policy. In 2021, 40% of the 78 NL companies reported in the tax policy that they had a whistleblower policy in place (or vice versa). In 2022, that result increased to 51% for the NL scope, but only 32% of the 25 EU companies had reported this measure. In 2023, there has been an increase for the NL companies to 65% and to 39% for the EU companies. It is encouraging to see these small increases, yet attention should be paid to this limited reporting across the 65 European companies.

On a final note regarding Principle C, we have witnessed a significant improvement in the amount of companies adhering to criterion 17, by explicitly mentioning in their tax strategy that they implement tax standards. By "tax standards", we mention examples like the VNO-NCW Tax Governance Code, GRI 207, B-Team, and/or other relevant (local) tax codes. In 2022, this criterion scored an average of 35% for the full scope. In 2023, this has massively increased to 62.1% overall, with the NL companies scoring 66.7% and the EU companies 58.5%. In particular, there has been a high increase in the number of companies that have integrated the new VNO-NCW Tax Governance Code (for NL companies) and GRI 207 (for EU companies), but the B-Team was also mentioned regularly.

D. Know and manage tax risks

Tax risk management is a proactive process that is demonstrably embedded within the risk management and internal control function of the company. In order for stakeholders, such as investors, to understand national or international tax risks, a company should provide a clear response to each material risk.

Top scorers

TKH Group (NL), Ahold Delhaize (NL), JDE Peet's (NL), Unilever (NL/UK), Signify (NL), SBM Offshore (NL), RELX Group (NL/UK), Prosus (NL), Philips (NL), NN Group (NL), KPN (NL), Inpost (NL), ING Group (NL), DSM (NL), a.s.r. (NL), Advanced Metallurgical Group (NL), Aegon (NL), Adyen (NL), Achmea (NL), Repsol (Spain), and Allianz (Germany) all score the maximum number of points for

this principle. This is a slight increase compared to the 17 companies that achieved full marks for this principle last year. 19 of the 21 companies are in the NL scope and only two are in the EU scope. This principle dives into the management of tax risks, and there is a sizable increase in the amount of NL companies reporting tax risks , in terms of financial, regulatory, and/or reputational risks, (58% in 2022 → 75% in 2023). Similarly, the EU companies have achieved a respectable average score of 53% for this criterion.

Results

- Interestingly, with 19% of the 78 companies in 2021 scoring the maximum number of points on this principle, and 16% of the 103 companies in 2022, we can conclude that this percentage remains stable, with 18% of the 116 companies in 2023 scoring maximum points. With the number of companies in scope increasing steadily, this means that 21 companies now score the full amount of points for Principle D;
- For Principle D, we seek detailed examples of tax risks reported on by the companies in terms of financial, regulatory, and/or reputational risks. 58% of the NL companies were providing such information in 2022; this has increased to 75%. 53% of the EU companies provide detailed examples of tax risks;
- However, when asked for a commentary on the company's responses to these risks, both scores drop – to 49% (NL) and 37% (EU). Worryingly, a smaller percentage of NL companies provide this than in 2022, when 55% did so;
- One of the greatest differences in score between the two scopes of companies (NL and EU) can be witnessed for the description of the role of technology in tax relevant data management. 67% of the NL companies provide such a description, whilst only 17% of the European companies do so.

