Public Tax Reporting

Understanding complexity; making disclosure meaningful

KPMG International

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Foreword

Since 2014, KPMG International and Jericho have been discussing responsible tax with a wide variety of stakeholders through the KPMG Global Responsible Tax Project. One topic which has been part of almost every discussion, but less often alone in the spotlight, is that of tax transparency and tax reporting. Most recently we sought to remedy that and with the help of the B Team, held several roundtable conversations to dig more deeply into tax reporting.

As always, our conversations were multi-stakeholder, covering a variety of global jurisdictions. We held roundtables with tax leaders; Environmental, Social and Governance (ESG) experts; investors; and rating agencies. During this time KPMG Australia also held a responsible tax roundtable on ESG reporting, predominantly with investors, and KPMG Acor Tax in Denmark held a 'Tax transparency: mature market' roundtable with a wide variety of stakeholders. All of these views and more have fed into this report.

During all of these conversations the core purpose was to try to understand:

- What do stakeholders want from ESG tax reporting and why?
- What barriers are there to providing such information and why?
- How such information might be communicated in ways that satisfy as many stakeholders as possible?
- Are there any helpful steppingstones on the journey from minimal disclosure to the fullest transparency level yet available?

As expected, there are significant challenges to understanding each of these areas, and more still when trying to find solutions. However, one key theme emerged: tax reporting is key to building trust between business, civil society, decision makers and opinion formers. This trust has been eroded over decades, but tax is inherently complex, therefore expecting tax reporting to rebuild trust simply via ever more metrics is unlikely to suffice. Indeed, as our stakeholder conversations showed, tax reporting is a proxy for trust. The figures must be as accurate and relevant as possible, but it is only openness and dialogue that really builds trust.

The paper explores this theme and attempts to demystify some of the more difficult tax concepts so that tax reporting can become more accessible at different levels of expertise.

As such, we have divided the report into three parts:

- Part 1: Setting the scene — a brief overview of the expansion of tax transparency in the context of ESG, current tax reporting issues, the direction of travel and which stakeholders are interested in what and why.
- Part 2: Getting into the detail — an overview of the current and incoming mandatory and voluntary tax disclosures.
- Part 3: Explaining the complexity — an exploration of how best to approach sharing and explaining meaningful tax data and why narrative and numbers are so important.

We hope readers can find the information and grasp key issues and understand the levels of complexity, while helping those with more expertise to think through their approaches and practice.

Why is the tax transparency debate important for multinationals to consider?

The debate about the extent of tax transparency and who needs what information and why has been running on for over 20 years now. Different parts of the world are at different stages of the journey and there are many different types of transparency codes, some voluntary, some mandatory, some industry specific, some directly tax related and some implied through ESG reporting. It is important for multinationals to consider all these aspects and questions such as:

Do any of the mandatory rules apply to us?

Are there any emerging trends which will impact us?

What is our stakeholder population and what do they need?

What are our peers and competitors doing?

What are the reputational risks of not being more transparent?

What are the risks of greater disclosure?

What barriers do we see to greater transparency and can they be overcome?

Do we have a clear idea of where we want to get to and how to get there?

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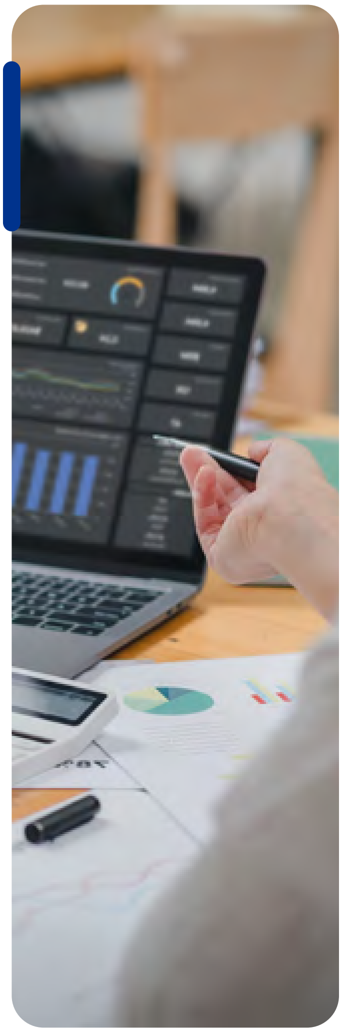
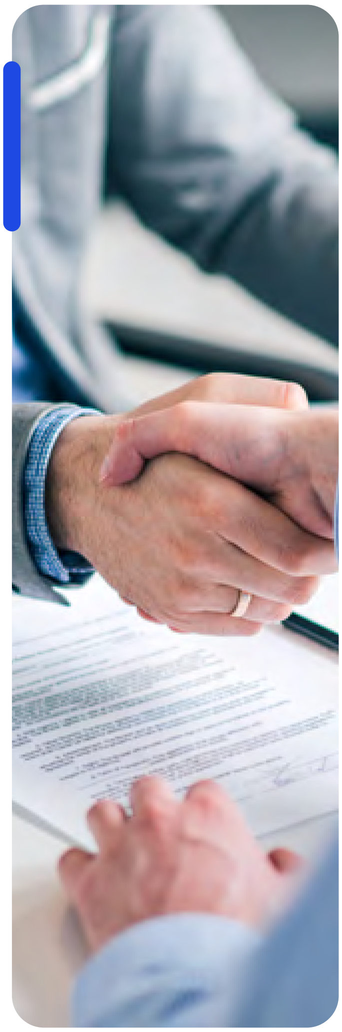
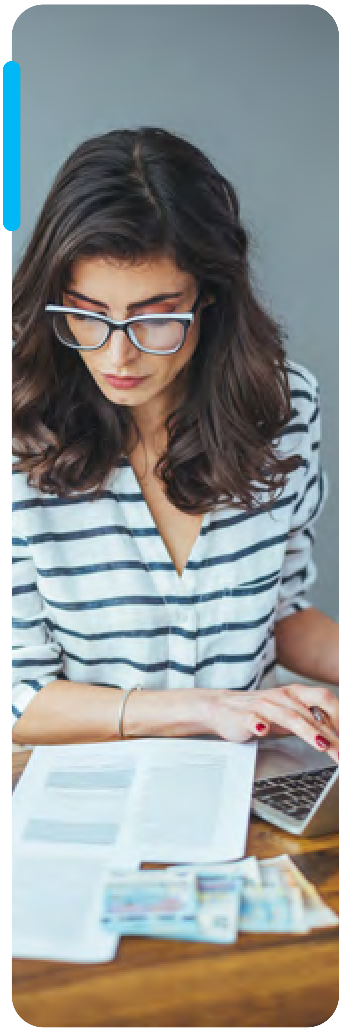
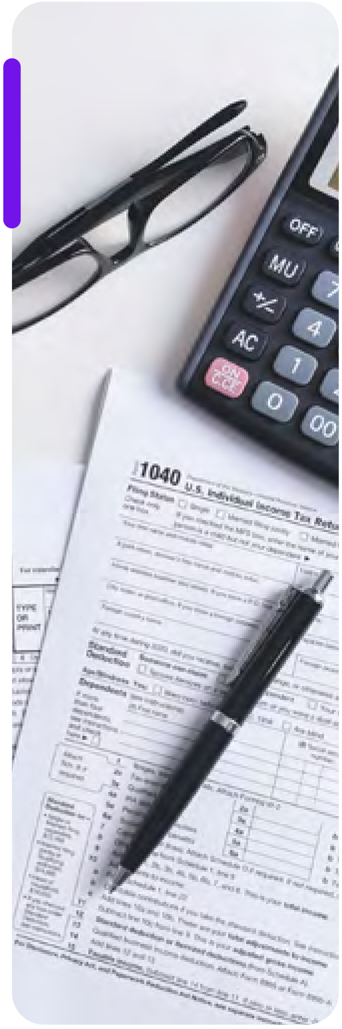








Setting the scene

The development of the transparency debate

1.1 Background

1.1.1 The expansion of ESG

Recent years have seen ESG tax reporting (or tax transparency) increasingly on the agenda of many businesses and not just with their heads of tax, but also with investor relations and the wider C-suite. As the ESG agenda at large grows in importance, many are rethinking how tax intersects and supports it. Indeed, some see tax as a key ESG metric.

ESG principles have led many Multinational Enterprises (MNEs) to take, or consider taking, a purpose-led approach to business and a more active role in managing externalities, including both environmental and social impacts. This has been accompanied by increasing expectations of tax transparency as a key governance metric, voluntarily at first, but as the depth of the climate emergency and social instability become increasingly evident, in the form of an increasingly stringent regulatory environment.

1.1.2 Evolution of the approach to tax reporting

The relationship between taxation and business is complex. Traditionally, tax has been seen by some as a cost to business and like most other business costs the focus has been on minimization.

For many MNEs this has involved the use of tax-effective structures, adopting strategies to locate both active and passive business activities in low taxed jurisdictions. While the focus of international tax planning was often geared towards reducing double taxation, for some, planning was also focused on producing double non-taxation.

This traditional view has been subject to challenge in more recent times and tax transparency as a concept is intrinsically linked with the shifting view. In 2003 a tax activist group proposed the first iteration of public Country-by-Country reporting (CbC/CbCR) to the International Accounting Standards Board (IASB) to shine a light on some of the tax-led structuring being adopted[1]. CbCR provides tax transparency by showing how much tax is paid in every country a firm operates in. While this early proposal

[1] In 2003, the newly formed Tax Justice Network published a draft international accounting standard for country-by-country reporting https://www.taxjustice.net/cms/upload/pdf/new_int._Account_Standard.pdf (Murphy, 2003; Cobham, Gray & Murphy, 2017).

was not implemented, the concept of sharing tax information with accompanying financial contextual indicators has been with us ever since.

Tax transparency is not just about throwing a spotlight on MNEs' approach to tax. In 2003 the Extractive Industries Transparency Initiative (EITI) was founded at an international conference in London involving governments, companies and civil society in order to develop transparency principles for the oil, gas and mining sector. The disclosures required enable stakeholders to see the revenues governments are collecting so they can be held to account for their use. The EITI Standard is currently implemented in over 50 countries. In 2013 the European Union (EU) introduced similar mandatory rules for EU extractive industries in the Report on Payments to Governments Regulations in Chapter 10 of the EU Accounting Directive.

Concern about the financial sector following the 2008 Global Financial Crisis also led the EU to introduce mandatory tax reporting requirements, especially for banks, in 2013 in the Captial Requirements Directive IV (CRD IV).

In 2013 the OECD launched its Base Erosion and Profit Shifting (BEPS) action plan to tackle the issue of international tax rules having failed to keep up with the developments in technology and business and concerns that some firms were exploiting gaps and mismatches between different countries' tax systems.

The BEPS action plan, finalized in 2015, requires very large MNEs to provide CbC reports to tax authorities (that had signed up to it) which are then exchanged between jurisdictions. While this increases transparency between the taxpayer and the tax authorities, it does little to increase public tax transparency. Although the OECD Corporate Tax Statistics[2] began to be released in 2020, the CbCR data included is anonymised and aggregated.

