Webcast series 'State of Tax'

Tax in ESG
why, what, and how

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Introduction

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Agenda

1. Why, What, when
2. Environmental (taxes) update
3. What to do? Tax ESG in practice
   - Approach to align Tax with ESG
   - Environmental taxes example
4. Wrap up / Q&A

ESG as trending topic

Wall Street's new mantra: green is good FT: 30-01-2021

$7.1bn net inflow in ESG funds between April-June 2020

Currently $1 tn ESG assets under management

European ESG funds will threefold in assets by 2025 from 15 to 57%, €1.7tn to €5.5tn

ESG funds forecast to outnumber conventional funds by 2025

New EU rules and growing investor focus on sustainability will fuel rapid growth, says PwC

Now is the time for global standards on non-financial reporting

Published on November 25, 2020

Robert E. Moritz Influencer
Global Chairman PricewaterhouseCoopers Int. at PwC
76 articles ✓ Following

ESG funds attract record inflows during crisis

Fast-growing segment is rare bright spot for active managers hit by investor shift into passive funds

BlackRock pushes for global ESG standards

Overhaul is vital if investors are to understand the risks companies face, says US asset manager

What is ESG?

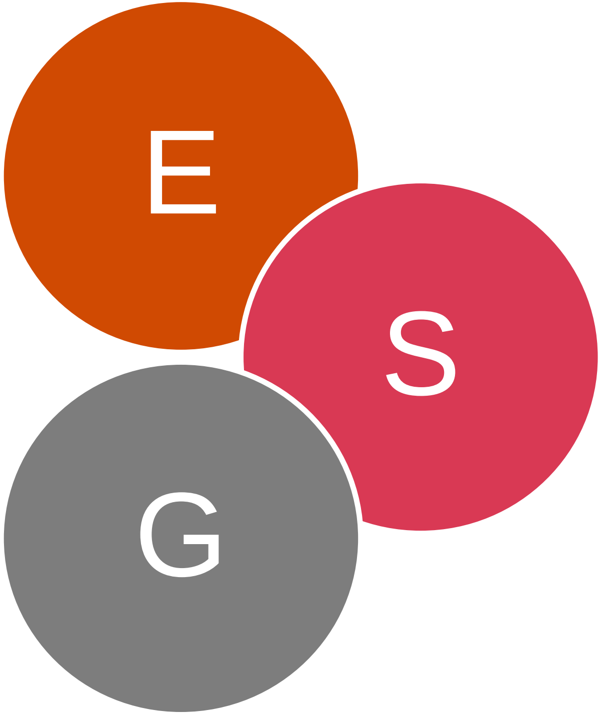
Environmental, Social and Governance – ESG is an umbrella term to express:

- The organisation's purpose beyond value growth for its own sake only;
- The fiduciary duty towards climate and society.

ESG encompasses hard and soft criteria that shape a company's environmental commitment and impact on society.

What do the letters E, S and G stand for?

- The **E** criteria of Environment considers legal compliance by a company and how a company performs as a steward of nature;
- The **S** criteria of Social examines how it manages relationships with stakeholders like employees, suppliers, customers and the communities where it operates;
- The **G** criteria of Governance deals with a company's leadership, executive pay, internal controls and stakeholder engagement.



Why is tax an ESG metric?

Tax has both a financial impact and impact on climate and society.

Budget deficits	Sustainable growth	Tax as driver for change	Co-operative Compliance	Stakeholder capitalism
Due to COVID-19 pandemic the concept of 'fair tax' is back. 1	A growing realisation that taxes are needed to fund and maintain the Sustainable Development Goals (SDGs). 2	'Green' fiscal policy and tax governance frameworks are used as integral part of climate and social inclusion strategies (carrot and stick approach). 3	Trust and transparency based (voluntary) tax compliance enforcement strategies: from vision and strategy to tax return. 4	From shareholder to stakeholder centric business models require a communication strategy for multi-stakeholders including tax. 5

"

Modern society does not see tax as a short term cost factor only anymore, but as an instrument to create socio-economic cohesion, environmental value creation and long term prosperity.

Tax and ESG - The Journey

"It is acknowledged that not all companies will find it easy to report immediately against all the recommended metrics in their mainstream disclosures. However, the ambition is for companies to embark on a journey that leads to reporting both core and expanded metrics – in the spirit of embracing stakeholder capitalism." - WEF/IBC September 2020

investors and other stakeholders increasingly take an interest in the tax behavior of businesses and how that aligns with the company's sustainability strategy, values, and purpose.
The COVID-19 pandemic and the massive public spending have reinforced this.