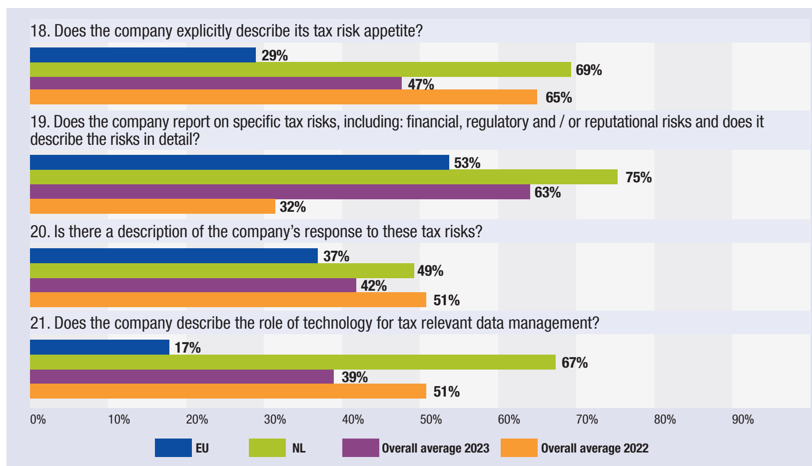


Figure 6: Scores on Principle D

The average score for Principle D is 51%. This principle has changed the most compared to last year. Both criteria 18 (tax risk appetite) and 21 (the role of technology in tax data management) have seen a steep drop in the average score in 2023 compared to 2022. Both decreases can be attributed to the expansion of the EU scope, which has gained a much lower score for these two criteria than the NL companies. For criterion 18, which has an average score of 47%, the NL companies score relatively high at 69%, but the EU companies score only 29%. This is because the tax risk appetite (e.g. low risk appetite) is not explicitly stated in most of the EU companies' reports. We encourage companies to state their tax risk appetite explicitly, as doing so provides stakeholders with a better understanding of the company's approach to tax risk management. For criterion 21, which has an average score of 39%, there is an even greater difference between the two scopes (EU and NL). The NL companies have scored, on average, 67%, whilst the EU companies are severely lagging in this area with an average score of just 17%. A specific reason for this low score from EU companies has not been found. In contrast to the decline in average score for criteria 18 and 21, criterion 19 (reporting on specific tax risks) shows a steep increase, with an average score of 63% compared to 32% in 2022. It is worth mentioning that this increase can be specifically attributed to the NL companies; from 32% in 2022 to 75% in 2023.

Finally, we expect companies to provide information on tax risk management that is comprehensive and provides value for stakeholders. Moreover, this information should be specific and apply to actual cases. Companies can improve their reporting by including in the annual report an evaluation of their response to managing the tax risks they have identified. By doing this, the risk paragraph becomes more than simply a tick-the-box exercise; it provides meaningful disclosure to stakeholders. Ideally, it should be accompanied by an impact analysis. The latter requirement has been added to criterion 20 for 2023; we now ask companies to include an impact analysis for tax risk evaluation, which includes the likelihood of occurrence and the extent of financial consequences of risks. The stricter threshold for obtaining a point on this criterion has resulted in a lower average score. The overall average score has dropped from 51% in 2022 to 42% in 2023. Both the NL and the EU scope have scored lower than last year.

E. Monitor and test tax controls

It is important that a company has a standardised approach to monitoring and testing controls. This allows for the monitoring of the proper execution of its tax strategy on the one hand and substantiating that the organisation is in control of tax matters on the other.

Due to the increased public scrutiny and intensified debate on tax in recent years, the boardroom's interest in tax risk management grows each year. Identifying risks by means of monitoring and testing activities, and reporting and managing tax risks are now considered part of properly embedding tax risk management in the organisation.

Top scorers

Generali (Italy), Sanofi (France), Orsted (Denmark), Gruppo TIM (Italy), Engie (France), Elia Group (Belgium), Carlsberg (Denmark), Bayer (Germany), Banco Santander (Spain), Acciona Energia (Italy), Vattenfall (Sweden), Vestas Wind Systems (Denmark), Telefonica (Spain), Repsol (Spain), Recordati (Italy), Eni Group (Italy), Enel (Italy), Deutsche Bank (Germany), BNP Paribas (France), BBVA (Spain), Axa (France), Allianz (Germany), Ahold Delhaize (NL), Randstad (NL), JDE Peet's (NL), Flow Traders (NL), VOPAK (NL), Van Lanschot Kempen (NL), Unilever (NL/UK), Shell (NL/UK), ABN AMRO (NL), Achmea (NL), Aegon (NL), Advanced Metallurgical Group (NL), ASML (NL), a.s.r. (NL), Corbion (NL), DSM (NL), Eurocommercial Properties (NL), Heineken (NL), ING Group (NL), Inpost (NL), Just Eat Takeaway (NL), KPN (NL), NN Group (NL), Philips (NL), Prosus (NL), Rabobank (NL), RELX Group (NL/UK), and SBM Offshore (NL). In short, Principle E is the highest scoring principle (on average) for both the NL scope and the EU scope, with 51 companies scoring the maximum four points.

Results

- This principle has the highest average score for both the EU and NL companies, respectively 2.2 and 3.0 (out of 4 possible points);
- 61% of the NL companies describe how the implementation and execution of the tax strategy is monitored, as opposed to 49% of the EU companies;
- 77% of the NL companies describe how tax risks and controls are tested and monitored, while 54% of the EU companies do so;
- 73% of the NL companies include tax risk management when reporting to the audit committee, whereas 57% of EU companies do so.

