Beyond Goldilocks:

Building tax trust through the transparency and data journey

GLOBAL RESPONSIBLE TAX

JERICHO

THE B TEAM

Supported by:

KPMG

About the project

What is the Global Responsible Tax Project?

The Responsible Tax project started with a simple purpose proposition – that tax is the entry fee we pay for a civilized society. The project has flourished into a global peer-to-peer network of expertise, influence and change. The conversation continues to expand across borders and industries, bringing a multitude of voices to the table, which otherwise would not be in the same room together. We now have a community of over 1,700 voices from across the spectrum. You can find some of our latest work here.

About Jericho

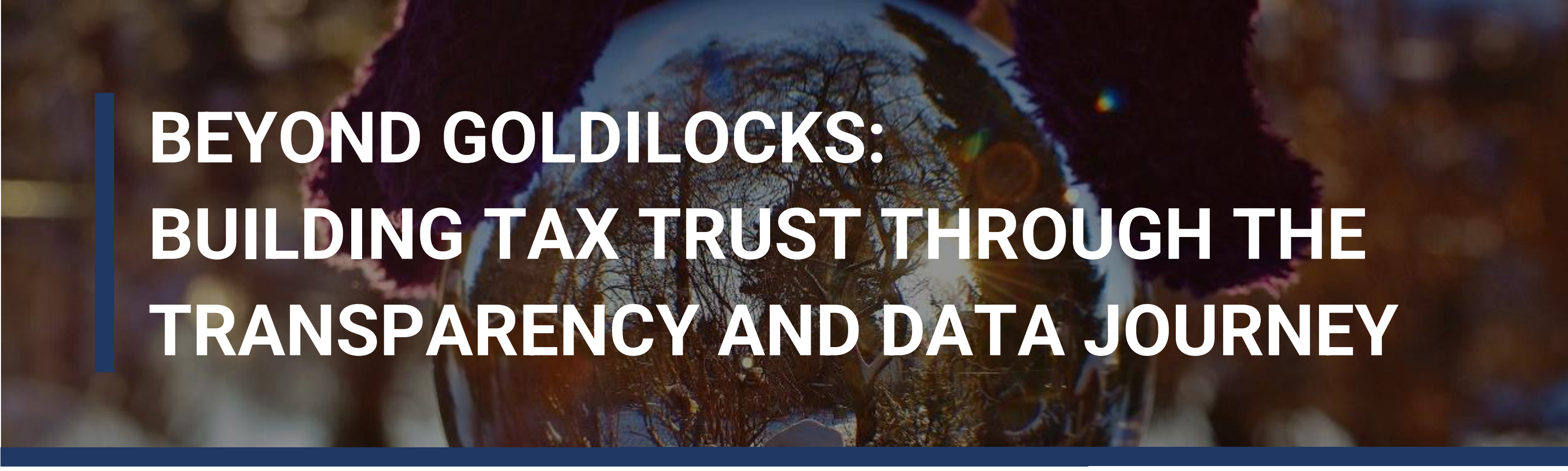
Jericho is a unique ideas and community/ network building consultancy that seeks common good solutions to the complex challenges businesses and society now face. Working at the intersection of business, public policy and activism we help our clients navigate the challenges and opportunities they face – not by papering over cracks but by finding meaningful common good solutions and building strong alliances for change. We have been working with KPMG on the Global Responsible Tax project since 2014.

About The B-Team

The B Team is a global collective of business and civil society leaders driving a better way of doing business for people and the planet. Co-founded by Richard Branson and Jochen Zeitz in 2013, The B Team advocates for economic systems change and new corporate norms: to protect our natural environment and secure a safe, sustainable and equitable future for all. The B Team published its Responsible Tax Principles - developed in partnership with business, civil society, investors and others – in 2018. The Principles provide a comprehensive blueprint for responsible tax, which companies can voluntarily endorse to demonstrate a commitment to playing their part in creating a stable, secure and sustainable society.

About KPMG International

KPMG is a multinational professional services network, and one of the Big Four accounting organisations. As a result of the conversations started in mid2014, KPMG and Jericho established the Responsible Tax Programme to find a new and more constructive approach to the tax debate which involves listening to all stakeholders and seeking understanding and where possible consensus. global consensus on the purpose of tax itself. Grounded in a set of Global Responsible Tax principles activities, a number of countries have achieved policy-making traction at a global level. The Programme has addressed many topics such as tax and ethics, international competition, avoidance and evasion, taxation of the digital economy, the green tax agenda and tax transparency.