Tax Policy developments

- New and proposed policy changes - Rules & Regulations;
- Green Deal - Introduction of green taxes & incentives (carrots & sticks)
- Mandatory tax disclosures - as part of ESG reporting

Tax strategy

- Corporate (tax) governance principles
- Alignment of corporate vision and mission with tax
- Stakeholder engagement
- Net Zero commitment

Governance transformation

- Legal planning and preparation
- Tax function Design - Tax control framework
- Capital allocation and asset optimization
- Tech enabled ESG data management
- ESG ranking/Rating optimization

- Tax (re) structuring and modeling
- Stress-testing of profit allocation and value and supply chain transformation
- Net Zero compliance
- Tax in Deals Due Diligence
- P&O - Workforce of the future

Mandatory ESG Reporting

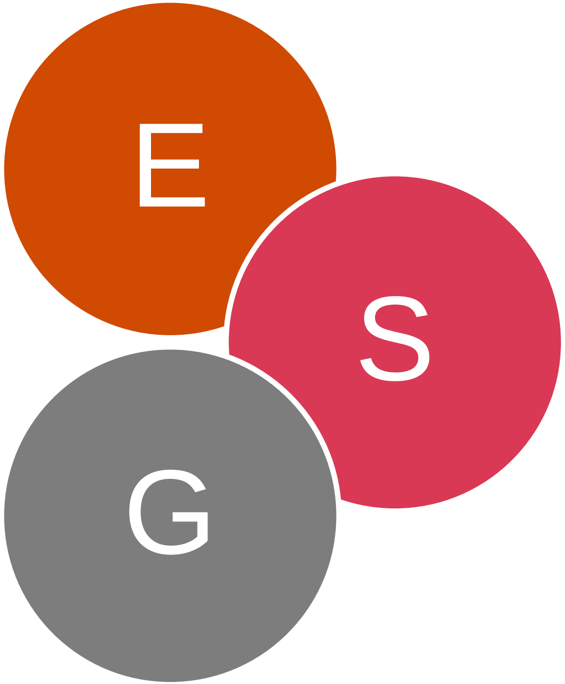
Most companies are signatory to the GRI-standards or endorse the WEF/IBC which has issued a new tax metric based on GRI 201. ESG-reporting will be mandatory in the very near future (NFRD/EU, IFRS). That will also draw attention to the tax behaviour.

- Total Tax Contribution (TTC)
- GRI 207: Tax - including public country by country reporting
- WEF/IBC metrics - core tax metric based on GRI 201

Assurance

Companies choose voluntary to provide external assurance on public ESG reporting. See for tax for example BP, NN Group, Anglo American and Vodafone. Mandatory ESG assurance under investigation by regulators.

Linking tax to ESG metrics



Tax to ESG metrics

Tax in Environmental

- Environmental taxes f.e. carbon taxes, plastics etc.
- Green subsidies and incentives
- Compliance and reporting requirements
- Carbon adjustment mechanism

Tax in Social

- Social insurance, health care - and pension premiums
- Gig economy, Internet of things, flexible workforce and global mobility
- Equal pay, living wages and remuneration policies

Tax in Governance

- Aligning ESG policy with Tax behavior
- Tax reporting and stakeholder communication
- Process controls and compliance assurance program (co operative compliance)

The European Agenda: next 5 months

Green Deal

As regards green taxation, and in line with the Paris Agreement, tax policy should be aligned with the objective of decarbonisation, facilitating the transition to a competitive and carbon-neutral economy and boosting sustainable growth, the circular economy and the blue (ocean) economy, as well as innovation and security of energy supply.

Global Reporting

The Presidency will address the challenges of European taxation, including the model for taxation of the digital economy, under the principles of fairness and tax efficiency. The aim is to ensure a fair and equitable distribution of taxation in a context of healthy competition, the strengthening of good governance mechanisms and global tax transparency, and to step up the fight against tax fraud, evasion and avoidance through non-cooperative jurisdictions. The Presidency will seek to create the conditions for reaching a political agreement on the revision of the rules on disclosure of information concerning tax on revenues for certain companies and branches. We will implement the EU action plan on preventing money laundering and terrorist financing.

Digital Transformation

We will prioritise initiatives that help accelerate the digital transition as a driver of economic recovery and promote European leadership in digital innovation and the digital economy. In this context, attention should be paid to the universal development of digital skills, so that workers can adapt to new production processes (teleworking), to the digital transformation of businesses and digital platforms, to the areas of e-commerce, payments and taxation, the promotion of health and disease prevention, and to distance learning in education and lifelong learning.