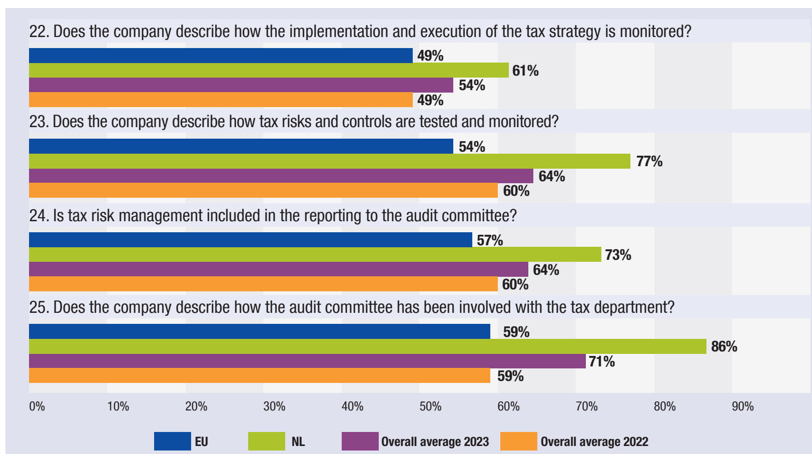


Figure 7: Scores on Principle E

Principle E has the highest average score of any principle, with a combined total average score of 63%. The NL scope scores an average of 74% and the EU scope scores 55%. This marks a significant increase compared to 2022, when the overall average score was 57%. We have witnessed increases in all four criteria, but there is still a sizable difference between the EU and NL scopes. An important element, which is highlighted specifically in Principle E, of proper tax reporting is sharing with stakeholders exactly how the tax strategy is implemented and monitored rather than just telling them that it has been done. In order to be transparent about the monitoring and testing processes that a company has designed, a narrative should be provided that shows the embedding of the tax strategy. This is covered by criterion 22, where we can see an increase in the average score from last year, as well as that the NL scope's score has increased significantly from 45% in 2022 to 61% in 2023. Whilst this is a positive development,

criterion 22 remains the lowest scoring criterion for this principle. Looking at how companies describe tax risks and how controls are tested and monitored, we can observe a steep increase from 58% in 2022 to 77% for the NL scope and a relatively positive average score of 54% for the EU scope. Another important element in the execution of the tax strategy is reporting how internal auditors and the audit committee of the supervisory board of the company are updated and involved in tax risk management. In 2022, 59% of the NL companies explicitly reported on how the audit committee is engaged in reviewing tax risks, rather than just stating that the audit committee has been consulted throughout the year. In 2023, this has increased to 86.3%. In addition, 59% of the EU companies are also now doing this. We believe that tax management and compliance within a company can greatly benefit from the active involvement of the supervisory board. By doing so, supervisors are kept up to date on relevant tax information and developments so that they are able to challenge the current state of play. At the same time, staff whose roles involve tax matters should also be challenged to show that they adhere to the existing tax principles and implement tax controls.

F. Provide tax assurance

Companies should be prepared to provide additional (non-financial) tax information to regulators, tax authorities, and other stakeholders to provide a certain level of assurance regarding tax data and processes. This tax assurance should be based on the implementation and outcome of the five aforementioned principles. One way to create more certainty is through a tax in-control statement. Preferably, this tax in-control statement will be explicitly mentioned and disclosed in the tax paragraph of the annual report. Ideally, the company should provide its own tax in-control statement, in which it declares to what extent the processes and operations worked and were in control. In addition, assurance can also be provided by a third party. Third-party tax assurance helps to give stakeholders more certainty about tax processes.

Top scorers

Vopak (NL), Philips (NL), NN Group (NL), and KPN (NL) are the only four companies to have scored the maximum amount of five points for this principle. There are no EU companies scoring maximum points for this principle. Perhaps unsurprisingly, this is also the principle with the lowest average score of the six.

Results

- Last year, ten companies provided third-party tax assurance. This year, six NL companies and a staggering 24 EU companies have provided third-party tax assurance on non-financial tax disclosures. This is one of the few criteria for which European companies score significantly higher than NL companies;

- None of the EU companies, however, provide a tax in-control statement, whereas 20% of the NL companies do so;
- 60% of the NL companies participate in a co-operative compliance programme, as opposed to 29% of the EU companies.