Public CbCR was however picked up by the EU and the European Commission proposed an EU Public Country by Country Reporting Directive in 2016. As set out in Figure 1 (page 11), the Directive that came into force on 21 December 2021 reflects the compromise reached by the European Parliament and the Council of the EU following the legislative process. Countries had until 22 June 2023 to transpose the Directive and it generally applies to companies for the first financial year starting on or after 22 June 2024. Australia has at the time of publication released two drafts of a public CbCR regime which is intended to come into force as of 1 July 2024.

While the legislative proposals for CbCR were slowly progressing, the turning tide of public opinion and risk of negative press attention led some MNEs to start to proactively seek a way to rebuild trust with their stakeholders. Many, across various sectors, have began explaining their tax position to the public in more detail than regulations required. As disclosures increase, the desire for standardization is increasing and voluntary tax reporting standards and several principles-based disclosure criteria have emerged.

The idea of tax as a 'public good' remains a core part of why tax is an important facet of ESG today.

1.1.3 Current tax reporting difficulties and the future of tax reporting

The plethora of voluntary standards and ongoing debate about what good disclosures look like, alongside businesses' tax disclosures which are often unique in form, composition and technical content, makes it difficult, if not impossible, to compare disclosures in meaningful ways.

At the same time, some MNEs face operational difficulties gathering tax data given its scale and complexity. Meanwhile its usefulness in the public domain remains a topic of debate. There is an apparent paradox that while some stakeholders want to see more data before trusting what a company says about its tax position, complex tax data can create misunderstanding, debate over its meaning and questions about its accuracy, thereby actually reducing trust.

If the complexity of data provided by CbCR cannot overcome the trust deficit, the question is raised 'is there a reasonable alternative to, or acceptable steppingstone towards CbCR which would satisfy all stakeholders?' It became evident in the roundtables that it would be unlikely for two main reasons:

- Tax is a sovereign matter with different countries applying different rules which makes developing another, one size fits all metric, problematic.
- Public CbCR is coming into law, for example now both the EU and Australia, so the time for alternatives, if ever there was one, has gone.

The future of meaningful tax reporting lies in understanding the information made available; this will be a joint effort between businesses who are reporting and stakeholders using that information. Relevant qualitative and quantitative disclosures made by businesses can meet reporting obligations, while rejecting a tick-box mentality by engaging with stakeholders to explain the businesses' role in and contribution to society. Stakeholders will have to accept that tax is a highly complex area, possibly challenging their existing understanding of concepts such as effective tax rates, to understand the tax data available and the explanations given. This paper explores how progress can be made on both sides of reporting.

[2] Corporate Tax Statistics; Second Edition, OECD, 2020, https://www.oecd.org/tax/tax-policy/corporate-tax-statistics-second-edition.pdf

Finally, recognition must be given to the fact that even where these barriers to understanding can be overcome, those who are invested in the tax reporting agenda may not draw the same conclusions from the same information. The notion of 'fair tax' is highly subjective and it is not the purpose of this paper to say what is or isn't 'fair'. It will however use the term 'fair tax' as for many stakeholders this is the crux of the issue and recognizing whether an MNE is perceived to be paying 'fair tax' or its 'fair share of tax', underpins why tax reporting is so important.

Over the rest of this report, we will dive into the various mandatory and voluntary ESG and tax disclosure issues, explore the challenges associated and discuss some potential ways in which they can be overcome. Some of the terms and concepts are complex, but that is the nature of global responsible tax, to pretend it is simple will just erode trust.

1.2 Stakeholders

1.2.1 Who is interested and why?

For MNEs who want to communicate their tax position in a way which satisfies as many stakeholders to the largest extent possible, they will need to understand who their stakeholders are and why they are interested in their tax reporting. Only then can they decide what information to give and how best to make that information understandable.

This list is not comprehensive but gives an insight into some stakeholders' reasons for wanting more information on MNEs' tax positions.

Investors, Banks and Rating Agencies

Investors need to know the long-term sustainability of companies to maximize returns and de-risk investment. They may also have certain funds advertised as 'sustainable', a term whose definition is beginning to be legislated, particularly in the EU via the EU Taxonomy Regulation. The investments which comprise these funds need to be individually sustainable; tax is often one metric of this when investors set their own sustainable investment criteria, however, for those within the remit of the EU Taxonomy, tax must be considered.

Investors will be checking to see if after-tax profits are 'artificially high', whether there is a stability of tax rate (impacted by fluctuating/unstable tax incentives), and how a business might be exposed to the impacts of the OECD's Pillar 2.

Heightened demand from investors for sustainable products as well as increasing pressure from regulatory bodies and consumers for greater transparency highlight the need for banks to consider ESG in their risk management framework. When occurring, ESG risks will have, or may have, negative impacts on assets or the reputation of a bank.

Rating Agencies (RA) are also looking for sustainable tax planning practices and policies. When advising investors, public CbCR provides detailed data and without such data, it is very difficult for RAs to have a solid idea of a company's long-term sustainability or any associated risks (e.g. commitment to paying their 'fair' share of tax).

Civil Society and the Media

Wider civil society hold corporations, advisers and authorities to account. Sharing tax data in consistent metrics helps to open lines of communication between business and civil society and build trust. They will be looking for corporations paying their 'fair share' and/or discrepancies between public policies and private practices.

Journalists are continuing to respond to changing public attitudes to tax and ever-increasing pressure for transparency. They will be looking for the link between tax policies, disclosures and behaviors.

Employees and Customers

The next generation of talent are keen to understand how a business views its role in society and its commitment to its broader ESG purpose. In a competitive talent market, firms with a strong reputation on tax will have an advantage.

Similarly, customers might shun MNEs that appear not to fulfil their social contract and pay their 'fair share' of tax when they themselves are suffering from crises (health, economic, geopolitical, financial) and 'taxpayer' money is used to support MNEs. They will be looking to news reports of undesirable tax practices to influence some of their decisions.

Competitors and Other Nation States

Peers and competitors will be interested in the data as they don't want to be seen as lagging behind but also don't want to be undercut by competitors who take abusive tax positions.

Other nation states will also be interested to ensure there is no profit shifting from their jurisdictions to other jurisdictions.

1.2.2 What have some stakeholders expressed concerns about?

During a series of roundtable discussions with some of these stakeholder groups including, Heads of Tax, ESG experts, Investors, Rating Agencies and ESG experts, we sought to tease out what these different stakeholders, who were chosen for their distinct (but often overlapping) interest in the debate, wanted from tax reporting, the challenges they face and what was needed to better meet expectations.

Whilst each group had their specific challenges and interests, a core thread around certain concerns appeared throughout each of the discussions and focused around three key themes. The tables below show these concerns and a distillation of the responses to those concerns heard during the roundtables. While some stakeholders will not agree with the responses, being proactive in understanding how a concern about tax reporting could be perceived or what action could be appropriate to alleviate that concern, is important when attempting to align business actions and their stakeholders expectations on tax reporting.

1. **Current 'forms' of increased disclosure**
   Some stakeholders query whether the current forms of increased tax disclosures will meet the needs of those relying on the disclosures.
2. **Commercial sensitivity/business risk**
   Some businesses raised concerns that increased disclosures will risk revealing commercially sensitive information and increase business risk.
3. **Interpretation of tax regulations/what is 'tax leakage'?**
   Some businesses raised concerns that tax systems are complex and rules in countries they operate in are sometimes unclear, open to interpretation or would not be understood by persons who are not tax professionals in that jurisdiction.

Concerns	Potential Responses
Current 'forms' of increased disclosure	
• Transparency does not automatically meet the objective of building trust. In some cases, increased transparency can be counterproductive.	• If the approach to tax and tax position of the MNE is explained well and meets the needs of its stakeholders, this risk should be reduced.
• Overreliance on those without ability to access MNE information or knowledge of the law to be the deliverer of trust. That role needs to be fulfilled by the revenue authorities who can reasonably make information requests and then understand that information in the context of the law.	• Reputational issues go beyond only meeting requirements set by tax authorities, wider stakeholders need to also play a significant role. • Public transparency is the direction of travel across all business activities.
• Over-focus on income tax as a basis for economic contribution when other taxes represent significant payments for businesses and revenues for tax authorities.	• Providing disclosures based on total taxes paid is becoming more common and widely accepted as being a useful metric, particularly when combined with quality narrative.

Concerns	Potential Responses
Commercial sensitivity/business risk	
• Disclosure to competitors of where companies are growing and gross profit margins.	• This is a business risk which is likely to be small as categories of information required in CbCR are too high level to draw any conclusions unless the business is a one product business.
• Size delineation is unfair and provides sub-threshold advantages.	• This is a wider business risk not specific to CbCR.
• Regional competitiveness diminished (e.g., EU or Australia).	• Countries have different laws, and this will be taken as part of the decision-making process when deciding how much business risk to take on.
• Geopolitical concerns and varying financial disclosure requirements. E.g., listed company disclosures vs lack of State Owned Enterprise (SOE)/Sovereign Wealth Fund (SWF) disclosures.	• As above.
• Open oneself up as a target to change of law e.g., company tax rates.	• This risk should diminish as trust rises.
• Cost of extraction and dealing with legacy systems.	• For meeting mandatory requirements this is a cost of doing business. To meet voluntary requirements, this is a decision to be made based on cost versus the potential reputational benefit/damage.
Interpretation of tax regulations/what is 'tax leakage'?	
• Location of entities in low tax jurisdictions, sometimes conduits e.g., Cayman Islands or Luxembourg.	• Narrative explanation of reasons for presence.
• No agreement on where 'value is created' hence where profits should be taxed.	• Narrative explanation of businesses own position on where they deem value created.
• Low Effective Tax Rate (ETR) which reflect governmental tax policy (e.g., R&D) unappreciated.	• Provide narrative on how the policy impacts ETR and is outside of the businesses control.

1.3 The tax transparency landscape in the broader ESG disclosure context

1.3.1 Mandatory ESG disclosures: Where is tax information required?

The wider ESG disclosure environment again provides evidence that companies (particularly large MNEs) are being required to increase their oversight and governance of tax matters including reporting. The EU alone (who are often the first movers introducing regulations in this space), has multiple disclosure regulations which could increase MNEs disclosures: such as the Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD), and the upcoming Corporate Sustainability Due Diligence Directive (CSDDD).

The main impact is likely to arise from the CSRD as it requires all large EU companies (including those that are not listed) and all listed companies (except listed micro-enterprises) to disclose information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment. The reporting obligations under CSRD begin to apply for certain businesses as of 2024 with first reports to be published in 2025. The directive also applies to some non-EU companies which have a significant presence in the EU with reporting becoming mandatory in later years.

Although tax was not released as one of the sustainability topics which companies will commonly need to disclose upon, companies will still need to assess whether tax is a material sustainability matter for their business. Additionally, it is possible that tax could be used as an indicator to determine whether the business has material risks within one of the sustainability topics. The legislation states[3] that when assessing the businesses impact on 'affected communities' the presence of "aggressive strategies to minimize taxation, particularly with respect to operations in developing countries" could be an example of a business model or strategy which is a material risk and is therefore disclosable under the CSRD. Other kinds of tax payments, policies or governance procedures could be indicators of a material risk across the range of sustainability topics laid out by the CSRD legislation.

Another area of potential impact is the EU Taxonomy Regulation which is a common classification of economic activities significantly contributing to environmental objectives developed by the EU. Companies covered by the CSRD are required to report the percentage of their current revenues coming from activities aligned with the EU Taxonomy and the percentage of their future revenues (capital expenditure) coming from activities aligned with the EU Taxonomy.