Poll

To what extent do you think that your daily work will be impacted by (Tax) ESG metrics?

A. No impact
B. Low impact
C. Medium impact
D. High impact

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Environmental metrics - what about Tax?

Measurable ESG metrics

Environmental metrics

- Carbon emissions
- Number of water intensive operations in locations of high baseline water stress
- Percentage of reduction in energy usage
- Percentage of products sustainably sourced/manufactured
- Amount of management pay tied to climate response targets
- Sensitivity of earnings to price on carbon aligned to the Paris Agreement
- Tons of toxic waste

Tax to ESG metrics

Tax in Environmental

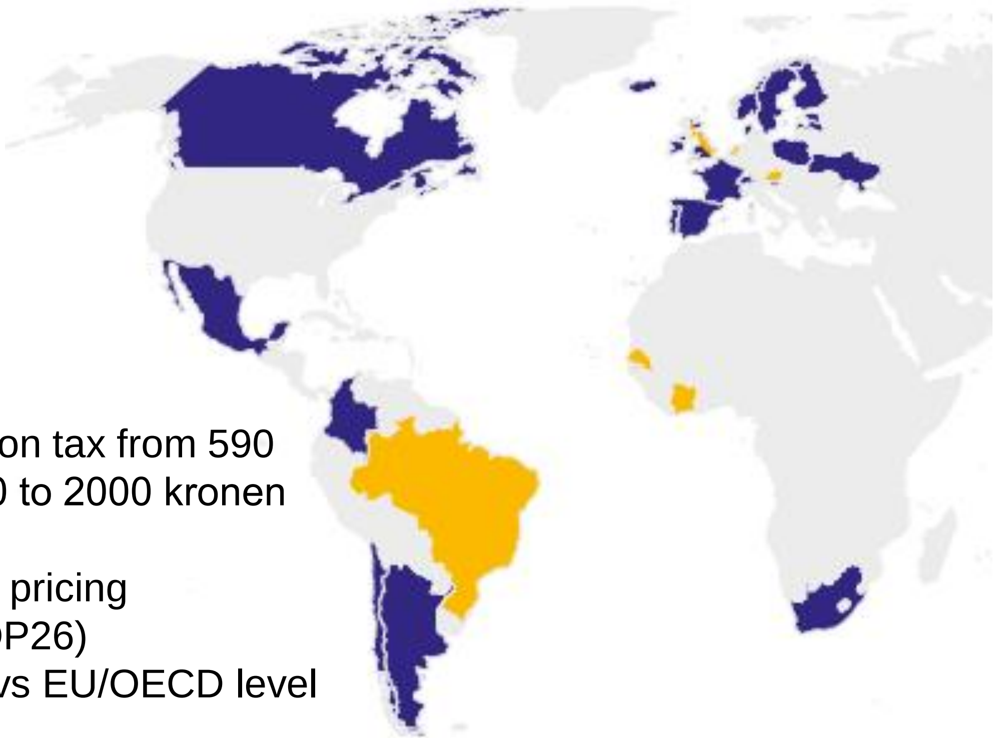
- Environmental taxes and levies (carbon taxes, plastics, etc)
- Green subsidies and incentives
- Compliance and reporting requirements
- Transfer pricing / value chain analysis
- Carbon adjustment mechanism

“Climate change is at the top of the business and risk agenda”

Environmental tax policies - Introduction

- EU Green Deal to achieve Paris Climate Agreement goals
    - Reduction CO2 emissions with 55% by 2030
    - Carbon Border Adjustment Mechanism - Q2 2021
    - Revision Energy Taxation Directive and EU ETS - Q2 2021
- COP26 in Glasgow scheduled for November 2021
    - Setting out rules for a carbon market between countries
    - Detailed plans by countries due, carbon taxes expected to be part of the mix for many jurisdictions
- Other developments: Biden's Climate Plan and UK Climate Plan (post Brexit)

Environmental tax policies
- Carbon tax developments (1)



- Countries are increasingly introducing carbon taxation:

UK (announced) Australia Sweden Finland Argentina Netherlands	Ireland Chile New Zealand Columbia Singapore (announced) Norway