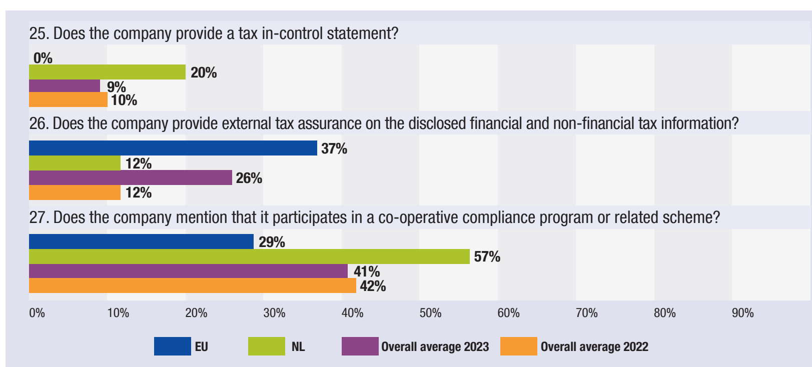


Figure 8: Scores on Principle F

Historically, Principle F has scored low in the past nine years that we have executed this benchmark. In 2023, the average score for this principle has only risen slightly, to 22% compared to 17% in 2022. Both scopes contribute almost equally to the average score, with EU companies scoring on average 21% and NL companies 24%. Even though companies have traditionally scored low on this principle, we continue to see improvement across the two scopes. We believe the increased adoption of the GRI 207: Tax standard by companies provides a push towards tax assurance and tax reporting. Interestingly, this is more apparent for the EU companies (37% are providing external tax assurance) than for NL companies (12% for the same criterion). For this year, we have narrowed the criterion by specifically looking for external tax assurance on the non-financial tax disclosures (for example, companies can provide limited assurance on GRI 207). Companies can provide external assurance, but internal assurance in the form of an in-control statement is valuable as well. We have observed an increase since 2018 in the number of NL companies that include a tax in-control statement. Although many companies stated that they are in control of the business, only a small number state that they are in control of tax: an important element of full maturity on this topic. We found that 20% of the full NL scope includes this statement, compared to 12% in 2022. For comparison, none of the EU companies has provided such a statement.

7. Recommendations

The results of this year's benchmark show that, overall, companies have once again demonstrated progress on most tax transparency elements. However, there still remains room for further improvement in several areas, especially on internal- and external tax assurance (e.g. in-control statements), more complete public country-by-country reporting, ESG integration, and addressing internal as well as external stakeholders' views and concerns. Based on the results of the Tax Transparency Benchmark 2023 and the expert jury meeting, recommendations for further improvements for different parties are outlined below.

To companies

- Ensure you keep abreast of all relevant developments regarding the transparent reporting of tax and continue to adapt your policies (including the sustainability strategy) and practices to align with these new standards;
- Improve the quality of your dialogue with internal and external stakeholders to further develop your tax communication approach and to help rebuild trust in taxation;
- Continue developing and strengthening the link between sustainability and tax, and report on how these two areas can strengthen each other;
- Intensify collaboration between the tax department and other departments within the company in light of the vast amount of data required for (sustainability) reporting;
- Provide further narrative about tax processes to move from a "tell me" stance to a "show me" one;
- Continue to elaborate on the tax risk management process, and include a description of the company's tax risks, risk appetite and risk response in public information;
- Provide a comprehensive narrative to the ETR reconciliation table that clearly explains the numerical calculation from the statutory to effective tax rate;
- Provide country-by-country reporting data and seek to improve the quality and the remit of this data. Align with the GRI 207: Tax standard and EU Directive on Public CbCR. Disclose on a country-by-country basis, not per region;
- Start providing information to stakeholders on the value creation story of your business to make clear where your organisation is being taxed and where tax has a link with the value creation process;
- Employ and continuously improve a monitoring system for the implementation and execution of your tax strategy, and actively involve the supervisory board in this process;
- Provide assurance, ideally both an in-control statement and third-party tax assurance, on your tax transparency reporting. An in-control statement should be provided by your internal audit department (or the department responsible for governance) and signed off by the

management board;
- Implement the tax strategy and show how it is monitored; do not use this Tax Transparency Benchmark to merely “tick boxes”.

To lawmakers, regulators and tax authorities

- Proper legislation underpins enhanced tax transparency. Assist companies to develop a clear strategic vision on tax transparency and governance, by passing appropriate laws and strict good tax governance standards that apply to all companies, while taking into account the practicality for both the tax authorities and companies;
- Actively promote the use of internationally accepted standards to provide multinational companies with comparable or common governance, reporting, and audit standards to work with across borders;
- Ensure clear guidance on rules and regulations for co-operative compliance programmes to stimulate voluntary compliance;
- Increase the transparency of compliance management strategies and tax accountability to help rebuild trust in taxation;
- Address and work on alignment of reporting requirements.

To NGOs

- Engage in open and constructive dialogues with companies based on facts and figures and focus on encouraging them to adapt. Differentiate how you approach high and low performers on tax transparency and good tax governance;
- Share best practices with companies on what you consider responsible and transparent corporate tax behaviour;
- Do not only focus your efforts on multinationals and tax advisors but also on tax administrations and investors;
- Enter into structured dialogues with governments to promote transparency.

To tax advisory firms

- Ensure employees have the proper technical, governance, and digital tax expertise;
- See tax in a broader ESG context, i.e. not only from a legal or financial perspective;
- Promote responsible tax behaviour and support companies’ tax transparency initiatives;
- Dare to have a robust dialogue on this topic with all stakeholders;
- Introduce and apply an internal code of conduct for tax advice;
- Ensure each tax advisor is familiar with the client’s sustainability and business strategies.

