Corporate tax governance

Module C

GRI and UN PRI tax requirements

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In this module, two examples are included of tax reporting requirements from the Global Reporting Initiative ('GRI') tax standard '207: Tax 2019' and from the UN Principles of Responsible Investment ('PRI') with its Investor Recommendations on Tax Disclosures. The module is a supplement to PwC's Tax governance publication which can be found at ***pwc.nl***

Global Reporting Initiative (GRI) 207: Tax 2019	
Standard 207-1: Approach to tax	
The reporting organization shall report the following information: • A description of the approach to tax, including: – whether the organization has a tax strategy and, if so, a link to this strategy if publicly available; – the governance body or executive-level position within the organization that formally reviews and approves the tax strategy, and the frequency of this review; – the approach to regulatory compliance; – how the approach to tax is linked to the business and sustainable development strategies of the organization.	A company's approach to tax may be described in a tax strategy, tax policy, tax principles, code of conduct, or any other form, and may include topics such as the company's tax compliance in relation to business activities and ethical, societal and sustainable development-related expectations, the company's attitude towards tax planning, its tax risk appetite, etc.
Standard 207-2: Tax governance, control, and risk management	
The reporting organization shall report the following information: • A description of the tax governance and control framework, including: – the governance body or executive-level position within the organization accountable for compliance with the tax strategy; – how the approach to tax is embedded within the organization; – the approach to tax risks, including how risks are identified, managed, and monitored; – how compliance with the tax governance and control framework is evaluated. • A description of the mechanisms for reporting concerns about unethical or unlawful behavior and the organization's integrity in relation to tax. • A description of the assurance process for disclosures on tax and, if applicable, a reference to the assurance report, statement, or opinion.	To ensure that the tax approach and tax strategy are properly embedded in the organization, having a robust governance, control and risk management framework in place is essential.
Standard 207-3 Stakeholder engagement and management of concerns related to tax	
The reporting organization shall report the following information: • A description of the approach to stakeholder engagement and management of stakeholder concerns related to tax, including: • the approach to engagement with tax authorities; • the approach to public policy advocacy on tax; • the processes for collecting and considering the views and concerns of stakeholders, including external stakeholders.	With an increasing interest on tax by various stakeholders, stakeholder engagement can influence the reputation and position of trust of the company. Also, engaging with stakeholders on future regulatory changes enables the company to better anticipate on the related risks and impacts.

Global Reporting Initiative (GRI) 207: Tax 2019	
Standard 207-4: Country-by-country reporting	
The reporting organization shall report the following information: • All tax jurisdictions where the entities included in the organization's audited consolidated financial statements, or in the financial information filed on public record, are resident for tax purposes. • For each tax jurisdiction reported in Disclosure 207-4-a: – Names of the resident entities; – Primary activities of the organization; – Number of employees, and the basis of calculation of this number; – Revenues from third-party sales; – Revenues from intra-group transactions with other tax jurisdictions; – Profit/loss before tax; – Tangible assets other than cash and cash equivalents; – Corporate income tax paid on a cash basis; – Corporate income tax accrued on profit/loss; – Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax. • The time period covered by the information reported in Disclosure 207-4. A reporting recommendation is: • The reporting organization should report the following additional information for each tax jurisdiction reported in Disclosure 207-4-a: – Total employee remuneration; – Taxes withheld and paid on behalf of employees; – Taxes collected from customers on behalf of a tax authority; – Industry-related and other taxes or payments to governments; – Significant uncertain tax positions; – Balance of intra-company debt held by entities in the tax jurisdiction, and the basis of calculation of the interest rate paid on the debt.	Country-by-country reporting is the reporting of financial, economic, and tax-related information for each jurisdiction in which the organization operates. To provide more insight in the business value provided by a company in a jurisdiction, a reporting recommendation (not an obligation) is to include information on taxes paid other than Corporate income tax.

Principles for Responsible Investment (PRI)
Investors' Recommendations on Corporate Income Tax Disclosure (2018)

Policy

Disclosure of a tax policy signed by a board-level representative outlining the company's approach to taxation and how this approach is aligned with its business and sustainability strategy.

A comprehensive tax policy would:

- outline the organisation and board view on corporate income tax, with particular reference to its impact on the overall profitability of the company, as well as its broader economic impacts;
- discuss how the company's tax policy protects stakeholders' trust, enhances the company's license to operate and aligns with its corporate values/code of conduct;
- state the company's risk appetite in relation to tax activities, including examples of acceptable and unacceptable practices and a narrative on major tax risks;
- provide an overview of the firm's general tax structure and strategies, including the linkage between where profits are booked and the factors that indicate genuine commercial activity in those locations (e.g. how transfer prices are set within the group and how tax havens are used, if applicable);
- describe the company's current relationships with tax authorities and other stakeholders (i.e. consumers and civil society organisations) and explain if engagement with stakeholders has impacted the tax policy;
- describe the process in place to interpret the law and deal with ambiguity;
- discuss advocacy and lobbying activities on tax including membership in trade associations active on tax policy;
- include any reference to third party standards and guidelines covering tax related issues;
- commit to ongoing and transparent tax-related reporting.

Governance and Risk Management

Information on tax governance and management of the tax policy and related risks.

Good disclosure would provide evidence that:

- tax governance is part of the risk oversight mandate of the board, including the setting of clear responsibilities and mechanisms to maintain compliance with the firm's tax policy;
- the board discusses the ramifications of the company's approach to tax on its brand and reputation, including assessing potential stakeholders' perceptions regarding the "spirit" of tax laws;
- the tax policy and strategy are reviewed at least annually by the full board, in addition to any board committees tasked with assessing risk;
- the company provides regular training and guidance for all relevant staff (including those not directly involved in the execution of the tax strategy) on the linkages between tax and overall corporate strategy;
- the company provides whistleblowing channels to report tax-related activities or decisions that are not aligned with the company's tax strategy

Performance

Transparency on tax strategies, tax-related risks and country-by-country activities.

Detailed reporting would provide an overview of:

- the primary drivers of the gap between the effective tax rate and the weighted average statutory rate based on the firm's geographic sales mix, with particular emphasis on the key tax strategies employed (including the role, if any, of intellectual property and transfer pricing) and potential regulatory changes related to those strategies;
- the new tax strategies being employed by the company that are leading to increases in the company's unrecognised tax benefit balances;
- the firm's intercompany debt balances, including the countries where the debt is held and the average interest rate paid by the firm's subsidiaries on that debt;
- the most financially-material tax incentives (e.g. tax holidays) provided by various jurisdictions, including information on the expiration date of each incentives, the investment requirements of each incentive, and commentary regarding the likelihood that such incentives will not be renewed;
- country-by-country reporting details, including a list of all subsidiaries and their business nature (as required by the appropriate OECD-BEPS templates);
- current disputes with tax authorities.

How PwC can help

To have a deeper discussion on tax governance, please contact.

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