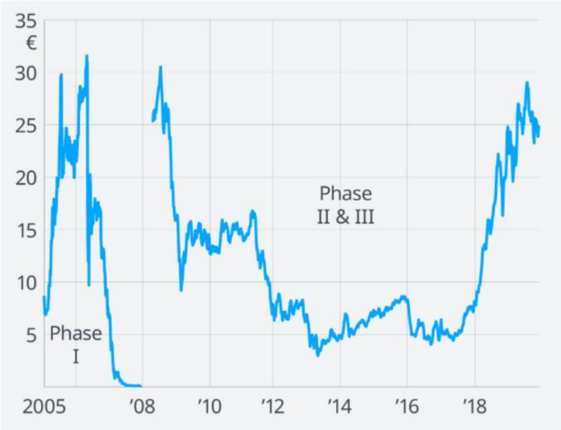
- Norway will increase the rate of its carbon tax from 590 (€58) kronen for most industries in 2020 to 2000 kronen (€195) in 2030
- Different types of carbon taxes / carbon pricing
- Global trade system carbon taxes? (COP26)
- Carbon leakage - unilateral carbon tax vs EU/OECD level

Environmental tax policies - Carbon tax developments (2)

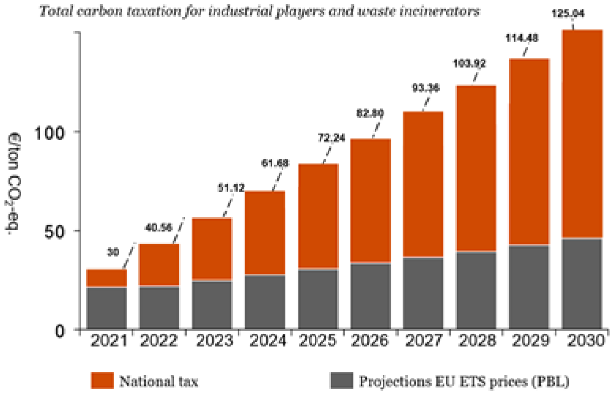
EU ETS

Netherlands

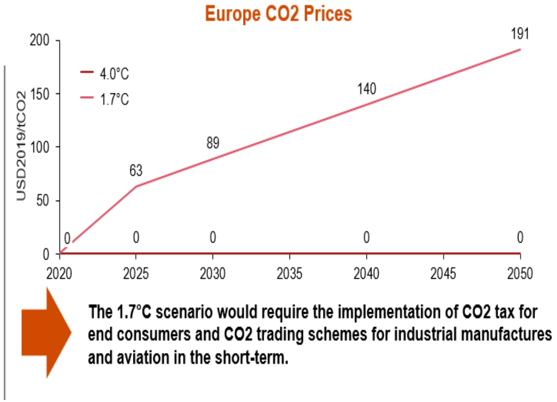
Long term CO2 price projections



From €7,80 in January 2018 to **€35,42** in January 2021



Dutch CO2 levy increase envisaged from €30 in 2021 to **€127.05** in 2030



European CO2 prices expected to increase to **€191** in 1.7C scenario*

*Status Quo data set to 0. Price development follows the WEO 2020 CO2 Price development for advanced economies in the Sustainable Development Scenario

Impact higher CO2 prices / incentives on business case

Key conclusions PwC study - impact of Dutch CO2 levy

- National CO2 levy implies a risk of carbon leakage
- Subsidies play an important role
  - More research on efficiency subsidies (SDE++)
- Unilateral vs at EU level
- Uncertainties in policy structure and infrastructure still to be addressed
- Significant impact on business case industrial players

EU Plastic "tax"

What and why?

- €0.80 per kg levy on non-recycled plastic packaging waste, to be paid by Member States into the EU budget
- The "tax" will be be introduced as of 1 January 2021
- Effectively only a financing tool, Member States are not obliged to levy a local tax
- Aim: reduce level of plastic use and intensive reuse and recycling

Plastic tax implementation

- Italy (EUR 450/tonne), Spain (EUR 450/tonne) and UK (£200/tonne) announced implementing a local plastic tax
- Netherlands and Germany so far have not introduced a national plastic tax

Shortcomings

- No specific tax for users/producers to incentivise actual reduction
- A tax on new, virgin primary plastics in packaging might be more effective?