To investors

- Design and implement a tax code of conduct that applies to:
    - your own organisation;
    - how you structure your investments;
    - your investments;
    - the parties you collaborate with.
- Integrate tax in the valuation of investee companies by including it in investment and ESG policies;
- Be transparent on the tax strategy of your own organisation and what you expect from investments and the parties you collaborate with;
- Enter into a dialogue with portfolio companies on responsible and transparent tax behaviour;
- Don't just test investments at the moment of investment, but also monitor adherence to your criteria or expectations during the lifecycle of the investment;
- Support initiatives to develop common standards for tax reporting to enhance (global) comparability;

To universities

- Introduce a modernised curriculum for tax-related courses in order to meet the market's demand for skilled tax professionals who can drive forward tax transparency and link tax to sustainability;
- Introduce relevant tax topics in economics, business management, assurance, and mathematics courses, and in the social and political sciences;
- Communicate better with society. i.e. using less technical language.

8. Tax Transparency jury report 2023

Jury members

Appointed by VBDO, the expert jury consisted of six honourable members acting in a personal capacity. All of them are experts in the fields of good tax governance and tax transparency, but they come from different backgrounds:

- Klaas Bangma, Economic Policy Advisor at FNV;
- Irene Burgers, Professor of Economics of Taxation and Professor of International Tax Law at Groningen University;
- Michiel van Esch, Active Ownership Specialist at Robeco;
- Hans Gribnau, Professor of Tax Law at Tilburg University and Leiden University;
- Anna Gunn, Tax Researcher and Blogger at Leiden University and Artikel 104;
- Xander Urbach, Advisor of Responsible Investment & Governance at MN.

Process and nominees

The jury has an important monitoring function within the Tax Transparency Benchmark. In order to be able to reach an independent verdict on this year's benchmark, the jury discussed the process and execution of the benchmark as a whole, and specifically weighed and assessed the validity of the results pertaining to the top 13 performing companies in the benchmark. In this regard, the jury specifically paid attention to the following criteria:

- Total points scored and analysis performed by VBDO;
- Depth of tax strategy, i.e. explaining matters rather than just giving an overview;
- Sector of operation and the presence of a mandatory legal framework;
- Absence of controversies relating to tax and tax transparency;
- The clarity of the implementation and execution of tax strategies.

The following companies were analysed by the jury, as they are the 13 top performing companies of the 2023 benchmark:

- Philips (the Netherlands)
- NN Group (the Netherlands)
- Repsol (Spain)
- Achmea (the Netherlands)
- Adyen (the Netherlands)
- Aegon (the Netherlands)
- Enel (Italy)
- KPN (the Netherlands)

- AXA (France)
- ENI (Italy)
- Telefonica (Spain)
- ING Group (the Netherlands)
- Rabobank (the Netherlands)

Winner

The jury would like to congratulate **Philips** on winning the Tax Transparency Benchmark 2023 with a top score of 40 points. Philips stands out in each and every principle in terms of tax transparency and, for the first time in the history of the Tax Transparency Benchmark, the full score of 40 points was awarded to a company. The jury compliments Philips for the huge progress it has made in recent years and for the quality and depth of its tax reporting. In 2023, Philips published the comprehensive Country Activity and Tax Report 2022, providing a clear explanation of the company's approach to tax and an extensive overview of activities and tax on a per country basis. Philips' Country Activity and Tax Report 2022 is explicitly linked to the GRI 207: Tax standard and includes a full country-by-country report, providing information on key financials, FTEs, and different taxes paid per country, as well as a narrative linking Philips' business and activities to taxation. The jury specifically praises Philips for also including information on environmental and social factors on a per country basis, such as net operational carbon footprint, circular revenues, and lives improved, although this section could be further improved by showing the impact of ESG taxes on the business. Furthermore, the jury compliments Philips for its description of the role taxation plays within the value creation model and the explanations of the tax regimes and incentives that it uses. To improve its tax reporting even more in the coming years, the jury encourages Philips to further elaborate on the stakeholders' engagement, e.g. by including specific examples of how the company derives value from the stakeholders and aligns their interests with the company's approach. The jury did not find any controversies regarding the tax behaviour of Philips. All-in-all, Philips is the deserved winner of the 2023 Tax Transparency Benchmark.

Outstanding performances

After Philips, the jury would like to congratulate **NN Group** and **Repsol** for, once again, outstanding performances when it comes to tax reporting.