BEYOND GOLDILOCKS: BUILDING TAX TRUST THROUGH THE TRANSPARENCY AND DATA JOURNEY

In a series of high-level discussions with policy makers, corporate leaders on tax and ESG and civil society campaigners convened by Jericho and The B Team, with the support of KPMG International, we set out to find a sweet spot between rudimentary forms of tax disclosure and full transparency. What we discovered is that it's how to build trust that matters.

Introduction

The cost-of-living crisis alongside the energy and growing climate crises have put pressure on everyone including governments, businesses and the public. These challenges have been building over time, not least from civil society pressure, and aren't going away quickly. Hence, the demand that companies develop an effective environmental and social agenda — which in turn requires a strong governance agenda to help ensure effective enactment and accountability. This is why everyone's attention has been turning to ESG.

But how do we know effective ESG practices are being pursued? How can ESG be best or better measured? Tax is a fundamental component of ESG, and a foundational one at that, touching on all aspects of the E, S and G. This is in part why the responsible tax agenda has taken root. Tax is an important contribution companies make to help ensure a society and an environment in which they can effectively operate. Being more transparent about tax is becoming a key facet of the governance agenda and to put it bluntly, is one key way of resourcing social needs and environmental transition to net zero.

But tax transparency is complicated. Tax is of course governed by a myriad of national and increasingly globally coordinated laws. And tax rules and regulations mirror the complexity of the world in which companies operate. There are also competing demands. How simplistic or how detailed should/could disclosures be? How best to assess a company's tax contribution and therefore what they bring to the ESG table? And can we find a level of reporting that speaks to all stakeholder groups, from the expert tax analyst to the layperson?

The pressure on companies to become more tax transparent is unlikely to fade away. The implementation of the Organisation for Economic Co-operation and Development (OECD's) Pillar 2 measure on minimum tax rates and the European Union (EU's) mandating of a form of public Country-by-Country (CbC) reporting will change the context for everyone. Investors are increasingly interested in tax transparency as a basis for their decisions. In the wake of various bouts of austerity, and scandals surrounding aggressive tax avoidance, companies feel the heat of exposure to public attitudes on tax. Meanwhile the reality of climate change now — and in the future — has focused attention on whether a business has the resilience necessary to adapt and continue operating. Pressure is piled back on tax and tax reporting to show a company 'is doing its bit' and tax is being used as both carrot and stick to help finance the green transition. Both the reality of social and environmental pressure and the threat of reputational damage mean risk exposure on tax is increasingly a high-level board issue.

To discuss these issues, KPMG International, responsible tax specialist consultancy Jericho and The B Team ran a series of high-level roundtable discussions with practitioners, thinkers and activists in and around the ESG and tax debate. We sought to tease out issues of function and form to understand what — in all the complexity — might provide a pathway to more effective tax reporting in pursuit of a world in which ESG expectations are better met.

To put it at its simplest, the essay question we set ourselves was this: If there are demands on companies to increase their tax disclosures, what information is the most useful in order to satisfy the most stakeholders? Given that most businesses will likely choose to start with rather simplistic measures but will feel pressure (or face future regulations) to eventually publish in accordance with more demanding reporting standards, we hoped to find either a middle way between very limited statutory disclosure and full public CbC reporting (pCbCR) — not too hot and not too cold (like the porridge in the Goldilocks fable) — or as a series of stepping stones on the journey from minimal disclosure to full transparency. But through the discussion, we learnt that trust, the issue at the heart of all this, isn't something you can measure but is something you can only feel.

Background

In 2018, The B Team published its Responsible Tax Principles — an ambitious blueprint for responsible tax that companies were encouraged to adopt voluntarily. In 2019, the Global Reporting Initiative (GRI) released GRI 207, the first comprehensive tax reporting standard. And in 2021, The World Economic Forum (WEF) published 'Measuring Stakeholder Capitalism', suggesting that companies should publish their total tax contribution as part of wider ESG disclosures. Different bodies and different systems — all trying to answer the complexity versus simplicity dilemma.

Public country-by-country reporting (pCbCR), the main focus of GRI 207, is often hailed as the gold standard of tax transparency as it gives all stakeholders insights into how much tax companies are paying in the different jurisdictions in which they operate. It is an important piece of the transparency agenda and, ultimately, is intended to help drive a stable and fairer business environment where multinational companies are open about their contribution with the societies in which they operate. However, pCbCR is not without its criticisms. It doesn't show the full spectrum of tax contributions by companies (e.g. environmental taxes). It provides a 'snapshot' of a company's tax payments, rather than trends over time; and owing to its complexity, it is not necessarily accessible to the non-professional, and thus can be open to misinterpretation.