EU/NL environmental policy toolkit

	Incentives	Taxes
Europe	- Just Transition Mechanism - Horizon Europe - **EU Innovation Fund** - Connecting Europe Facility (CEF) - EIB soft loans / funding	- **Revision of EU Emission Trade System (EU ETS)** - Revision of Energy Tax Directive (ETD) - **Carbon Border Adjustment Mechanism (CBAM)** - Plastic “tax” - **UK ETS instead of EU ETS!**

Netherlands	Tax Incentives:
	- EIA, MIA/Vamil
	- R&D credit (Dutch: WBSO)
	- Innovation box
	Cash incentives:
	- **SDE++**
	- Topsector Energy Programs
	    - Demonstration Energy (DEI+)
	    - Renewable Energy (HER+)
	    - Mission Driven R&D (MOOI)
	    - Accelerated Climate Investment Industry (ACII)
		- **National carbon taxation (CO2 levy)**
		- Energy Tax and sustainable energy surcharge (ODE)
		- Minimum CO2 price electricity generation

Also: Regulatory - At the EU level for example: Proposal ‘Climate Law’ - Revision regulatory framework energy infrastructure - Review/revision Non-Financial Reporting - Review/revisions relevant State Aid Guidelines

Polls

Is your tax department involved in matters relating to environmental reporting and green taxes/incentives?

A. Yes, fully involved
B. Yes, but we should be involved more
C. No, not involved

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Tax ESG in practice

- On next slides step by step **approach** on **how to align tax with ESG**
- At the end a specific example on environmental taxes and ESG

Step 1

What is our ESG approach?

A lot is publicly communicated by organisations. Some example values and statements:

Integrity Quality Responsible Transparency Sustainability Inclusiveness Equality	*...to be a responsible corporate citizen...* *...Contribute to society...*	*...integrated the SDGs for sustainable growth…* *...signatory to the UN PRI and UN GC...*	*...invest responsibly...* *...consider ESG in our investments and engagement...*	*...be transparent about our impact...* *...show accountability to our stakeholder …*

But what does this mean for the approach to tax?

How can this be translated into a tax ESG approach?

Step 2

Use guidance to align tax with ESG approach

Guidance is available to **formulate tax ESG principles**

UN SDGs	UN PRI Tax	OECD RBC guidelines	GRI	Regulations and initiatives
• Responsible tax policies and impact testing • Responsible tax planning • Pay a fair share of taxes • No use of tax avoidance mechanisms	• Responsible tax policy • Board responsibility • Good tax governance / tax risk management • Transparent reporting, CbCR	• Tax policy • Tax governance and tax risk management • Transfer pricing • Transparent reporting	• Approach to tax • Stakeholder engagement • Tax governance and control • CbCR	• Regulations, tax and non tax, hard and soft (incl mentioned on next slides) • Business and Industry initiatives

Step 3

Which tax ESG relevant regulations apply Hard

Regulation	For whom	When
Financial economic crime and tax integrity risk management *Managing tax integrity of own organisation, clients, business partners, etc*	All sectors	Now
Environmental taxes (NL AND EU) *Carbon taxes, plastic taxes, etc*	All sectors	Now
EU Sustainable finance regulation *Taking into account tax in ESG / Sustainable finance. Disclosure of sustainability risks including tax*	FS sector and All sectors (large co's)	As of March 21
Non Financial Reporting Directive *Reporting on ESG*	All sectors, large organisations	Now
GRI Tax 207 reporting standard *Reporting on tax (tax policy, stakeholder engagement, governance and control, pCbCR*	All sectors	As of Jan 21
GRI Remuneration policy reporting standard *Reporting of info regarding remuneration policies, incl integration of sustainability*	All sectors	Now
Local laws and regulations (eg France, Australia, etc)	Depends on regulation	Now

Step 3

Which tax ESG relevant regulations apply Soft / optional

Regulation	For whom	When
UN Sustainable Development Goals *Agenda voor sustainable growth, including tax business actions*	All	Now
UN Principles for Responsible Investment *Concrete criteria for responsible investing from a tax viewpoint*	FS sector and indirect all sectors	Now
Industry codes of conduct and covenants (e.g. INREV, Pension funds) *Applicable codes of conduct including tax or specific tax codes*	Specific sectors	Now
OECD MNE Guidelines for responsible business conduct *Guidelines for responsible business conduct, including tax guidelines*	All sectors	Now

Step 4

Tax ESG spectrum
Determine where you want to be

	Traditional	Responsible	Sustainable	Impact driven
	Limited or no regard for Tax ESG practices or societal impact	Mitigate Tax ESG risks, often to protect value	Adopt progressive ESG practices enhancing value and societal impact	Address societal challenges that generate competitive financial returns
Avoid harm and mitigate ESG risks	X	✓	✓	✓
Benefit all stakeholders	X	X	✓	✓
Contribute to societal challenges	X	X	X	✓

Cost and compliance, shareholder centric ←→ **Sustainable growth, stakeholder centric**