NN Group is the second top-scoring company 2023 Tax Transparency Benchmark and increased its total score from 36 points to 39 points this year. The jury specifically praises the company for the detailed description of how the tax strategy is linked to the broader strategy and values of NN Group as a whole, and for the extensive reporting on tax risks and controls. NN Group publishes

a comprehensive Total Tax Contribution Report, which features information on taxes paid and collected on a per country basis. For next year, the jury encourages NN Group to further expand its country-by-country report by also including figures (e.g. pie or bar charts) in the reporting. There were no controversies found by the jury regarding the tax behaviour of NN Group.

Repsol was last year's winner of the Tax Transparency Benchmark and again showed great transparency in its tax reporting, with a final score of 38 out of 40 points. Repsol has published an extensive series of tax reports, in which it demonstrates how taxation is integrated into its broader strategy and aligned with its organisational values. These reports also include concrete examples. The jury specifically compliments Repsol for its explanation of tax contributions across its value chain, which includes an interactive map showing the role tax plays in Repsol's different business units. Furthermore, the jury praises Repsol for its extensive reporting on ESG taxes on a per country basis. For next year, the jury encourages Repsol to also provide a tax in-control statement by the board as doing so means it could be awarded the full 40 points. There were no controversies found by the jury regarding the tax behaviour of Repsol.

Good practices

It was not only Philips, NN Group, and Repsol that received praise from the jury members; during the jury meeting several good practices from other companies were discussed. Overall, the jury observes a positive development towards more transparency regarding taxes. More and more companies are taking sustainability into account when formulating their tax strategy and are describing the role of taxation within the value creation model. The jury compliments **Achmea** for the description of the alignment between Achmea's organisational and business principles and the tax strategy. It also compliments Achmea for the clear narrative description of the reconciliation between the nominal and effective tax rate.

Adyen is praised for the huge progress it has made in recent years, which has seen it improve from a score of only 9 points in 2020, to a top score of 35 points in 2023. The jury also wants to explicitly mention **AXA** for clearly highlighting the relevant aspects of taxation for its business in its tax reporting. Finally, **ENI** and **Telefonica** are praised for their extensive and detailed tax reports. Each has been awarded an impressive 33 points, which is particularly laudable considering that both have taken part in the benchmark for the first time.

Recommendations from the jury

The overall verdict on this 2023 edition of the Tax Transparency Benchmark is that progress has been made once again and companies are more fiscally transparent than before. The jury specifically compliments companies on their progress in reporting on the ESG aspects of taxation and on the role taxation plays within the value chain. In addition, the jury has observed a positive development of more companies providing a tax in-control statement and providing external assurance on the non-financial tax disclosures. Nevertheless, there remains considerable room for improvement. In this regard:

- The jury still notices a difference between the companies that report on tax as a matter of compliance (i.e., tick-the-box) and companies that provide a detailed insight into their tax governance. The jury encourages companies to provide further insight into how they deal with tax aspects of their business by providing more concrete and relevant examples.
- The jury observes a stagnation in the amount of companies that give an insight into stakeholder engagement. Many companies mention that tax is part of the stakeholder dialogue; however, the jury expects companies to provide more details on the processes for and outcomes of collecting and considering the views of different stakeholders (e.g. by giving concrete examples).
- Although many companies describe the alignment of the tax strategy with the company's organisational values and business strategy, the jury expects companies to also report on how they monitor this alignment, for example by showing who is responsible, what is monitored, and how it is monitored.
- While many companies explicitly communicate that they do not make use of tax havens and/or non-co-operative jurisdictions, the jury encourages companies to disclose their definition of tax havens and/or non-co-operative jurisdictions, e.g. by referring to one of the EU lists.
- With regard to a company's tax risks and controls, the jury appreciates the fact that more companies now describe their tax risks in detail. However, a description of a company's response to these specific tax risks is all too often missing. Companies are also expected to include an impact analysis for tax risk evaluation, which includes the likelihood of occurrence and the financial consequences of risks.
- Finally, while some companies already refer to specific tax standards, such as GRI 207, the VNO-NCW Tax Governance Code or B-Team, the jury recommends that companies more explicitly align their tax reporting to these tax standards.

The jury makes the following suggestions relating to the Tax Transparency Benchmark's methodology:

- In general, the jury recommends putting more emphasis on the intention and persuasiveness of a company's tax reporting in the question. The jury suggests further differentiation in the scoring of the benchmark, e.g. by awarding more points for companies that support their answers with concrete and relevant examples or issues and which disclose how they deal with specific tax dilemmas.
- In relation to Q3b (on the relationship with tax authorities), no clear definition of what is meant by “tax agreements” is provided. Does this only include formal tax rulings concluded between taxpayers and tax authorities or does it also refer to other tax agreements in a broader sense? The jury is worried that this question results in ambiguities for (specifically EU) companies and recommends including a definition of “tax agreements” in Q3b.
- In relation to Q11 (on the reconciliation between the nominal and effective tax rate), the jury suggests providing further guidance for companies on the narrative description on the reconciliation between the nominal and effective tax rate. For instance, the question may provide various examples of what could be included, such as commercial / fiscal differences, deferred taxes, etc.
- Q13b (on ESG taxes) now only focuses on specific environmental taxes (e.g. carbon taxes, plastic taxes, etc.). The jury suggests widening this question by, for example, also awarding points if a company reports on promoting social goals through tax incentives.
- According to the jury, Q14 (on the spirit of the law) should not only focus on a company's statement that it takes the spirit of the law into account but should also focus on a company's interpretation / explanation of this term. For instance, points could be awarded for companies giving concrete examples of when and how the company took the spirit of the law into account in specific situations.
- In this year's benchmark, the jury has observed a difference in the extent and quality of tax reporting between the different sectors in which companies are active. When scoring the companies, the jury recommends also taking into account whether there are any (mandatory or voluntary) reporting standards that apply to that specific sector.
- Finally, according to the jury, the presence / absence of controversies should play a more important role within the scoring of the Tax Transparency Benchmark, e.g. by awarding negative points in cases where controversies are found.

Appendix

2023 Tax Transparency Benchmark criteria and scoring

Assessment criteria per guiding principle.
Company assessments are based only on publicly available information.

Total points: 40
Number of questions: 36

Principle	Description	Points
A	**Companies should define and communicate a clear strategy on tax governance**	
Narrative on tax strategy	A tax strategy is a plan stating the organisation's vision and view with respect to taxes. When we are looking at how a company communicates its tax strategy, we want to ascertain whether it communicates in a way that explains the key elements of the strategy, and whether it also stipulates what these elements mean for stakeholders. Additionally, some criteria relate to the governance structure for the tax strategy and whether the strategy is reviewed in line with the Dutch Corporate Governance Code.	
1	Does the organisation communicate its views on tax (e.g. via a tax strategy / tax policy)?	1
2a	Is the tax strategy aligned with organisational values and the business strategy?	1
2b	Does the company describe how it monitors the tax strategy's alignment with the organisational values and business strategy?	1
3a	Is a vision of the company's relationship with the tax authorities included in the tax strategy?	If a&b 1
3b	Does the company include its vision on concluding tax agreements (rulings) with tax authorities?	If a&b 1
3c	Does the company describe its approach to applying for government incentives and subsidies?	1
4	Does the company describe how its approach to encouraging the public debate on tax transparency, public policy lobby and/or advocacy on tax is aligned with the tax strategy?	1

Principle	Description	Points
5	Does the company describe the processes for and outcomes of collecting and considering the views and concerns of stakeholders, including external stakeholders? (please provide concrete examples, e.g. by referring to a table complemented by text)	1
6a	Does the company describe how its sustainability (ESG) strategy is taken into account in the company's tax approach?	1
6b	Does the company describe how tax is taken into account to address specific Environmental, Social or Governance issues? (e.g. carbon taxes, green subsidies and incentives, plastic taxes, sugar taxes, or tax incentives for human resources)	1
7a	Is the tax strategy signed off by the (executive) board and does the company explicitly state how frequently (i.e. quarterly, annually, specific date) the board reviews the tax strategy?	1
7b	Does the company elaborate on how the supervisory board, or other independent board members if applicable, have been involved?	1
B	**Tax must be aligned with the business and is not a profit centre in itself**	
8	Does the company state in its tax strategy or elsewhere that its business operations lead in setting up international structures, i.e. that it declares profits and pays taxes where the economic activity occurs?	1
9a	Does the company explicitly communicate anywhere that it does not use 'tax havens' or 'non-cooperative jurisdictions' for its tax planning?	1
9b	Does the company disclose its definition of tax havens and/or non-cooperative jurisdictions (e.g. by aligning with a dedicated country list such as, the EU black-listed countries, OECD, or Tax Justice)?	1
10	Does the company describe the role of taxes (taxation, incentives) within the value creation model (e.g. visual mapping) and in which countries added value is taxed? (In case the company is domiciled in only one jurisdiction, this question refers to this jurisdiction).	1