The EU Taxonomy contains Minimum Safeguards which are meant to ensure that activities that are labelled as Taxonomy-aligned (i.e. sustainable) are not only "green" but meet a broader set of criteria around: human & workers' rights, corrupt practices & bribery, taxation and fair competition. The Minimum Safeguards require alignment with The UN Guiding Principles on Business and Human Rights (UNGPs), including the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work; The International Bill of Human Rights and the OECD's Guidelines for Multinational Enterprises on Responsible Business Conduct which contains a specific chapter on tax. This interoperability means that those who are in scope of the CSRD, and reporting Taxonomy-aligned activities, also have to comply with the EU Taxonomy's minimum safeguard on tax.

Currently, the only public source of interpretation on the application of the Minimum Safeguards is contained in the Final Report on Minimum Safeguards[4] published by the Platform of Sustainable Finance in October 2022. This document states at page 49 that the minimum safeguards from a tax perspective are seen to have been failed when:

1. The company does not treat tax governance and compliance as important elements of oversight, and there exists no adequate tax risk management strategies and processes as outlined in OECD MNE Guidelines covering tax.
2. The company has been found guilty of tax evasion.

However, this is not an official EU Commission document and so while it is useful in setting guiding principles it is not binding. Questions therefore remain with regard to the content and depth of tax information required in order to obtain the 'Taxonomy-aligned' label.

There are other important ESG/sustainability reporting developments, such as the International Financial Reporting Standards (IFRS) Foundation announcing, at the United Nation's (UN) 26th Conference of the Parties (COP26), the establishment of the International Sustainability Standards Board (ISSB), who in June 2023 issued their inaugural standards[5]. To consolidate or align sustainability reporting, the IFRS Foundation previously announced consolidation with the Climate Disclosure Standards Board and the Value Reporting Foundation (which houses Integrated Reporting and Sustainability Accounting Standards Board (SASB) Standards). In 2022, the IFRS Foundation and GRI announced a collaboration agreement under which their respective standard-setting boards, the ISSB and the Global Sustainability Standards Board (GSSB), will seek to coordinate their work programmes and standard-setting activities[6].

While it is yet unknown what implications this collaboration will have for tax reporting, given the ISSB's objective to "provide better information for better economic and investment decisions"[7], and the increasing adoption of GRI standards, including GRI 207: Tax 2019, further alignment is expected. While it will be for individual countries to mandate the use of the ISSB's standards, support for these standards appears widespread[8].

[3] See paragraph 8a of European Sustainability Reporting Standards S3

[4] Final Report on Minimum Safeguards, Platform on Sustainable Finance, October 2022, https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf

[5] ISSB issues inaugural global sustainability disclosure standards, IFRS, 26 June 2023, https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/

[6] IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures, IFRS Foundation, 24 March 2022, https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/

[7] ISSB at COP27: ISSB makes key announcements towards the implementation of climate-related disclosure standards in 2023, IFRS Foundation, 8 November 2022, https://www.ifrs.org/news-and-events/news/2022/11/issb-cop27-progress-implementation-climate-related-disclosure-standards-in-2023/

[8] G20 looks forward to ISSB's finalised standards, IFRS Foundation, 18 October 2022, https://www.ifrs.org/news-and-events/news/2022/10/g20-looks-forward-to-issbs-finalised-standards/

Getting into the Detail

Mandatory and voluntary disclosures

2.1 Public CbCR gets the green light

After five years of deadlock, the Council of the EU and European Parliament announced on the 1st of June 2021 that a provisional agreement had been reached on EU public CbCR and the Directive came into force on 21 December that year. Just under a year later, in October 2022, the new Australian government announced they would be introducing public reporting requirements of tax information, both qualitative and quantitative, on a CbC basis from 1st of July 2023; this was however, delayed to 1 July 2024. The US Securities and Exchange Commission (SEC) signalled its support for the Financial Accounting Standards Board's (FASB) project to introduce greater corporate tax transparency. All of these developments point towards a trend; tax reporting requirements are increasing.

Figure 1: Global public CbCR implementation timeline

- **April 2016** – The European Commission's proposal on public CbCR was officially published.
- **June 2021** – The EU Council and the EU Parliament announced that a provisional political agreement had been reached on public CbCR.
- **21 December 2021** – The EU CbCR Directive comes into force requiring Member States to introduce legislation by 22 June 2023.
- **October 2022** – The Australian government announces they will introduce public reporting requirements for tax information.
- **January 2023** – Romania's early adoption of the EU public CbCR regime means some MNEs will have to report on their CbCR information for financial years beginning on or after 1 January 2023.
- **March 2023** – FASB proposes enhanced income tax disclosures for US companies and adopts final rules later in the year. These disclosures differ from the OECD CbCR style disclosures.[9]
- **6 April 2023** – Australia release 1st exposure draft of their CbCR regime, which, after consultation, the start date was postponed for one year to 1 July 2024.
- **22 June 2024** – EU Member States rules on CbCR should apply to financial years starting on or after 22 June 2024.

[9] FASB issues ASU to disaggregate income tax disclosures, December 2023, KPMG in the US, https://kpmg.com/us/en/frv/reference-library/2023/fasb-issues-asu-to-disaggregate-income-tax-disclosures.html

2.2 Mandatory disclosures

2.2.1 What is the intention behind the legislation?

The intent of legislators is critical for businesses to know when interpreting new legislation.

EU public CbCR

It is aimed at contributing to the European Commission's overall objective of 'fair taxation',[10] "ensuring that the country in which a company's profits are generated is also the country of taxation". The EU also notes that one of their reasons for public CbCR is "responding to the intense public demand to combine openness on company accounts and the level of taxes actually paid with the need to safeguard the competitiveness of EU businesses".

Australian public CbCR

Australia's public CbCR is part of a wider "multinational tax integrity package to address the tax avoidance practices of MNEs"[11] to ensure "MNEs pay their 'fair share' of tax in Australia to help fund vital services". Transparency is cited as "a key factor to underpinning the integrity of the tax system. It can help to deter MNEs from entering arrangements to minimize their tax paid and helps to build community confidence that MNEs are paying their 'fair share' of tax."

OECD CbCR template

Unlike the EU and Australian initiatives, the OECD CbCR reporting template is not public. It was designed to ensure that multinationals were providing information to tax authorities to enable them with their risk analysis and enquiries. These reports are generally subject to the automatic exchange of information, in theory providing tax authorities across the globe access to the data. In practice, however, the data may only be exchanged between jurisdictions that have entered into applicable tax treaties, thereby limiting the ability of resource constrained developing countries to gain access to the reports. Furthermore, the information is exchanged under tax treaties and it is a requirement that the receiving tax authority can keep the information confidential. Therefore, not all tax authorities are receiving relevant information and some resource constrained developing countries are struggling to utilize reports. Publicly available information overcomes this limitation of access.

Data as a first step

The OECD released guidance to tax authorities on using information from (private) CbC reports. It was intended to help identify transfer pricing and other BEPS related risks and when used alongside other information could form the basis of further enquiries. They cautioned against using CbCR information in isolation to draw conclusions about corporate activities; the very thing that users of public CbCR data may do, as they lack access to other data sources as well as contextualizing narratives.

However, if users of the information accept these limitations, it can be a useful starting point for discussions. It is also likely that the public and other stakeholders will be interested in a wider range of issues than tax authorities, making discussions and contextual qualitative disclosures critical to making CbCR information useful.

[10] Introducing public country-by-country reporting for multinational enterprises — Questions & Answers, European Commission, 16 April 2016, https://ec.europa.eu/commission/presscorner/detail/fr/MEMO_16_1351
[11] Government election commitments: Multinational tax integrity and enhanced tax transparency, Consultation paper, The Australian Government the Treasury, August 2022, https://ec.europa.eu/commission/presscorner/detail/fr/MEMO_16_1351

Figure 2: What disclosures mandatory public tax transparency regimes require

Public reporting: Mandatory		**Implementation** year	**Threshold** requirements (revenues etc.)	**Industry** specific	**Principles** based/disclosures	**Exemptions** available	**Approach to tax** and/or **tax governance**	**Stakeholder engagement** (incl. tax)	**Narrative** explanation of Effective Tax Rate	**Country-by-Country** based	**Contextual** economic & financial data (e.g. PBT)	Corporate income tax paid	**Effective tax rate** (explicit or easily calculable**)	**Other** taxes paid	**Other** payments to/receipts from government (i.e. royalties/incentives)
		General					Qualitative			Quantitative					
Australia	Public CbCR & Approach to tax	2025	Draft legislation	N/A	N/A	Draft legislation	Draft legislation	N/A	N/A	Draft legislation	Draft legislation	Draft legislation	Draft legislation	N/A	N/A
EU	Public CbCR	2023*	In Force	N/A	N/A	In Force	N/A	N/A	N/A	In Force	In Force	In Force	In Force	N/A	N/A
Poland	Corporate Income Tax Act	2021	In Force	N/A	N/A	In Force	In Force	N/A	N/A	N/A	N/A	In Force	N/A	In Force	N/A
EU	EU Accounting Directive (Chapter 10); Extractives industry	2016	In Force	In Force	N/A	In Force	N/A	N/A	N/A	In Force	N/A	In Force	N/A	In Force	In Force
UK	Tax Strategy	2016	In Force	N/A	N/A	In Force	In Force	In Force	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EU	CRD IV; Banks and investment firms	2014	N/A	In Force	N/A	N/A	N/A	N/A	N/A	In Force	In Force	N/A	In Force	N/A	In Force

● In Force ● Draft legislation ● N/A

*Note that the EU public CbCR transposition deadline was 22 June 2023, requiring the legislation to come into force in the Member States no later than 22 June 2024. However, early adoption was allowed for, and Romania opted to apply the public CbCR rules for financial years starting on or after January 1, 2023.
**Calculable as total tax expense divided by profit before tax.

2.2.2 Mandatory disclosures: Key takeaways and points of detail

Threshold and exemptions

Generally, MNEs will need to meet a threshold before reporting is required and exemptions are available; both are common characteristics of tax legislation for practical purposes (both for the reporting entity and the tax authority).

Principles based elements

Usually mandatory disclosures require no principles-based commitments or disclosures. Mandating one set of tax principles to all MNE's may be ineffectual in practice.

Approach to tax

Not all regulations request qualitative information about the MNEs tax position. Where they do require it, usually only high-level information on the group's approach to tax is requested.

Country-by-country anomalies

The EU public CbCR directive only requires CbCR information for EU Member States and for each jurisdiction deemed "non-cooperative" by the EU (Annex 1 of the EU list of non-cooperative jurisdictions) or that has been on the "grey" list (Annex 2) list for a minimum of two years. While Australia requires CbCR for Australia, plus around 40 jurisdictions which is "determined by the minister may be those that are associated with tax incentives, tax secrecy and other matters likely to facilitate profit shifting activities".[12] However, they are not, at this time, fully aligned in that they don't have the same data points and it is unclear if the same source of data will suffice for both sets of reporting.