Step 5

Develop and implement tax ESG metrics Example 1

	ESG statement: *...to be a responsible corporate citizen...*		
Examples	**Tax Principles** *(Part of)*	**(Tax) ESG Metrics measurements**	**Action / Operationalisation**
E	*Reduce footprint and environmental taxes*	Reduce Dutch CO2 levy with 25% in 2023	Define data points and monitor progress reduction
S	*Apply a sustainable value chain*	Locations and functions data	Assess incentives and subsidies
G	*Open and transparent relationship with tax authorities*	Participation in co-operative compliance programmes	Roadmap tax administration contacts

Step 5

Develop and implement tax ESG metrics Example 2

	ESG statement: *... be transparent about our impact...*		
Examples	**Tax Principles** *(Part of)*	**(Tax) ESG Metrics measurements**	**Action / Operationalisation**
E	*Transparent about used incentives and received subsidies*	Incentives data, subsidies data	Define required data for reporting
S	*Transparent about our remuneration policies and integration of ESG objectives*	Published remuneration policy	Integrate KPI's (eg tax integrity, human rights, climate, responsible investment, etc) in bonus schemes
G	*We publish our tax contribution per country*	CbcR data, subsidies received, incentives used, capacity building FTE	Define required data for reporting

Step 5

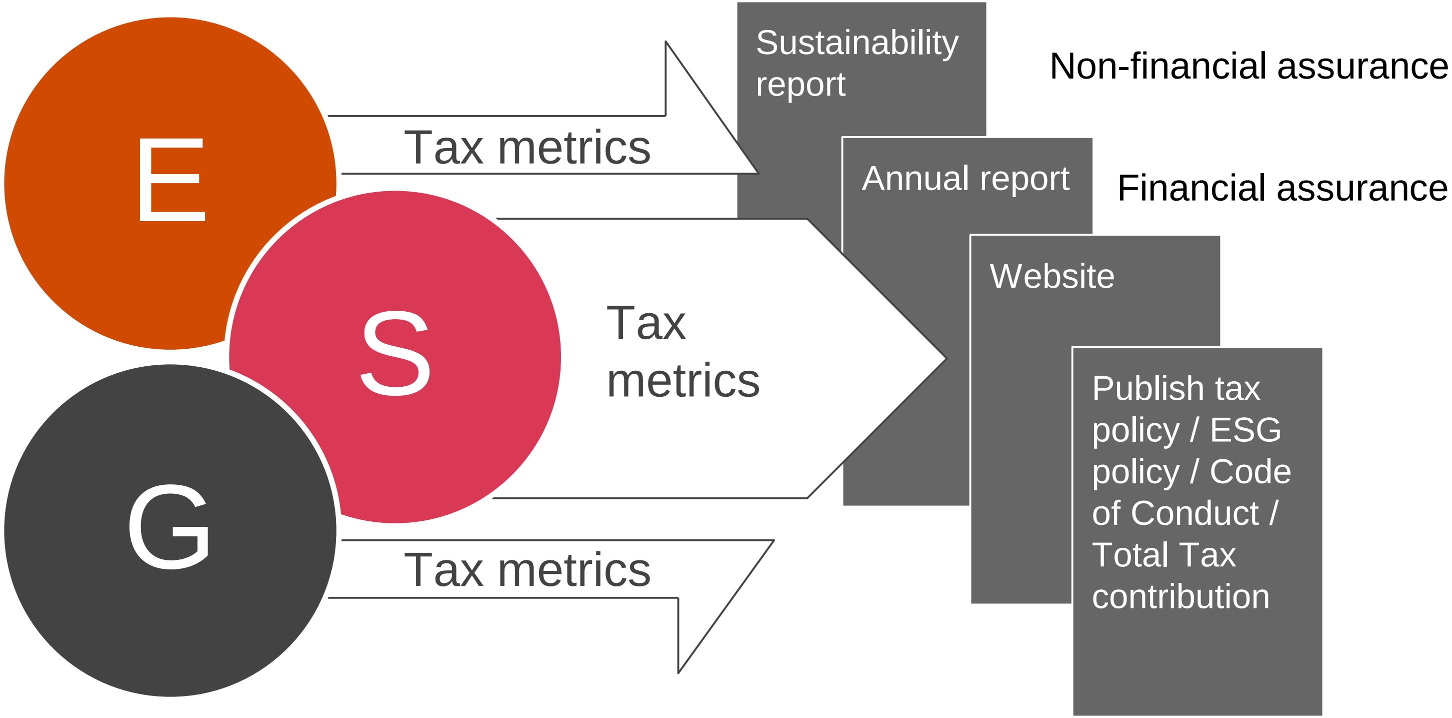
Develop and implement tax ESG metrics Example 3