Principle	Description	Points
Narrative on tax rate	The effective tax rate (ETR) of organisations is usually not the same as the weighted average or parent company statutory tax rate. In general, this is for legitimate reasons, such as tax-exempt income and non-deductible expenses. Sometimes, however, an ETR that is (sometimes significantly) lower than the weighted average statutory tax rate can signify specific corporate structures aimed predominantly at the artificial reduction of tax bills to increase the profits available for distribution to shareholders. Based on the applicable accounting standards under both US GAAP and IFRS, companies are required to disclose a line-by-line reconciliation between the (weighted average) statutory tax rate and the ETR.	
11	Does the company disclose a reconciliation (table) showing the effective tax rate and the weighted average statutory tax rate reconciliation (either numerical or in percentages) and provide a narrative description?	1
12a	Does the company provide information like current corporate income tax payments, accrued corporate income tax, profit before income tax, accumulated earnings and FTEs on a country-by-country basis? (In cases where the company is domiciled in only one jurisdiction, this question refers to this jurisdiction.)	2
12b	Does the company provide a reconciliation of the country-by-country report to the financial accounts (to align with GRI: 207-4)?	1
Narrative on CbCR	Country-by-country-reporting (CbCR) is an important compliance requirement resulting from the OECD's BEPS action plan (action 13). Companies that are part of a group and have a consolidated annual turnover of EUR 750 million have to prepare and file a report which (amongst other requirements) shows how much tax they have paid and what the basis is for these taxes on a country-by-country basis. Some companies have voluntarily published these reports or similar information, e.g. as part of their corporate sustainability reporting.	
13a	Does the company provide, on a per country basis, information on its taxes paid (direct taxes and other taxes like VAT, wage taxes, etc), along with government payments, government subsidies and incentives? (In cases where the company is domiciled in only one jurisdiction, this question refers to this jurisdiction.)	2
13b	Does the company provide information on a country-by-country basis (in case of regional cap-and-trade schemes, per region is sufficient) on ESG taxes? (e.g. carbon taxes, green subsidies and incentives, plastics tax, sugar tax)	

Principle	Description	Points
C	**Respect the spirit of the law. Tax compliant behaviour is the norm**	
Narrative on compliance	Ultimately, managing tax is about filing the correct returns on time, making sure the returns are correct and complete, and ensuring that the payments are made on time. Being compliant with tax laws and regulations, statutory financial obligations and international accounting standards is the core responsibility of a tax function. We refer to taxes in general, e.g. CIT, VAT, wage taxes etc.	
14	Does the company explicitly communicate that its tax planning strategy takes the spirit of the law into account and does the company provide an explanation? (e.g. OECD guidelines for multinationals chapter 11 taxation)	1
15	Does the company mention that it has a training programme in place on how to deal with tax (dilemmas) for its tax, legal and compliance officers?	1
16	Does the company's tax policy refer to the whistleblowers policy (or does the whistleblowers policy mention tax)?	1
17	Does the company explicitly mention in its tax strategy it implements tax standards (e.g. VNO-NCW Tax Governance Code, GRI:207, B-Team and/or other relevant (local) tax codes?)	1
D	**Know and manage tax risks**	
Narrative on tax risks	Companies are required to state their largest risks in their annual report. The purpose of the following questions is to obtain a view on whether the organisation includes tax in its broader risk management approach and whether it references any material tax risks. If any tax risks are included in the risk overview in the annual report, they should be accompanied by an explanation of how the organisation remediates or manages these risks.	
18	Does the company explicitly describe its tax risk appetite?	1
19	Does the company report on specific tax risks, including: financial, regulatory and / or reputational risks and does it describe the concrete risks in detail (i.e. by providing detailed examples of concrete tax risks)?	2
20	Is there a commentary/description of the company's response to these tax risks? (i.e. does it include an impact analysis for tax risk evaluation, which includes the likelihood of occurrence and the financial consequences of risks?)	1
21	Does the company describe the role of technology for tax relevant data management?	1

Principle	Description	Points
E	**Monitor and test tax controls**	
Narrative on monitoring	Has the company created a standardised approach for monitoring and testing the execution of its tax strategy and its controls? It is important to be able to see the full picture to ascertain whether the monitoring and testing takes place on a regular basis, and to ensure that the results are documented and communicated to ensure that they are followed up.	
22	Does the company describe how the implementation and execution of the tax strategy is monitored? (E.g. does it describe the financial threshold for transactions, the management of non-financial tax procedures, and who, how and what is monitored?)	1
23	Does the company describe how tax risks and controls are tested and monitored?	1
24a	Is tax risk management included in the reporting to the audit committee?	1
24b	Does the company describe how the audit committee has been involved with the tax department?	1
F	Provide tax assurance	
Narrative on tax assurance	Companies should be prepared to provide additional tax information to regulators, tax authorities and other stakeholders to provide for a certain level of assurance regarding tax data and processes.	
25	Does the company provide a tax in-control statement? Does the company provide the statement in full or just confirm its existence – e.g. by mentioning an explicit sign-off from the Board of Directors?	2
26	Does the company provide external tax assurance on the non-financial tax disclosures? (for example: limited assurance on GRI 207)	2
27	Does the company mention that it participates in a co-operative compliance programme or related scheme? (Anywhere)	1

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