[12] TREASURY LAWS AMENDMENT BILL 2024: MULTINATIONAL TAX TRANSPARENCY – COUNTRY BY COUNTRY REPORTING, EXPOSURE DRAFT EXPLANATORY MATERIALS, Australian Treasury, 12 February 2024, https://treasury.gov.au/sites/default/files/2024-02/c2024-488354-em_0.pdf

Other taxes paid

The focus of mandatory disclosures is largely still focused on corporate income tax (with the exception of those aimed at the extractive industry; however, in voluntary standards, there is a growing focus to include other taxes paid.

2.3 Voluntary disclosures

Voluntarily complying with a public tax reporting standard can increase the legitimacy of disclosures if they address the needs of stakeholders.

2.3.1 What is the intention of voluntary reporting standards?

Tax: a sustainability reporting topic

Some of the voluntary tax disclosures are not standalone. Many of them come as part of a suite of sustainability disclosures whereby signing up to the overall standard, also requests tax reporting.

When many MNEs sign up to such standards, like the Global Reporting Initiative (GRI) or the World Economic Forum (WEF) stakeholder capitalism metrics, tax reporting is not usually the main reason, however, the story tax disclosures tell can shine a light onto potential contradictions within an organization or corroborate their wider sustainability claims.

It is possible that the absence of tax disclosures by MNEs that make other sustainability disclosures, will be noticed as a discrepancy.

Stakeholder led, stakeholder focused

Understanding who the standard setter is, and which stakeholders they aim to predominantly serve is key to following, or choosing which standard to follow.

Generally the biggest difference is whether a standard simply seeks transparency over tax, or also asks for specific commitments around a businesses approach to tax which reflect their position on what constitutes 'fair tax' behavior.

Figure 3: What disclosures voluntary public tax transparency regimes require

		General					Qualitative			Quantitative					
***Public reporting:* Voluntary**		**Implementation** year	**Threshold** requirements (revenues etc.)	**Industry** specific	**Principles** based/disclosures	**Exemptions** available	**Approach to tax** and/or **tax governance**	**Stakeholder engagement** (incl. tax authorities)	**Narrative** explanation of Effective Tax Rate	**Country-by-Country** based	**Contextual** economic & financial data (e.g. PBT)	Corporate income tax paid	**Effective tax rate**	**Other** taxes paid	**Other** payments to/receipts from government (i.e. royalties/incentives)
Netherlands	Tax Governance code	2021	N/A	N/A	Required	N/A	Required	Required	N/A	Recommended but not required	N/A	Required	N/A	Required	Required
Global	WEF; Stakeholder Capitalism Metrics	2020	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Recommended but not required	Required	Required	N/A	Required	Required
Global	B-Team Responsible Tax Principles	2019	N/A	N/A	Required	N/A	Required	Required	Required	Required	Required	Required	Required	Required	Required
Global	GRI 207 Tax: 2019	2019	N/A	N/A	N/A	Required	Required	Required	Required	Required	Required	Required	Required	Recommended but not required	Recommended but not required
Australia	Tax Transparency Code	2018	Required	N/A	N/A	N/A	Required	Recommended but not required	N/A	N/A	N/A	Required	Required	Required	N/A
Global	Future-Fit Business Benchmark	2016	N/A	N/A	Required	N/A	Required	N/A	Required	Required	Required	N/A	Required	N/A	N/A
Global	PRI*	2016	N/A	Required	N/A	N/A	Required	Required	Required	Required	Required	Required	Required	N/A	Required
Global	Dow Jones Sustainability Index	2014	N/A	N/A	Required	N/A	Required	N/A	Required	Required	Required	Required	Required	N/A	N/A
Global	Fair Tax Mark	2014	N/A	N/A	Required	N/A	Required	N/A	Required	Required	Required	Required	Required	N/A	N/A

● Required ● Recommended but not required ● N/A

*Principles for Responsible Investment

2.3.2 Voluntary disclosures: Key takeaways and points of detail

Principles based elements

Principles can provide a structured baseline of specific types of activities the group will or will not partake in or commitments the group makes in the way it approaches tax. Although different standards ask for different commitments, they often centre around following the intent of the tax legislation, only undertaking activities with commercial purpose and not undertaking planning or structuring whose sole or main purpose is to generate a tax benefit.

Approach to tax

Most voluntary standards ask what a group's approach to tax is in high-level strategic terms, while others ask for granularity on specific policies, e.g., approach to tax incentives. These insights can help stakeholders understand the context of the group tax contribution and how the group expects to behave in relation to tax matters.

Narrative explanation of effective tax rate

A narrative explanation of the ETR is typically requested to provide insights on reasons for variance from the country headline Corporate Income Tax (CIT) rate. Although numerical reconciliations can be insightful, qualitative explanations can be more understandable, particularly to non-tax experts.

Country-by-country based

Virtually all standards require, or at the very least recommend, information to be presented on a CbC basis, as that is the level at which tax legislation is written.

Other taxes paid

In more recent standards such the WEF stakeholder capitalism metrics, 'other taxes paid' is often included or recommended. Unlike most other metrics, this was driven by MNEs who recognized that their CIT paid was but a small portion of overall taxes paid, and showing total taxes paid allowed for 'fairer' judgement of their behaviour as a tax payer.

2.4 The increasing disclosure of total taxes paid

Many MNEs have argued that CIT represents only a small portion of their total tax footprint globally, and have therefore been including their total taxes paid alongside other metrics. Showing their contribution to society through all tax payments can be compelling evidence that the MNE is not avoiding paying 'their fair share'.

However, as a stakeholder it can be more difficult to understand if the total tax paid amount is 'fair'. For example, understanding the amount of 'product taxes' (specifically Value Added Tax (VAT) which often comprises most of this category) which should be paid would require an understanding of goods purchased and sold, whether they attracted VAT, at what rate and an understanding of what 'net VAT' is and how and when it is payable. This requires huge amounts of information and tax knowledge from multiple jurisdictions. Sometimes, MNEs attract scrutiny for only disclosing total taxes paid at a global or regional level, while taxes are paid at a national level, rendering the data difficult to analyse.

Despite difficulties in validating whether the amounts paid are the 'fair' amounts, increasing transparency may simply be the first step towards greater understanding of the different kinds of taxes which are paid and allow deeper analysis to develop. Although no voluntary standards currently set out how MNEs are to disclose total taxes, typically total tax is split into four or five categories which are usually aligned to the OECD tax revenue categories insofar as they are applicable to corporate entities.

Profit Taxes:

Taxes paid on profits, capital gains or revenues. Includes withholding taxes on remittances.

Product Taxes:

All taxes and duties levied on the production, extraction, sale, transfer, leasing or delivery of goods, and the rendering of services.

Employee Taxes:

Taxes borne or collected by an employer arising in relation to their employees. This includes taxes on salary and most social security payments.

Property Taxes:

Taxes charged on the ownership, occupation, sale or purchase of property. This does not include gains made on the sale of property, which is a profit tax.

Other Taxes:

Other taxes include miscellaneous municipal taxes, as well as green taxes which comprise CO2 taxes, transport taxes, pollution taxes and resource taxes.

As some of these taxes which are paid by the company to the relevant tax authority do not represent a cost to the company itself, i.e., personal income tax collected from employee salaries and paid directly to the tax authority, many also split their total taxes paid by taxes borne and collected.

Taxes Borne:

Taxes borne are taxes paid by the company in respect of its business activities which represent a cost for the company itself.

Taxes Collected:

This is the tax collected by the company on behalf of another taxpayer which is then paid to governments.

2.5 Country-by-Country data points

'Country-by-Country Reporting' is a term to discuss reporting of tax information by country and the information required will differ depending on the tax authority or standard setter. It can vary in content, categories of numerical information, and calculation. Being able to interpret the information given relies on understanding the basis of preparation and on the definitions of each data point, both of which are discussed further in Part 3. For a MNE publishing CbC data, understanding which legislation has to be adhered to, which data points and basis of preparation it requires, and how this compliments or contrasts any voluntary reporting commitments can be challenging. Gathering, validating and publishing this data can be an onerous process, making early identification and communication within the business of the necessary data points critical.

Figure 4: CbCR detail — general information and basis of preparation

		General						Basis**	
		Implementation year	**Threshold** requirements (revenues etc.)	**Exemptions** available	**Industry** specific	**Principles** based/elements	Part of wider **sustainability standard**	Aggregated	Consolidated
Voluntary									
Global	GRI 207 Tax:2019	2019	N/A	Required	N/A	N/A	Required	N/A	Required
Global	Future-Fit Business Benchmark	2016	N/A	N/A	N/A	Required	Required	N/A	Required
Global	Principles for Responsible Investment	2016	N/A	N/A	Required	N/A	Required	N/A	N/A
Global	Dow Jones Sustainability index	2014	N/A	N/A	N/A	Required	Required	N/A	Required
UK	Fair Tax Mark	2014	N/A	N/A	N/A	Required	N/A	N/A	Required
Mandatory									
Australia	Public CbCR & Approach to tax	2025	Draft legislation	Draft legislation	N/A	N/A	N/A	N/A	Draft legislation
EU	Public CbCR	2023*	Required	Required	N/A	N/A	N/A	Required	N/A
EU	CRD IV; Banks and investment	2014	N/A	N/A	Required	N/A	N/A	N/A	Required
Private									
OECD	Tax authority/ non-public CbCR	2016	Required	Required	N/A	N/A	N/A	Required	N/A

● Required ● Recommended but not required ● Draft legislation ● N/A

*Note that the EU public CbCR transposition deadline was 22 June 2023, requiring the legislation to come into force in the Member States no later than 22 June 2024. However, early adoption was allowed for, and Romania opted to apply the public CbCR rules for financial years starting on or after January 1, 2023.
**Please see 3.1.2 for discussion on the basis of preparation.

