Tax in ESG
why, what, and how

Presentation by
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Introduction

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- Slides will become available afterwards
- Evaluation form afterwards
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

$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

Wall Street’s new mantra: green is good

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

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
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.
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.
“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

Tax and ESG - The Journey

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

Governance transformation

- 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

Assurance

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

Mandatory ESG Reporting

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

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.

Assurance

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

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.

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.
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.
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:

<table>
<thead>
<tr>
<th>UK (announced)</th>
<th>Ireland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Chile</td>
</tr>
<tr>
<td>Sweden</td>
<td>New Zealand</td>
</tr>
<tr>
<td>Finland</td>
<td>Columbia</td>
</tr>
<tr>
<td>Argentina</td>
<td>Singapore (announced)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Norway</td>
</tr>
</tbody>
</table>

- 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**

- 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**

- The 1.7°C scenario would require the implementation of CO2 tax for end consumers and CO2 trading schemes for industrial manufactures and aviation in the short-term.
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 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

**Europe**
- Just Transition Mechanism
- Horizon Europe
- **EU Innovation Fund**
- Connecting Europe Facility (CEF)
- EIB soft loans / funding

**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)

### Taxes

- **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!**

- **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*
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
Agenda

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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
What is our ESG approach?

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

- Integrity
- Quality
- Responsible
- Transparency
- Sustainability
- Inclusiveness
- Equality

**Step 1**

...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?
Use guidance to align tax with ESG approach

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

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

Step 2

**UN SDGs**
- Responsible tax policies and impact testing
- Responsible tax planning
- Pay a fair share of taxes
- No use of tax avoidance mechanisms

**UN PRI Tax**
- Responsible tax policy
- Board responsibility
- Good tax governance / tax risk management
- Transparent reporting, CbCR

**OECD RBC guidelines**
- Tax policy
- Tax governance and tax risk management
- Transfer pricing
- Transparent reporting

**GRI**
- Approach to tax
- Stakeholder engagement
- Tax governance and control
- CbCR

**Regulations and initiatives**
- Regulations, tax and non tax, hard and soft (incl mentioned on next slides)
- Business and Industry initiatives
Which tax ESG relevant regulations apply

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

<table>
<thead>
<tr>
<th>Regulation</th>
<th>For whom</th>
<th>When</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UN Sustainable Development Goals</strong></td>
<td>All</td>
<td>Now</td>
</tr>
<tr>
<td><em>Agenda voor sustainable growth, including tax business actions</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>UN Principles for Responsible Investment</strong></td>
<td>FS sector and indirect all sectors</td>
<td>Now</td>
</tr>
<tr>
<td><em>Concrete criteria for responsible investing from a tax viewpoint</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Industry codes of conduct and covenants (e.g. INREV, Pension funds)</strong></td>
<td>Specific sectors</td>
<td>Now</td>
</tr>
<tr>
<td><em>Applicable codes of conduct including tax or specific tax codes</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OECD MNE Guidelines for responsible business conduct</strong></td>
<td>All sectors</td>
<td>Now</td>
</tr>
<tr>
<td><em>Guidelines for responsible business conduct, including tax guidelines</em></td>
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</tbody>
</table>
## Tax ESG spectrum

Determine where you want to be

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Responsible</th>
<th>Sustainable</th>
<th>Impact driven</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited or no regard for Tax ESG practices or societal impact</td>
<td>Mitigate Tax ESG risks, often to protect value</td>
<td>Adopt progressive ESG practices enhancing value and societal impact</td>
<td>Address societal challenges that generate competitive financial returns</td>
</tr>
</tbody>
</table>

- **Avoid harm and mitigate ESG risks**
  - Traditional: X
  - Responsible: ✓
  - Sustainable: ✓
  - Impact driven: ✓

- **Benefit all stakeholders**
  - Traditional: X
  - Responsible: X
  - Sustainable: ✓
  - Impact driven: ✓

- **Contribute to societal challenges**
  - Traditional: X
  - Responsible: X
  - Sustainable: X
  - Impact driven: ✓

### Tax ESG spectrum:

- **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** | **(Tax) ESG Metrics (Part of)** | **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*...

<table>
<thead>
<tr>
<th>Examples</th>
<th>Tax Principles (Part of)</th>
<th>(Tax) ESG Metrics measurements</th>
<th>Action / Operationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E</strong></td>
<td>Transparent about used incentives and received subsidies</td>
<td>Incentives data, subsidies data</td>
<td>Define required data for reporting</td>
</tr>
<tr>
<td><strong>S</strong></td>
<td>Transparent about our remuneration policies and integration of ESG objectives</td>
<td>Published remuneration policy</td>
<td>Integrate KPI’s (eg tax integrity, human rights, climate, responsible investment, etc) in bonus schemes</td>
</tr>
<tr>
<td><strong>G</strong></td>
<td>We publish our tax contribution per country</td>
<td>CbcR data, subsidies received, incentives used, capacity building FTE</td>
<td>Define required data for reporting</td>
</tr>
</tbody>
</table>
## ESG statement: ...invest responsibly...integrate esg in investments...

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<th>Tax Principles</th>
<th>(Tax) ESG Metrics</th>
<th>Action / Operationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E S G</strong></td>
<td><strong>Invest responsibly from a tax viewpoint</strong></td>
<td>Tax strategy, governance and tax data (CbcR or other) per investment</td>
<td>Publish tax expectations and monitor tax output per investment</td>
</tr>
<tr>
<td></td>
<td><strong>Active contact with our investments on good tax governance</strong></td>
<td>Number of engagements on topic of tax ESG plus outcome</td>
<td>Engage with investees on tax strategy and governance and provide support on a regular basis</td>
</tr>
<tr>
<td></td>
<td><strong>Report on responsible tax investment impact</strong></td>
<td>Strategy, control framework and tax data (CbcR or other)</td>
<td>Define data points and include in responsible investment report</td>
</tr>
</tbody>
</table>
TAX ESG reporting and compliance to show accountability to stakeholders.
Tax ESG Governance framework

Purpose and values
Business strategy

ESG Strategy

- Direct taxes
- Value chain
- Indirect taxes
- Green taxes
- Remuneration
- Investm
- Other

ESG Metrics
ESG Metrics
ESG Metrics
ESG Metrics
ESG Metrics
ESG Metrics
ESG Metrics

Processes | Roles & Responsibilities | Risks and controls | Monitoring

Data management

Reporting

- Sustainability report
- Annual report
- Responsible investment report
- Tax Strategy publication
- GRI 207 reporting
- Remuneration reporting
- Internal reporting

Assurance

Strategy-led

Transformation-led

Reporting-led
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

Globally the most recognized standard for carbon accounting
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
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 CO2 levy on Dow’s business in the Netherlands.

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.
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Closing

- **Questions?** Please contact your PwC advisor or let us know in the evaluation of this webcast.
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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