

Public tax transparency

**Establishing trust in a
digital (tax) world**

1. What is public tax transparency about?

Overview of the public tax transparency series of papers

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- Defining public tax transparency
- Why it's a topic now

2. Is it in your interests to be publicly tax transparent?

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1. Introduction

In the wake of the financial crisis of 2007-08 the view has popularised that large corporations enjoy a bigger slice of the globalisation pie than ordinary people. This perception has prompted close scrutiny of the tax affairs of large organisations. Court cases, analyses of public documents and tax-related leaks have heavily influenced the debate, supporting the belief that companies are not paying their fair share of tax.

In recent years, we have observed continued efforts to expand the tax reporting requirements for individuals, multinationals and intermediaries. Not only that, but some places (including the UK, Australia and the EU) have already established public tax disclosure obligations for specific industries or companies of a particular size. Tax has also become an important part of the broader sustainability and corporate social responsibility discussion. This has resulted in a wave of tax-related studies and recommendations from non-governmental organisations (NGOs) and politicians trying to shed light on tax matters. Last but not least, institutional investors have started to show significant interest in company's tax principles.

In our view, these are hallmarks of a general trend. Connecting the dots, we'll inevitably see a more transparent world of tax as a result of this focus, which will be further enhanced by the availability of more digital data and better analytical tools (tax authorities will themselves evolve – probably in the not-so-distant future).¹ This trend is not limited to tax: so far, digitalisation has frequently gone hand in hand with greater transparency.

All this clearly means that the role of the tax function will change in the future. Unfortunately, managing technical tax risks well and ensuring that your organisation is complying with the rules is no longer sufficient. It's time for the tax function to join forces with other functions within the organisation to start promoting its endeavours and the financial merits of the whole organisation to external and internal stakeholders. As part of its new role, the tax function has to support the development of a tax-related communications strategy and management of reputational risks.

Again, tax is only a small part of a broader development. In these times of information overload, many technical specialists, including tax experts, are having to make their insights more accessible and easily understandable to be part of the debate.

Public tax transparency is about participating in the debate. If you want to do so, the time for action is now.

We'll be dealing with this topic in a series of four brief papers. In this, the first, we examine what public tax transparency is and why it should be of interest to you (now). In the second paper, we'll explore in detail why public tax transparency is so essential, and share an insider's view in an interview with a head of tax at a multinational organisation. In the third in the series we'll introduce our view of how you can get the most out of public tax transparency, and propose steps to take action. In the last piece we'll be presenting a benchmark study to help you understand how other companies are responding.

¹ If you want to know more about this topic, please have a look at our paper 'What happens when the taxman gets superpowers?', <https://www.pwc.ch/en/insights/tax/taxmen-superpowers.html> [May 2019].

2. What's in it for me?

Institutional investors like Norges Bank Investment Management (responsible for managing the Government Pension Fund Global, with assets of about USD 1 trillion)² and Ethos Engagement Pool Switzerland (pooling 133 pension funds managing total assets of CHF 218 billion)³ have explicitly defined expectations of how companies should exhibit transparent tax behaviour.⁴ As sustainability and taking a long-term view become an even bigger topic, be prepared for other investors to follow suit. Avoid a situation where you have to deliver at very short notice without being able to consider carefully the strategic impact and broader consequences of your actions in such a sensitive area.

Taxation is the most important source of government revenue and therefore very important for society and its institutions. Being open and providing easily accessible information about your tax contribution may be a good way of building or rebuilding reputation and public trust. All you need to do to prove you're doing more than merely paying lip service to sustainability is harness something that you do anyway.

At the same time, acting now will enable you to positively inform the debate and set a good example, which may help shape the way potentially mandatory public tax disclosures are designed in the future. The alternative is to do and say nothing and have your numbers potentially misunderstood and misinterpreted.



² <https://www.nbim.no/en/the-fund/market-value/> [May 2019].

³ <https://www.ethosfund.ch/en/members-ethos-engagement-pool> [May 2019].

⁴ See Norges Bank Investment Management, Tax and Transparency, <https://www.nbim.no/contentassets/48b3ea4218e44caab5f2a1f56992f67e/expectations-document---taxand-transparency---norges-bank-investment-management.pdf> [May 2019].