	ESG statement: *...invest responsibly...integrate esg in investments...*		
Examples	**Tax Principles** *(Part of)*	**(Tax) ESG Metrics measurements**	**Action / Operationalisation**
E S G	*Invest responsibly from a tax viewpoint*	Tax strategy, governance and tax data (CbcR or other) per investment	Publish tax expectations and monitor tax output per investment
	Active contact with our investments on good tax governance	Number of engagements on topic of tax ESG plus outcome	Engage with investees on tax strategy and governance and provide support on a regular basis
	Report on responsible tax investment impact	Strategy, control framework and tax data (CbcR or other)	Define data points and include in responsible investment report

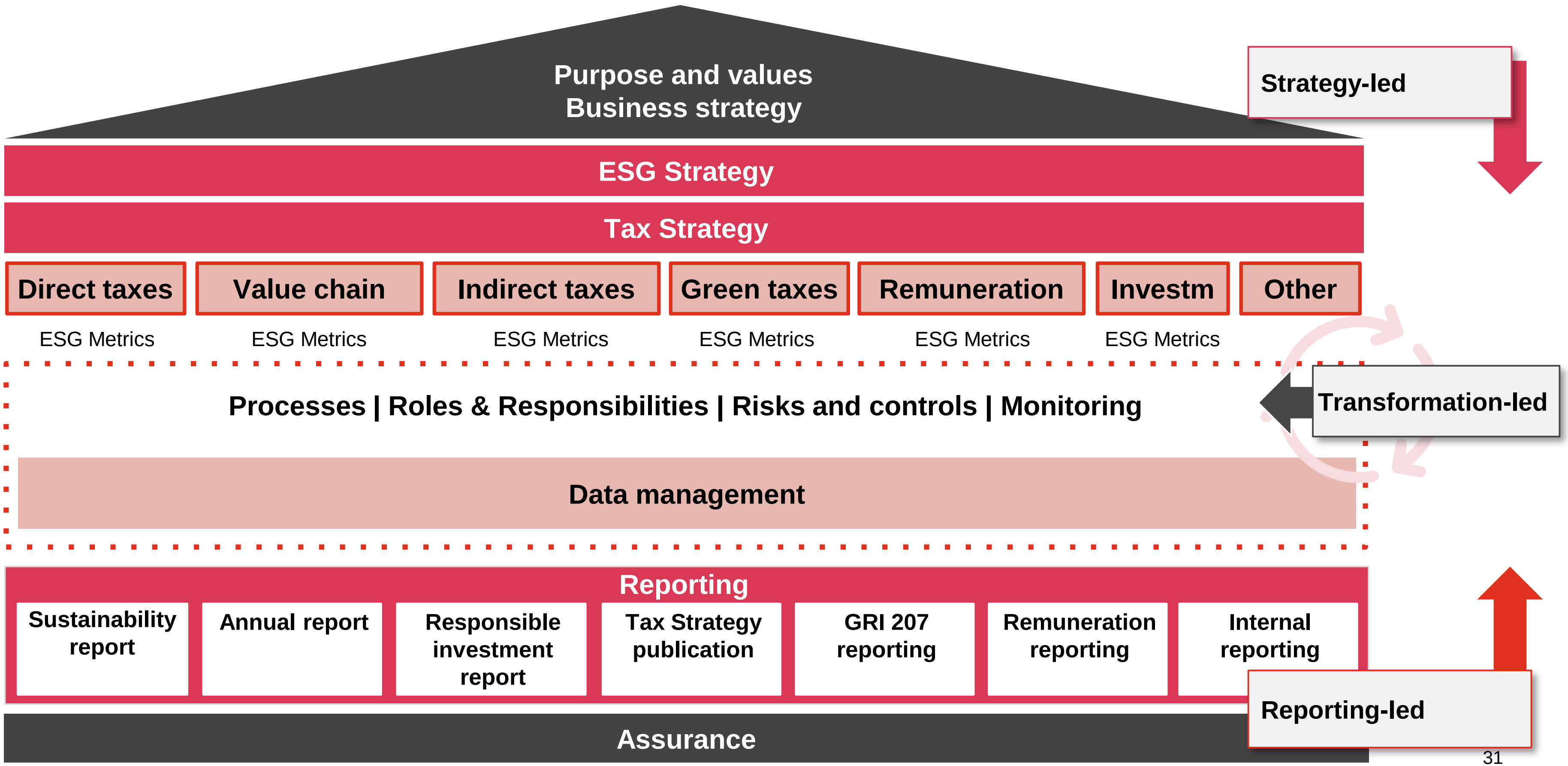
Step 6

Report on tax ESG metrics

TAX ESG reporting and compliance to show accountability to stakeholders



Tax ESG Governance framework



Projects around design and implementation of

A tax strategy with integration of the SDG’s and tailored B-team principles
Reporting on subsidy amounts per country based on GRI
Responsible investment for tax, including tax expectations for investee companies
Detailed tax ESG metrics checklist to enable decision making in line with the Tax ESG approach
Tax transparency external reporting
Monitoring of impact of tax ESG metrics
Engagement approach with respect to tax as part of broader ESG investment approach
Data requirements and tax ESG dashboarding
Tax criteria for Client Tax Integrity management
Non financial tax assurance

Case study - Food and Beverages industry

A. Calculating the GHG footprint

- **1A** Determine **organizational boundaries**
- **1B** **Assess material emissions** sources and hotspots
- **1C** **Baseline** for GHG emissions along **entire value chain**
- **1D** Align emission inventory with **GHG protocol accounting and reporting standards**

B. Setting science-based targets

- **2A** Set **targets for GHG emissions reduction** in line with climate science
- **2B** Determine **emissions reduction pathways – technology options**
- **2C** Understand **Science Based Targets initiative (SBTi)** requirements
- **2D** **Analyze gaps** between targets and SBTi requirements

C. Assessing GHG abatement potentials & costs

- **3A** Understand transition **requirements in line with growth strategies**
- **3B** Consider different types of **GHG abatement solutions**
- **3C** Calculate **cost-efficiency** of abatement options
- **3D** Develop **a climate action plan** for low-carbon transformation