Figure 5: CbCR detail — data points

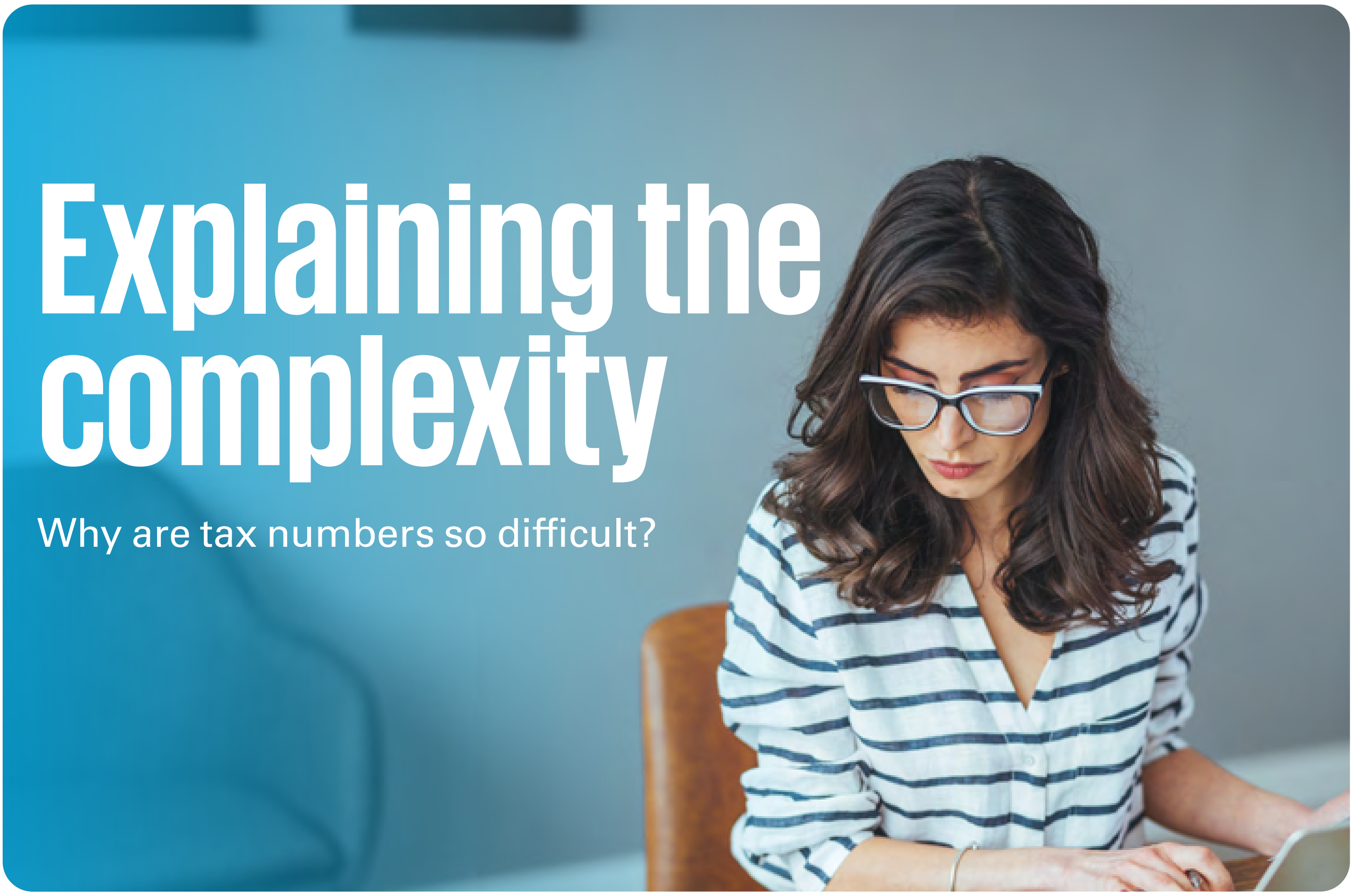
		Name of entities resident in each tax jurisdiction	Detail of entities where **place of incorporation** and **tax residency** differ	Primary **activities** of the organization	Number of **employees**	Aggregate gross **remuneration** of employees	**Revenues** (total)	Revenues (from third party sales)	Revenues (from intragroup transactions with other tax jurisdictions)	**Profits/loss** before tax	**Tangible assets** other than cash and cash equivalents	Accumulated earnings	**Corporate Income Tax paid** on cash basis	**Corporate Income Tax accrued** on profits/loss	Numerical **reconciliation** of different in **ETR** v headline CIT rate	**Explanation** of difference in **ETR** v headline CIT rate	Significant **uncertain tax positions**	**Public subsidies** received	Other **payments to government**
Voluntary																			
Global	GRI 207 Tax:2019	Required	N/A	Required	Required	Recommended but not required	Required	Required	Required	Required	Required	N/A	Required	Required	Recommended but not required	Required	Recommended but not required	Recommended but not required	Recommended but not required
Global	Future-Fit Business Benchmark	Required	Required	N/A	Required	N/A	Required	N/A	N/A	Required	N/A	N/A	N/A	Required	Required	Required	N/A	N/A	N/A
Global	Principles for Responsible Investment	N/A	N/A	N/A	N/A	N/A	Required	N/A	N/A	Required	N/A	N/A	N/A	Required	N/A	N/A	N/A	N/A	N/A
Global	Dow Jones Sustainability index	Required	N/A	Required	Required	N/A	Required	N/A	N/A	Required	N/A	N/A	Required	Required	Required	Required	N/A	N/A	N/A
UK	Fair Tax Mark	Required	Required	Required	Required	Required	Required	N/A	N/A	Required	N/A	N/A	Required	Required	Required	Required	Required	N/A	N/A
Mandatory																			
Australia	Public CbCR & Approach to tax	Draft legislation	N/A	Draft legislation	Draft legislation	N/A	Draft legislation	Draft legislation	Draft legislation	Draft legislation	Draft legislation	N/A	Draft legislation	Draft legislation	N/A	Draft legislation	N/A	N/A	N/A
EU	Public CbCR	Required	N/A	Required	Required	N/A	Required	N/A	N/A	Required	N/A	Required	Required	Required	N/A	N/A	N/A	N/A	N/A
EU	CRD IV; Banks and investment	Required	N/A	Required	Required	N/A	Required	N/A	N/A	Required	N/A	N/A	N/A	Required	N/A	N/A	N/A	Required	N/A
Private																			
OECD	Tax authority/ non-public CbCR	Required	Required	Required	Required	N/A	Required	Required	Required	Required	Required	Required	Required	Required	N/A	N/A	N/A	N/A	N/A

Required • Recommended but not required • Draft legislation • N/A

2.5.1 CbCR data points: Key takeaways and points of detail

The core disclosure categories of most CbCR regimes, voluntary or mandatory, are consistent requiring the names of entities in that country, primary activities, number of employees, revenue (total), profit/loss before tax and CIT accrued in the accounts. Most, but not all, also require CIT paid during the year.

This information may be sufficient to understand the broad economic profile of the entities within that country, but many businesses feel it is too high-level to draw any meaningful conclusions about business activities. Some fear potentially 'unfair' media headlines targeted at groups with high revenues or profits but a low ETR even where there are legitimate reasons for this. Some tax transparency disclosure standards, largely the voluntary ones, ask for numerical and narrative reconciliations between the ETR and the statutory CIT rate (referred to as the "headline rate") of that country. This type of explanation may be useful where the reconciliation is straight-forward. But the more complex the answer, the greater the likelihood that increasing data will lead to increasing confusion and mistrust.



Explaining the complexity

Why are tax numbers so difficult?

Tax numbers can be difficult to understand for a number of reasons. In particular, tax rules differ from jurisdiction to jurisdiction and are constantly changing and their application may involve judgement.

Bridging the knowledge gap between tax professionals and the general public is not something which can be achieved in one paper. However, there are key barriers which can be explained, and nuances which can begin to be explored so that all users of tax information can have deeper insights into the meaning and limitations of commonly disclosed tax data.

This part attempts to bridge this gap from both sides. Firstly, the perspective of the non-tax professional is addressed in 'Overcoming barriers to understanding', particularly addressing what are the 'profits' and 'tax' figures which are presented in consolidated financial statements and CbC reports. Secondly, the perspective of a business making disclosures is addressed in 'Overcoming barriers to explanation' and 'Exploring key explanatory tools', highlighting where 'traditional' tax disclosures are unlikely to provide clarity over their tax position, and critically, what tools could be used as an explanatory aid.

3.1 Overcoming barriers to understanding

Narrative explanations behind a corporate group's tax profile are critical but most effective when combined with data to back it up. This is important for a wide range of stakeholders, from the general public and civil society to investors and policymakers. Providing a dual explanation, narrative and data, opens the door to have full, frank and informed conversations among stakeholders. Over time it is this process that build trust.

3.1.1 Tax accounting

Tax accounting is complex. However, a basic understanding of the process behind where the tax figures in the accounts come from can be extremely helpful. Generally, the tax compliance process begins by taking the profits (or losses) shown in the accounting figures and making tax adjustments to calculate taxable profits (see 3.1.4). The applicable corporate tax rate is then applied to the taxable profits to calculate the corporate income tax charge (or credit) also known as the current tax charge (or credit). This is the amount of tax that needs to be paid to tax authorities in respect of the relevant year (where the result is a loss giving rise to a tax credit). As the measure of taxable profits will almost always be different from the profits reported in the accounts (to a greater or lesser extent), the current tax charge is unlikely to equal the profits before tax in the accounts multiplied by the statutory rate of tax. The concept of 'total tax' introduces complexity, but it essentially shows the amount of tax attributable to that year's accounting profits.

Current tax plus deferred tax, equals total tax. Deferred tax is a concept which is explained later (see 3.1.5), but, for clarity, this term is somewhat of a misnomer and is not the deferral of tax payments. Presenting these elements in financial statements becomes more complex when there are multiple companies in a group, particularly when they are across multiple jurisdictions, these nuances will be discussed later.

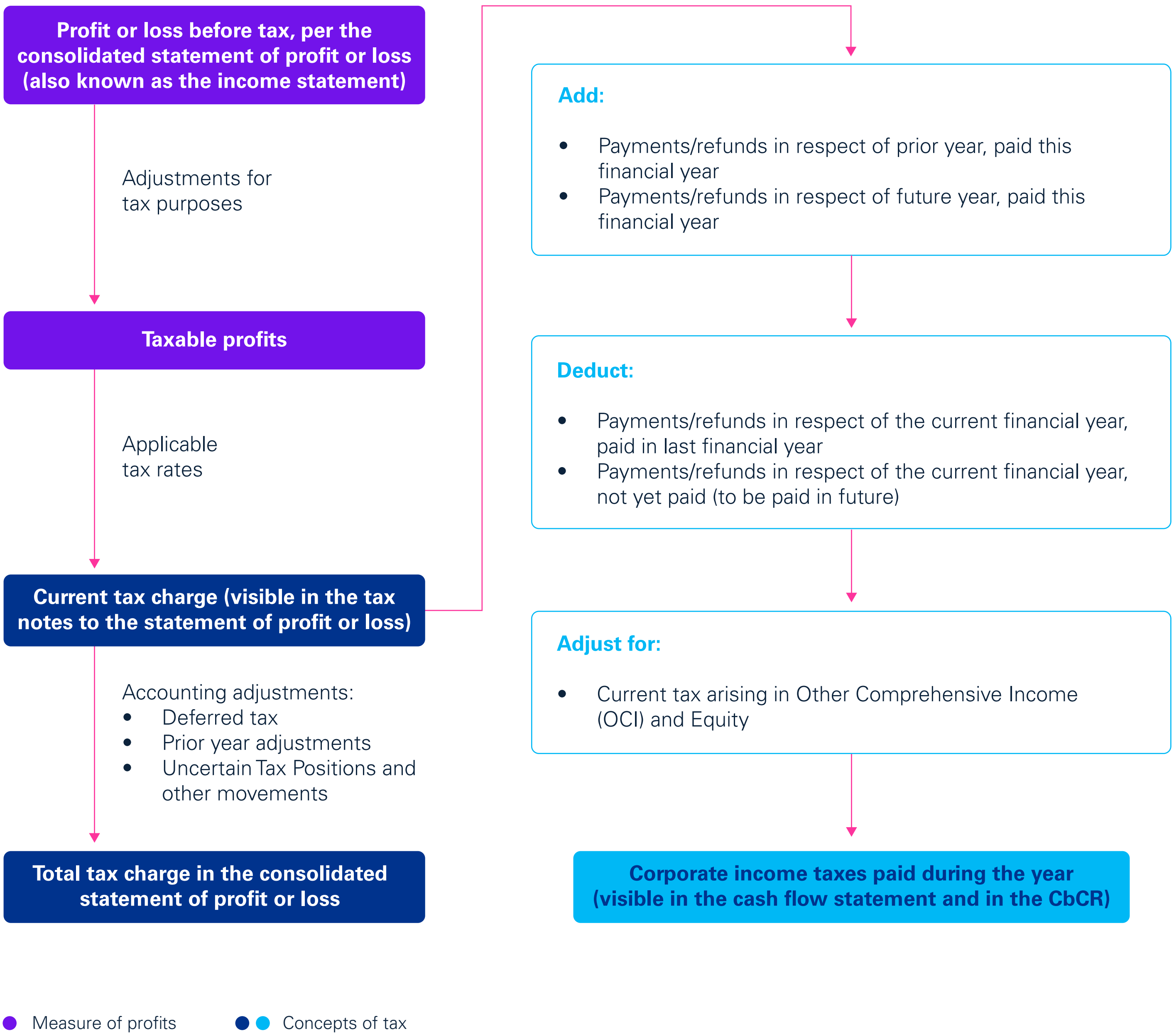
These concepts and how they connect are shown diagrammatically in Figure 6.