3. What exactly is public tax transparency?

It's crucial to understand that public tax transparency isn't just about publicly disclosing how and where you pay taxes.

It's about putting this information in the right context. Companies don't only contribute by way of corporate income taxes, but also through other income and non-income-related taxes. Other payments to governments, such as duties, levies and royalties, may also be regarded as contributions. Companies also collect and administrate taxes related to their employees, customers and suppliers on behalf of governments. Beyond that, the concept of public tax transparency may be broadened to include additional economic contributions. For example, companies also contribute to every local economy in which they operate by way of local wages, local investments and payments to local suppliers.

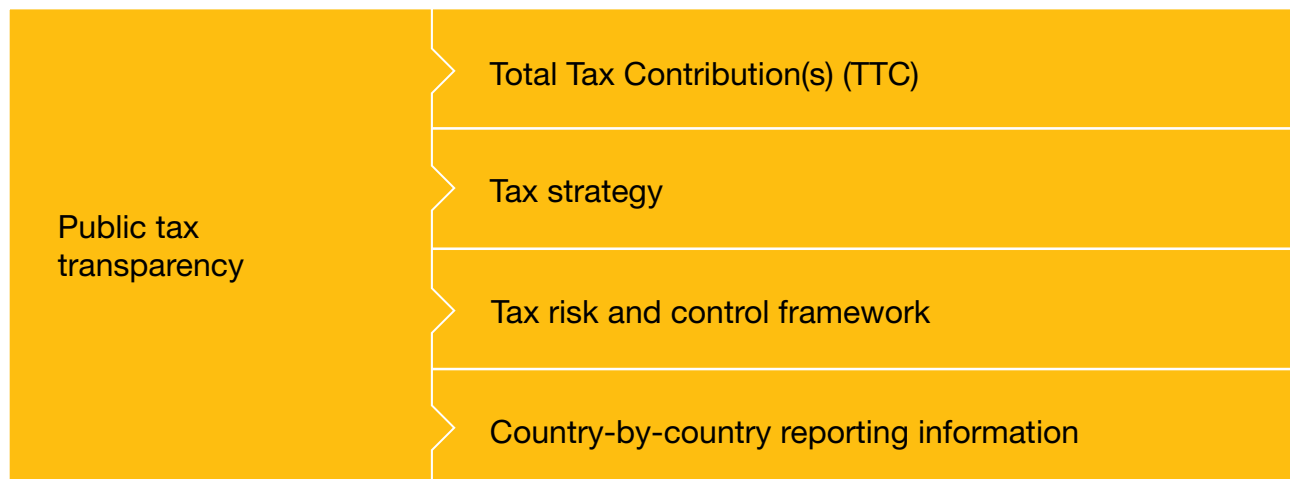
Public tax transparency is also about preparing the relevant information so that it's easily and quickly accessible. The target audience should be able to understand your statements at first glance.

Public tax transparency is thus better described as presenting easily understandable information on the broader economic contributions a taxpayer makes by paying or collecting taxes in the environment in which they operate.

Public tax transparency should be distinguished from other forms of tax transparency, in particular from non-public tax transparency vis-à-vis the tax authorities. Tax administrations will soon be able to capitalise on advances in data science and technology (DST) and the improved quality and quantity of information available. These new capabilities will fundamentally change and bring transparency to the taxpayer-authority relationship.⁵

It's important to realise that the actual content of what's reported in the context of public tax transparency will vary from organisation to organisation. Before taking the step of becoming publicly tax transparent, each company has to think strategically about what exactly it wants to disclose, what points it intends to stress, and in what specific context it wants to set the data. Depending on your organisation's needs and situation, it's crucial to find the right focus and balance.

In general, public tax transparency might include disclosing your Total Tax Contribution(s), a sound tax strategy, your approach to technical and non-technical tax risk, and information on a country-by-country basis.



⁵ For more information, see our paper 'Tax disruption management', <https://www.pwc.ch/en/insights/tax/taxdisruption-management.html> [May 2019].

4. Why should I deal with this issue right now?

Because the elephant is already in the room. If you act now, you might have the opportunity to make an impact on broader developments in tax transparency. If you miss the opportunity, you'll be a mere passenger forced to follow wherever the driver wants you to go.