Tax & Incentives key factor

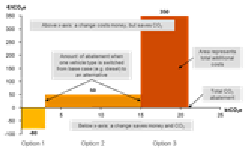
GREENHOUSE GAS PROTOCOL

Globally the most recognized standard for carbon accounting

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Goal to raise the level of ambition of corporate climate strategies in line with climate science



MACCs are an established tool for visualizing carbon abatement options, costs and their potential

Case study - Chemical industry
PwC Speelveldtoets

What and why

- Dow has a so-called integrated site where three crackers process naphtha and LPG into ethylene, propylene, butadiene and benzene. These substances are largely used in other production processes on the site.
- The cracking process has a high emission intensity, where most of the greenhouse gases are released. Two of the crackers are relatively old, which means that the emissions from the cracking process are on average above the EU ETS benchmark. Dow is 4th largest GHG emitters in the Netherlands.
- PwC performed impact assessment of NL CO_2 levy on Dow's business in the Netherlands.

Name: Dow Benelux B.V.

Sector: Petrochemical

Employees: 3200

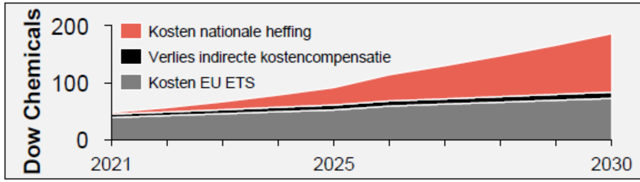
Locations: Terneuzen & Delfzijl

Emissions (2018): ~4.1 Mton

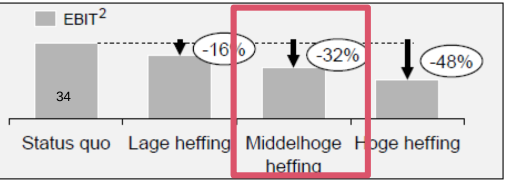
Conclusion / financial impact

- Expected financial impact is large given the high emission intensity, the limited transmission capability and emission reduction opportunities.
- Ability to win subsidies or trade emission rights is very uncertain and the mitigating effects upon the introduction of the new policies are limited.
- Resulting financial impact may possibly influence the long-term investment decisions by Dow.
- Total remittance for the national levy over the period 2021-2030 seems to be significant.

Ontwikkeling kosten op basis van middelhoge nationale heffing €m



Vergelijking verwachte EBITDA in 2030 – o.b.v. veranderend beleid met lage, middelhoge, en hoge nationale heffing



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Questions & Answers

Closing

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- Please fill in the evaluation form

Evaluation

- How would you rate this webinar on a scale from 1 to 10?
- The content was relevant. (Totally agree/Agree/Neutral/Disagree/Totally disagree)
- Do you have any suggestions and/or comments?
- Do you have specific questions and would you like us to contact you?

Thank you

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