3.1.2 Reconciling CbCR to financial statements

The numbers for revenue and profits before tax in the accounts and the CbCR are likely to be different making it hard to reconcile one to another.

The reason for this lies in the basis of preparation. OECD CbCR must be prepared on an aggregated basis. EU public CbCR also requires reporting on an aggregated basis to minimize the administrative burden on businesses. The report adds together the relevant information for the companies in each tax jurisdiction. For each country this information may be prepared in accordance with local Generally Accepted Accounting Principles (GAAP).

Figure 6: Where do the tax figures in the financial statements come from?



These figures can be relatively easily understood by tax authorities, particularly for their own country, as they will have received each individual company's accounts during the tax compliance process. However, for large and complex groups, these CbCR figures are unlikely to match the consolidated group accounts.

To produce consolidated group accounts, each company's financial statements require a series of adjustments. These recognize that while each entity trades as if it were a stand-alone business, any intergroup transactions are the group trading with itself. If these transactions are not eliminated on consolidation the group accounts could be over/under stated. It may also be necessary to make adjustments between local GAAP and IFRS. The figures for revenue and profit before tax can therefore be very different in the consolidated group accounts as opposed to a CbCR.

Some voluntary standards, such as GRI, request reporting which reconciles to the consolidated financial statements. Some businesses have expressed concern that publishing this reconciliation would not provide the information desired by stakeholders, but would add further complexity, making the information less understandable and erode trust.

3.1.3 Presentation of the consolidated financial statements

There are other items which are relevant to the presentation of consolidated financial statements which may not be included in a CbCR. Some of those include mismatches between 'Group Profit' and 'Group Profit before the share profit of Joint Ventures and Associates'; circumstances where there are extraordinary items; items which arise on consolidation, for example, purchase goodwill, which is the difference between the market value of the assets acquired and their Net Book Value (NBV), the recognition and derecognition of deferred tax assets and liabilities which only occur on consolidation; and Foreign Exchange (FX) movements between the tax liability paid or accrued and the currency of the CbCR or consolidated accounts.

3.1.4 The difference between accounting profits and taxable profits

The accounts show the profit (or loss) before tax calculated according to the relevant accounting standards. However, tax is generally based on a different calculation, as discussed in 3.1.1. Often the tax rules will take the accounting figure and make adjustments for tax purposes, either positive ones like allowing special deductions for research and development (R&D), or negative ones like disallowing items such as entertainment costs. The accounts and the taxable profits are likely to differ, which means that tax to be paid in respect of any year will not be equal to the profit in the accounts multiplied by the statutory tax rate. If the profits before tax in the accounts are, say, 1000 and the statutory tax rate is 25 percent, but the tax on those profits is only 100 (due to say much of that revenue not being taxable, e.g. in many scenarios/countries, dividend income is not taxable), it may well raise questions.

3.1.5 The language describing current taxes

The language used is a mixture of precise accounting terms and modified terms which are not readily accessible to a lay person. The fundamental terms used in CbCR are tax paid and tax accrued, different measures of current tax only (see below). Tax accrued does not necessarily match the tax expense found in the statutory accounts P&L, which includes both the current and deferred tax expense for the year. Again, mismatches between tax in the CbCR and accounts can create concerns, but also the concepts are not easily explained.

Tax paid in the CbCR

The concept of tax paid is in some sense quite simple. How much tax was paid to revenue authorities in that specific year. Tax is often paid in the year after profit is earned. This is because it is necessary to complete the tax return after the end of a period in order to calculate the profits for that year on which tax is due. Many countries require estimated advance payments during the year and there could then be a top up payment after the year end. If profits are rising, then what is disclosed in one year might seem to be an underpayment of tax compared to a country's statutory rate. That is because it is, at least in part, a payment calculated on the previous year when the profits were lower. But when profits fall, or a company moves into losses, then the amount of tax paid compared to the level of profit can seem quite anomalous if considered in isolation and unexplained. That there may be significant tax paid relative to profit usually does not assuage fears, but creates new ones, because the tax paid number relative to profits does not make intuitive sense. A diagrammatic representation described below may reduce these fears and help build trust.

Tax accrued in the CbCR

The concept of tax accrued is also prima facie simple. It is based on a matching principle. If one takes taxable profits for the current year, the question is what is the tax referable to that profit? This will include any taxes paid in relation to that profit in the current year and in future years.

3.1.6 Deferred tax

Tax benefits or tax detriments which are of a permanent nature are called permanent differences. These include tax benefits, like R&D tax credits, which are only given as a deduction in the tax computation and not as an expense in the accounts, or tax detriments, such as entertainment expenses, which are never an allowable tax deduction but are always an expense in the accounts. The treatment in the accounts versus the tax computation are different, permanently.

However, where an item ultimately has the same treatment for the determination of tax liabilities and accounting profit, but these items are recognized in different periods, they are called 'temporary differences'. These temporary differences may give rise to benefits such as where depreciation on capital assets is allowed for tax purposes earlier than in the accounts or a detriment such as where there is a doubtful debt which is recognized for accounting purposes but not tax purposes at the point when it becomes doubtful.

A temporary tax benefit leads to an increase in tax liability in the future relative to tax payable on that future profit (and so is shown in the accounts as a deferred tax liability), whereas a temporary tax detriment leads to decrease in a future tax liability (and is shown in the accounts a deferred tax asset). The tax charge or credit shown in the statement of profit or loss (P&L) in the accounts includes the current tax charge on taxable profits and deferred tax.

3.1.7 Effective tax rates

A significant indicator which is often used when considering a company's tax profile is the concept of ETR. This is the amount of total tax divided by the profit before tax. However, this ETR will be impacted by many factors which can result in ETR being a measure which is not necessarily helpful if trying to determine if that group has paid its 'fair share'.

If there are significant permanent differences between the accounting profits and taxable profits (either positive or negative) the ETR will differ from the statutory rate which may raise questions. In fact, for large MNE groups, which are the focus of this paper, they will be paying tax at many different statutory rates globally. This means that comparing the ETR to the statutory tax rate of the parent jurisdiction may not be particularly meaningful, particularly if the business generates much of its profit in other jurisdictions with different tax rates. Some groups show the impact these statutory differences have on their tax charge (or credit) in their tax reconciliation as an "Adjustment for different tax rates", or similar. Meanwhile some will disclose what their weighted average global headline rate of tax is, which is more meaningful, but also more complex to understand.

The ETR is ultimately influenced by the tax policy of the country, which the company has no control over. This will be due to the headline rate of tax, but also tax authorities will allow companies to reduce their tax payable for specific reasons through the use of tax incentives (section 3.3.4 discusses this in detail).

There are also common situations which can cause ETRs to fluctuate or even be negative, for example, when there are accounting losses and significant one off items which are not deductible for tax purposes (i.e. permanent differences), for example, impairments on certain investments, which result in a tax charge being recognized. Finally, groups may have to recognize 'tax provisions' or 'provisions for Uncertain Tax Positions' (UTPs). This is a highly complex area, but it is critical to understand how it can impact ETRs. If an entity is uncertain whether or not the tax authority will accept their tax treatment of a certain item, they must, in their accounts include a current and/or deferred tax amount to reflect this. The intention is that the probable outcome will be recorded in accounts of the year to which the uncertainty relates, giving a more accurate view of the applicable tax. However, it introduces yet another layer of complexity making the financial statements more difficult to intuitively link tax accrued and tax paid in the year.

3.2 Overcoming barriers to explanation

Sharing tax data by itself may not help stakeholders better understand the tax position of a business. Having clarity on why this can be a hindrance rather than an aid to understanding is critical when identifying and explaining complexities.

It is only the business itself which can accurately explain its tax position, yet identifying the complexities and explaining them in an accessible way is not usually straightforward. However, if one of the main goals of tax transparency is to build trust through familiarity and understanding between business and stakeholders, then it must be attempted. There are key explanations which can be made, and specific facts which can disclosed, or alternative ways to present data that can begin to be explored to help stakeholders make sense of group tax profile.

3.2.1 Why data isn't enough

Lose holistic overview

Providing sheets of complex data can result in concentration on individual details to the detriment of being able to identify the important messages and meaning of the dataset as a whole.

Necessary knowledge to interpret tax data can be very complex, particularly when trying to understand MNEs which operate in multiple legislative regimes. Many stakeholders won't have the level of accounting or tax knowledge to be able to interpret or translate cold data into a meaningful story of what's actually happening.

Inconclusive evidence

Much of the data typically provided as part of extended tax disclosures will be insufficient by itself to draw any conclusions from, even if that stakeholder has extensive tax and accounting knowledge. Some activities of a business are not discernible from data.

Unknown tax attributes

Tax incentives and tax attributes (such as carried forward losses being utilised in a later year) that are legitimate and important for the successful running of companies may be netted or amalgamated within other figures, making those confusing if the reader is less practiced at reading financial statements of unfamiliar with the rules which govern the disclosures, which can raise questions and challenges.

3.2.2 Role of the narrative

Providing a narrative explanation of tax activities can help to explain the when's, why's and how's of a company's tax payments in way that can be better and more easily understood. It is an opportunity to clearly articulate the link between operating context, business strategy, tax policy and principles, and wider ESG goals. Where data can only report the factual outcome, an accompanying narrative can give concrete examples of how tax policy works in practice and explain any unusual or anomalous data. In some cases, it can be helpful to explain barriers outside of the company's control or where they are on a journey from current practices to future goals.

3.3 Exploring key explanatory tools

Methods to provide clarity to users who are trying to understand the tax figures in the CbCR and consolidated accounts could involve:

- Reconciliation of profit between CbC reports and consolidated accounts (as proposed in GRI 207)
- Breaking down tax paid into time periods and reconciling with tax accrued
- Explaining why ETRs or tax paid rates produce odd results for low profit and loss entities or countries in a way which is accessible to readers
- Highlighting policy-based benefits and detriments (such as R&D credits or accelerated tax depreciation)

Diagrammatic representation of any of the above is likely to make it more accessible.