What do we mean by the broader developments? In recent years we have observed major upheaval in the realm of tax, with tax transparency emerging as a key area of focus. In our view, the path is clearly leading towards a world of tax that is much more transparent.

For example, there have been additional tax reporting requirements for individuals, such as FATCA and CRS for the automatic exchange of information (AEOI). We have seen new reporting obligations for multinationals, for example country-by-country reporting (CbCR under OECD BEPS) in over 50 countries now, and for intermediaries (e.g. DAC6)⁶. We have witnessed the recent EU proposal for the mandatory publication of something closely matching the CbCR given to tax authorities. And specific sectors, such as the extractive industries and the banking sector, are already obliged to publicly disclose certain country-by-country information. Some countries, such as Australia, the UK and some Scandinavian countries, are even further ahead in terms of enforcing strict tax transparency codes.

In addition, an increasing number of tax-related leaks (the Offshore Leaks, Lux Leaks, Panama Papers, Bahamas Leaks and Paradise Papers, to name just a few) and many other new data sources opened up by digital technologies are providing tax administrations and other stakeholders with more insights. We are seeing a rise in data and information sharing between tax administrations and a push for real-time reporting and analysis, especially in emerging markets.

Important investors⁷ are picking up on the topic, and initiatives like the UN-supported Principles for Responsible Investment (PRI)⁸ and the Global Reporting Initiative (GRI)⁹ are including tax transparency in their frameworks. Industry-owned action groups such as The B Team Responsible Tax Principles are also pushing the topic.¹⁰ Added to this we're seeing a steady flow of studies in which NGOs and politicians are investigating the nature of tax payments in order to back up calls for greater tax transparency.¹¹

We believe these developments paint a coherent picture: tax transparency has clearly gained momentum. If you want to be part of the debate, the time to act is now.

5. What should I do now?

Your very first step should be to review if you need to address the developments outlined in the section above. How will you respond to an increasingly transparent tax environment? The second step should be to adopt a position and start to develop a strategic response.¹² Finding an approach to public tax transparency may be part of it.

Before proposing specific steps in the third paper in this series, in the next instalment we'll be exploring the value of participating in public tax transparency. Stay tuned!

⁶ DAC6 imposes mandatory disclosure requirements for certain arrangements with an EU cross-border element where the arrangements display certain 'hallmarks' mentioned in the directive and in certain instances where the main or expected benefit of the arrangement is a tax advantage. For more information, see <https://www.pwc.ch/en/services/tax-advice/corporate-taxes-tax-structures/dac6.html> [May 2019].

⁷ For example, Norges Bank Investment Management, Tax and Transparency, see <https://www.nbim.no/contentassets/48b3ea4218e44caab5f2a1f56992f67e/expectations-document---tax-and-transparency---norges-bank-investment-management.pdf> [May 2019].

⁸ Engagement guidance on corporate tax responsibility, see <https://www.unpri.org/download?ac=5601> [May 2019].

⁹ Exposure draft of GRI topic-specific standard: Tax and Payments to Governments, see <https://www.globalreporting.org/standards/work-program-and-standards-review/disclosures-on-tax-and-payments-to-government/> [May 2019].

¹⁰ A New Bar For Responsible Tax, see <http://bteam.org/wp-content/uploads/2018/02/A-New-Bar-For-Responsible-Tax.pdf> [May 2019].

¹¹ For example, Effective tax rates for multinational companies in the EU, a report commissioned by the Greens/EFA, see <https://www.greens-efa.eu/en/article/document/effective-tax-rates-for-multination-companies-in-the-eu/> [May 2019].

¹² See our white paper 'Tax disruption management', <https://www.pwc.ch/en/insights/tax/taxdisruption-management.html> [May 2019].

Questions?

If you would like more information on public tax transparency or wish to discuss the topic, please contact:



Dr. Christian R. Ulbrich
Tax Disruption and Technology,
PwC Switzerland
+41 58 792 23 16
christian.ulbrich@ch.pwc.com



Charalambos Antoniou
Tax Function Design Leader,
PwC Switzerland
+41 58 792 47 16
charalambos.antoniou@ch.pwc.com

PwC, Birchstrasse 160, 8050 Zurich, +41 58 792 44 00