What we heard from tax experts

- Demanding everyone meets the most exacting standard could cause unforeseen problems — given the law of unintended consequences. Reporting must be meaningful. Quality information, not just quantity, and tailored to each company's unique tax profile.
- There is a need to explain tax strategies as part of a company's overall narrative (when, why and how they pay tax) — governance of this is a board-level duty and should be seen as such.
- Voluntary reporting versus comprehensive disclosure along the lines of GRI 207, for some, may be too stark a choice — instead, could we look at a baseline to ensure more companies start the journey?

What we heard from investors

- Corporates that get ahead of the curve and start explaining their tax payments could develop better relationships with stakeholders.
- There were calls for a better narrative explanation of tax and ESG as there is a lack of understanding of tax as an ESG issue.
- It is important to remember that while issues concerning tax and ESG are gathering steam in Europe in particular, there is a more varied picture in different continents. Any transatlantic framework must be realistic about differing attitudes and markets.
- While there are those who are committed to 'responsible tax', there are still many CEOs and investment companies which see a low effective tax rate (ETR) as a good thing which boosts short-term returns and investment. To some, disclosing ETR will not drive behavioral change [away from tax planning].
- Emerging tax transparency requirements from the EU may be too light as they lack the narrative requirement; whether or not it is a good first step, it is still a first step.

What we heard from rating agencies

- If tax data is not public, it is very difficult for agencies to understand a company's commitment to fair tax payment. Rating agencies do not have the resources to attempt the kind of forensic analysis that would be necessary to retrieve the data themselves.
- With voluntary rather than mandatory data, there is a danger that while data is disclosed there is no guarantee that it is accurate. Furthermore, if there is no regulatory requirement for companies to disclose, only the tax-compliant are likely to disclose and could potentially be disadvantaged for being transparent. However, sharing at least some data can enable a conversation to take place and be developed.
- The situation is exacerbated by a lack of consensus and standardization in reporting, as well as the rather onerous demands of some leading global transparency standards, meaning few firms currently meet these exacting standards. If one feasible standard was brought in globally, investors could learn how to use it and read the data to see if a company was a higher or lower risk.

What we heard from ESG experts

- 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, debates about what it means and questions about its accuracy — potentially risking greater mistrust.
- Tax can be seen as a key link between a company and national well-being. So, while it is a cost to be prudently managed, it is also a contribution to society.
- While explaining tax data can be challenging, the challenge is to find out why and look for ways to make it more accessible. The journey towards greater transparency would involve taking incremental steps along such a path.

Problems and Issues

Properly understood and meaningful pCbCR is rightly exacting. Without accompanying narratives and explanations, it can be potentially inaccessible — even to tax experts as well as non-tax experts — and can lead to misinterpretation and misunderstanding.

There is a genuine tension between a global gold standard that everyone is asked (or told) to adhere to and how that laudable goal is delivered in reality; a messy world in which different companies, sectors and geographies experience tax and the demands around it very differently. Some sectors, such as retail and other business-to-consumer (B2C) sectors, are under more pressure to develop tax transparency because customers are more responsive to a company's approach to tax. Others, especially business-to-business (B2B) firms feel little of this public heat. One investor we spoke with noted that smaller companies may have limited capacity in the tax department, but that through engagement were more likely to change their approach to transparency to meet investor requirements. Another noted that they would be reluctant to invest in companies which lacked transparency; however, it can be harder to hold larger, more global companies to account.

There are global cultural differences in attitudes to tax cultures. Some regions feel economic performance is better served by less tax. Some by more. Some countries, for example Germany, have a significant proportion of the largest firms being private. Such entities have more leeway in terms of what they do or don't report and greater concerns about personal privacy. In opposition to this, the UK has many large public companies and many Scandinavian countries — where privacy is less of a concern — even make personal tax returns publicly available. Finding a universal global solution to these genuine differences will not be easy.

In some cases, there is a fear of competitive disadvantage from revealing certain data which a competitor might be able to use for some firms in some sectors. Also, there is apprehension that firms who disclose more fully are putting their head above the parapet and could be more vulnerable to interrogation than those who disclose only the legal minimum.[1]

Of course, this makes the case for mandating disclosures to level the playing field. This may be necessary but should be handled with care for all the reasons being suggested here. It may be counterintuitive, but companies that pay more tax do not necessarily have a better ESG performance, as the tax take can vary for a multitude of reasons. Equally, paying lower taxes is not necessarily a sign of wrongdoing. If mandating just leads to a tick-box process, without explanation or engagement in the process of creating them, then it does little to build trust and only incentivizes fulfilling reporting requirements — not deeper purpose and honest behaviors.