3.3.1 Reconciliation of profit between CbC reports and consolidated accounts

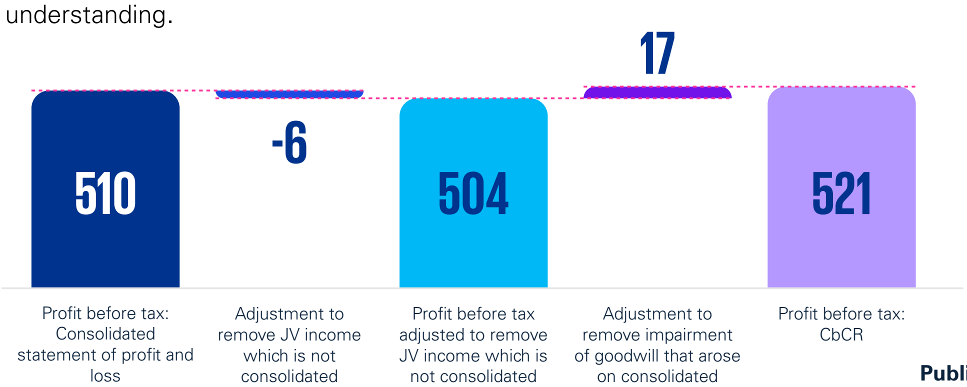
Explaining any differing basis of preparation, or differences arising on consolidation can provide clarification to common misunderstandings. However, care must be taken not to simply increase the amount of nonsensical data, but to provide insight. Diagrammatic bridging may be useful.

The explanation of such a bridge of profits will be unique to each company, however, they may include some of the following examples:

- JV and associated income: these are removed from the total profit figure as the JV is not consolidated with the group on a line-by-line basis. Many tax reconciliations in the financial statements will begin from this figure as the JVs tax expense is not included in the group tax expense, the JV profit appearing in the accounts is already net of tax. Alternatively a reconciling item may appear in the tax reconciliation for JVs to reflect the fact that no tax is expected to be charged on their profit after tax figure which appears in the group accounts.
- CbCR aggregated profit: Multiple reasons may exist, e.g. the groups subsidiaries in X country use local GAAP instead of IFRS which is used on consolidation, therefore there are some differences in revenue recognition. Alternatively the recognition or impairment of goodwill or any other items which occurred on consolidation, would not be present in the CbC report and an adjustment would be necessary.

Figure 7: Reconciling different profit concepts through use of bridge

This diagram shows the difference between the various measures of profit, however, explanation of the differences will be critical to enhancing understanding.



3.3.2 Reconciliation of tax between CbC reports and consolidated statement of profit or loss

The current tax accrued or current tax expense (terminology difference) in the CbC report generally will not match the total tax expense on the face of the consolidated statement of profit or loss as total tax will include deferred tax and other adjustments, as discussed in 3.1.1. The current tax accrued in the notes to the financial statements should show the current tax accrued which appears in the CbC report and a diagrammatic bridge, as below, should help explain the connection between current tax and total tax.

There are some instances where current tax accrued in the CbC report and current tax accrued in the notes to the consolidated financial statements may not be the same, but this is unusual. If there is a difference, it may be due to presentation of discontinued business in the financial statements, whereby the discontinued business results may have been stripped out of the financial statements (in accordance with financial statement disclosure regulations), but not from the CbC report. Occasionally differences may occur which relate to timing as the consolidated financial statements are prepared first (to meet earlier group auditing deadlines) while the individual company statutory accounts, on which CbCR are based, are prepared later. In theory this should not cause any differences as they are based on the same period, however, in practice small differences may occur if, for e.g. an estimate is finalized.

3.3.3 Breaking down tax paid into time periods and reconciling with tax accrued

The concepts of tax paid and tax accrued can be explained diagrammatically. A basic diagrammatic framework may be readily understandable and show the reader to what extent the tax shown as paid in the cash flow statement is actually referable to the current year or to a different one. Thus, tax paid could be split between tax paid for last year's profits, for profits before last year (prior year adjustments) and for profits in the future (installments paid in advance). There may also be refunds and unanticipated additional tax liabilities.

On tax accrued a similar picture can be drawn where, in relation to a year, permanent benefits given to a group and permanent detriments are represented diagrammatically along with temporal advantages and disadvantages. This helps the reader understand the relationship between the profits in the accounts, the statutory tax rate and the amount of tax which is actually due.

Figure 8: Tax accrued per CbCR for a specified year reconciled to the consolidated statement of profit or loss

This diagram shows the adjustments which are made to the current year tax expense to arrive at the total tax expense in the statutory accounts

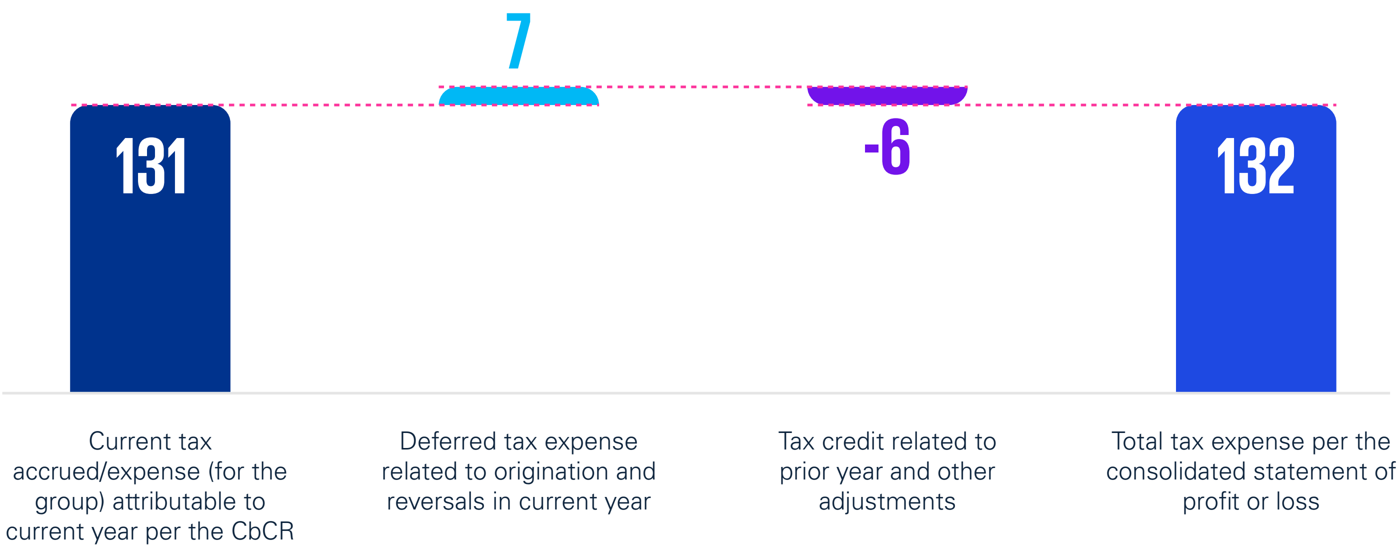
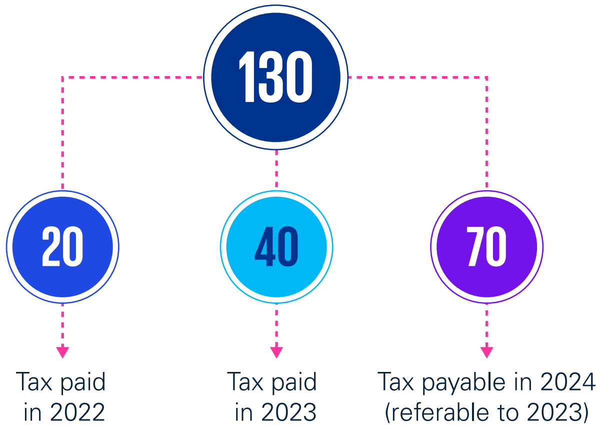


Figure 9: Showing taxes paid in the current period and tax referable to the current period

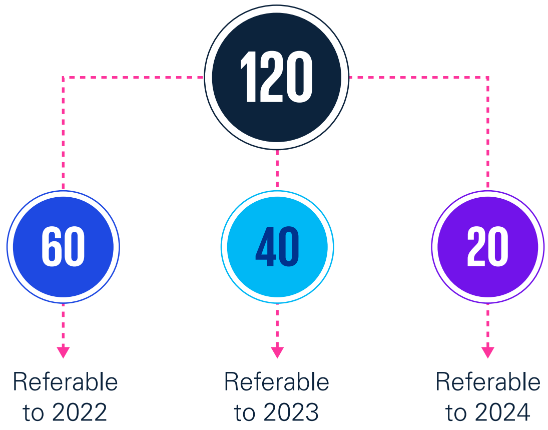
Tax referable to 2023

A company may want to show that the tax referable to the current year tax accrued in (2023) is actually paid in several different periods. This is not apparent from the accounts or the CbCR.



Tax paid in 2023

This diagram shows how the tax paid as reported in the CbCR may be payable in respect of various years and not just the current one



3.3.4 Explanation of effective tax rates

Effective tax rates are most easily understood when explained using various methods together:

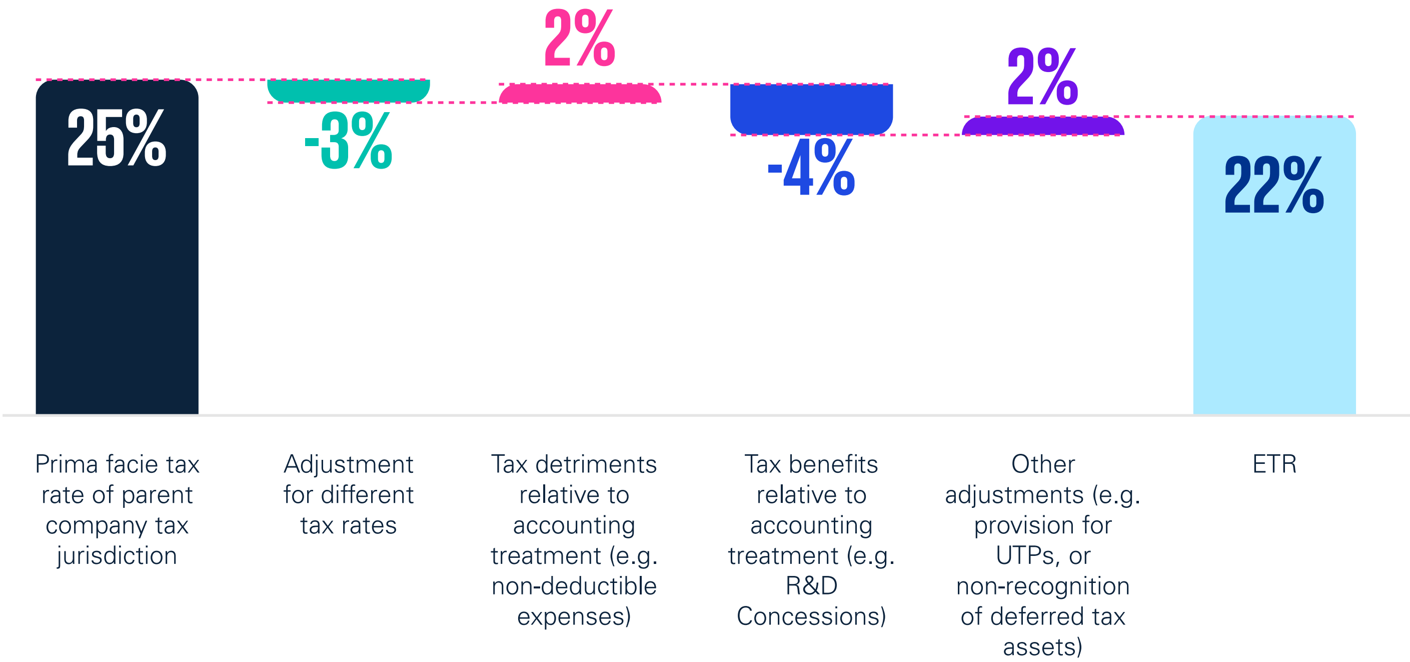
- Numerical reconciliation
- Narrative explanation
- Diagrammatic bridging

Different stakeholders will derive the most value from differing methods, but no picture will be complete without the narrative. Any explanation will be more important where there is a significant difference between the ETR and statutory tax rate. If an entity, country (in CbCR) or group has low or severely fluctuating profits or losses, the corresponding tax charge or credit could result in very high, very low or even negative ETRs. This was explored in 3.1.7.

Generally groups will have provided a numerical reconciliation in their consolidated financial statements in the tax note. This is usually reported using the actual monetary amounts, although occasionally it may be reported as a change in the ETR percent (like the diagrammatic bridge below). However, as this will often only contain the title of each reconciling item, further explanation of what these are can be helpful.Providing a diagrammatic bridge which has grouped the reconciling items into categories which can be better understood by someone who is not a tax professional may be helpful. In addition, it may be useful to disclose when an expected Corporate Tax liability in the Balance Sheet may be expected to be paid. This could include amounts related to uncertain tax positions.

Figure 10: ETR broken down into benefits, detriments and other

This diagram helps explain why the effective tax rate is unlikely to be exactly equal to the statutory rate in the company's country of residence.



The explanation of such a bridge will be unique to each company, and the depth required to aid understanding will depend on what other disclosures accompany it. However, the group may wish to specify things like which countries are generating these differences and if they are likely to recur in later years.

One element of tax disclosures which is often discussed at length in the tax note, but can remain difficult to understand is the concept of an unrecognized deferred tax asset (DTA). Previously, 3.1.6 discussed that a DTA recognized in the financial statements is a tax benefit (i.e. a deduction) which is known will occur in the future. However, it is possible that in the future the group will not be able to utilize this benefit. For example, if the group generated tax losses in the current year, ordinarily a DTA would be recognized in the current year to show that those losses would be used in future years to reduce taxable profits, creating a tax benefit in the future. However, if, for example, the group is predicted to be loss making for many years, it cannot reliably say that it will be able to utilize those losses in future therefore it would be potentially misleading to recognize the DTA. This effectively turns what should have been a temporary difference (which does not affect the ETR) into a permanent difference (which does affect the ETR).

3.3.5 Highlighting policy-based drivers

Tax rules are set by national governments, who usually have at least two objectives; to collect revenues and influence taxpayer behaviour. To try to draw conclusions from the data alone increases the risk of misunderstanding what part of the MNE tax profile is by choice and what is directly influenced by the design of the national tax policy. MNEs should be aware that many users of that information will not have any knowledge of multiple countries' tax policy and brief explanations of unusual regimes (where relevant) may make their disclosures more understandable.

Tax incentives

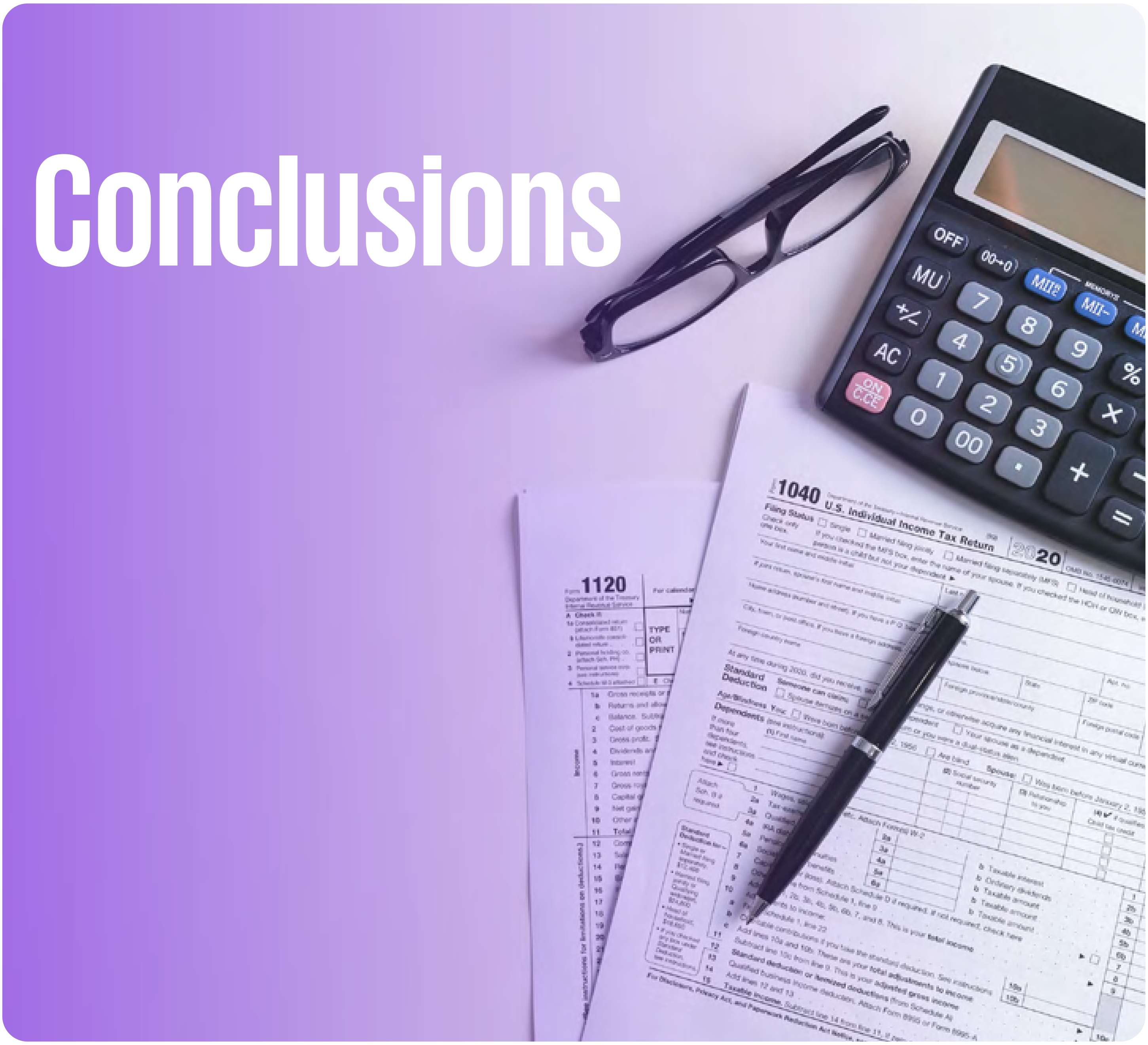
Perhaps the most topical tax policy tool is tax incentives and credits. While tax credits are a longstanding staple of most tax systems, their importance in driving ESG, particularly decarbonization, activities mean they are in the public and tax spotlight. Governments are increasingly introducing policies whereby corporates which pursue certain ESG activities can claim tax relief. Most commonly these target research, innovation and activities with environmental protection objectives but increasingly incentives are becoming available for those pursuing other social objectives (i.e., tax credits for creating jobs in areas which typically have high rates of underemployment). As more of these schemes become available and are used, it could have a substantial impact in reducing the effective tax rate of entities in certain tax jurisdictions. Despite these government policies being aimed at increasing the sustainability of businesses and promoting 'social good', some MNEs have expressed concern that by utilizing these tax incentives, their lowered ETRs will lead stakeholders to conclude that the MNE is not paying its 'fair share'. This paradox is becoming more widely discussed by MNEs and standard setters. This is amplified by the potential impacts of BEPS 2.0, Pillar 2 rules which seek to implement a minimum effective tax rate of 15 percent, after most tax incentives are used.

As tax incentives or other subsidies are foregone government revenue, some tax transparency standards and regulations require details of such public subsidies received and are useful for groups to consider when making disclosures about tax incentives.

The EU CRD IV regulation imposes such a requirement on credit institutions and investment firms. GRI 207: Tax recommends that public subsides received are disclosed while GRI 201-4: Financial assistance received from government includes more extensive disclosure requirements. The B-Team has a principles-based approach and asks that businesses only claim tax incentives when they meet certain criteria. These centre around the incentives being available to all taxpayers, and that claimants are then transparent about which incentives they utilize (principle 5).

Such disclosures could explain why an MNEs ETR in a particular country appears lower than the headline statutory rate, helping rebut any accusations of other 'unfair tax behaviour' and reduce the risk of misunderstanding of the nature and validity of any incentives claimed.

Conclusions



The objective of this paper has been twofold. First, it allows more general readers to find the information they need to grasp key issues and the levels of complexity, while helping those with more expertise think through their approaches and practice.

The overriding message is that complexity cannot be 'simplified' away and that only through the recognition of the inherent complexities of the system can trust be built. Here, means can shape ends. Through dialogue, discussion and negotiation over these complexities meaningful trust can be established.

Tax responsibility and the critical role of transparency in reporting is a journey. When there are important staging posts such as CbCR, these are simply the latest stages on a path to the necessary levels of transparency that can establish trust on tax.

All stakeholders on the responsible tax journey need to commit to engaging in the debate honestly, robustly and fairly.

Glossary

BEPS
Base Erosion and Profit Shifting: An OECD initiative to prevent MNEs exploiting gaps or mismatches in global tax legislation

CbC
Country-by-Country

CbCR
Country-by-Country Reporting

CIT
Corporate Income Tax

CRD IV
Capital Requirements Directive IV

CSRD
Corporate Sustainability Reporting Directive

DAC6
EU Mandatory Disclosure rules: Tax regulation requiring disclosure of certain arrangements

DJSI
Dow Jones Sustainability Index: A sustainability benchmark

ESG
Environmental, Social and Governance: a set of standards measuring a business's impact on society, the environment and how transparent and accountable it is.

EITI
Extractive Industries Transparency Initiative

ETR
Effective Tax Rate: The current tax charge for the year divided by the profit before tax for the year

EU
European Union

FASB
Financial Accounting Standards Board

GSSB
Global Sustainability Standards Board

G20
Group of 20: Intergovernmental forum comprising 19 countries and the EU

GRI
Global Reporting Initiative: Independent standards organisation for sustainability reporting

GRI 207 Tax
Global Reporting Initiative 207: Tax: A tax transparency standard

HMRC
Her Majesty's Revenue and Customs: The UK's tax authorities

IP
Intellectual Property

ISSB
International Sustainability Standards Board

MNEs
Multinational Enterprises

NGOs
Non-governmental Organizations

OECD
Organisation for Economic Co-operation and Development

RA
Rating agencies

R&D
Research and development

SEC
Securities and Exchange Commission

SASB
Sustainability Accounting Standards Board

SFDR
Sustainable Finance Disclosure Regulation

WEF
World Economic Forum

VAT
Value added tax

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