Numbers in and of themselves can conceal as much as they reveal. Numbers are helpful proxies, but they must be meaningful and useable. Simply dumping mountains of data could confuse as much as it clarifies — especially to non-tax experts. Complex tax data on its own can create misunderstanding, debates about what it means and questions about its accuracy — driving greater mistrust. An annual pCbCR can only ever be a snapshot of what tax a company is paying.

A global standard may well be useful. But what matters, at least for now, is less where people are on the tax transparency journey, and more that they are part of the development process — we need both progress and space to develop at varying speeds but towards the required levels of transparency. It is a path to useable data we need to clear.

[1] Anecdotally, this has not proved to be the case in the experience of many of the companies who have begun to publish more transparently. They are given credit for their approach, and it allows them to start a meaningful conversation with stakeholders.

Trust more than transparency

More profound issues about the relationship between business and society are at play here. The deeper you delve into the debate, the clearer it becomes that the issue isn't really transparency but trust. While good in and of itself, the demand for transparency is really the pursuit of a proxy for trust. As such, there is no perfect transparency standard that will substitute for not being sufficiently trusted because the real itch of trust is never being scratched.

If when society asks a company to produce a pCbC report, it is really saying, "we don't trust you", then there is a bigger issue than tax number s to be addressed.

If trust doesn't exist, then no amount of reporting or transparency can paper over the cracks. Transparency cannot replace trust. There is never enough data to make up for a trust deficit. Eventually, firms will need to win back the license to both operate and to lead because they are trusted by the public.

However, while it can't be a proxy for trust, data and transparency can play a facilitating role in building trust. While deciding the necessary but insufficient issues of the 'best' tax metrics, tax if handled the right way can offer a vehicle to both define narrative, purpose and direction — but can also offer a process and journey to build trust. As one head of tax told us, reporting the numbers was a prerequisite to starting a conversation and it was that engagement which really mattered.

Transparency Snapshot		
One of the mining companies has experimented in its 2021 Tax and Economic Contribution report with a 'total cash value distributed to stakeholders' number. This includes taxes but also wages and procurement.	One multinational consumer goods company uses 'tax paid by country', with some level of breakdown and number of employees so that ratios of misalignment can be identified. This is not full country-by-country reporting, but about 90 percent of the way there.	A multinational information and analytics company provides its ETR , with a reconciliation of its ETR to the weighted average expected rate

The Journey to Trust

Only when you understand someone's assumption can you better judge them. Everything starts by explaining tax strategies. What are the firm's tax assumptions and what is it trying to achieve as part of its overall narrative, in terms of the when, why and how of what tax they pay? Corporates that get ahead of the curve and start explaining their tax strategies and disclosing information about their tax payments (before they are forced) can develop better relationships with stakeholders.

Often, tax is discussed as a burden, not a contribution. If company culture is embedded around how tax can contribute to a healthy and functioning society, it becomes something to be proud of rather than minimized in any way that is legal.

However, while tax can be considered a contribution to the society in which a company operates, it is also a cost. While the task of a tax director is not necessarily to minimize that cost in any legal way possible, there are often different ways to achieve the same business result and they have different tax costs. Judging which route to take involves many factors and having a clear tax strategy and principles can assist. It is also necessary to manage tax risk — e.g. to know how much needs to be paid and when, how to deal with issues such as double taxation, and to estimate the possibility of either a challenge by the tax authority or a change in the law.

Some have suggested that, despite the obvious differences, tax could be looked at in a similar way to, say, salary costs. Most forward-thinking companies want to remunerate people well (not excessively, but in a way that can be considered fair and helps retain the best people). Therefore, they do not only pay the minimum amount prescribed by law. Nevertheless, they do have to manage their payroll cost. Could tax be looked at in the same way — as a cost that also creates value (like salaries) and which does need to be managed prudently, but which does not have to be reduced to the bare legal minimum using any lawful means?

In this way, perhaps tax could be looked at as a cost and a contribution to society. These are not mutually exclusive.

Participants suggested that the most important thing companies should do is form a quality narrative around their tax data to properly explain what the raw numbers reflect. This means not only trying to meet certain principles, but also receiving feedback from a wide range of stakeholders, including investors, non-governmental organizations and non-aligned parties. Such communication would likely require cooperation between tax, communications, public affairs and investor relations experts. Often, challenges and mistrust are based on misinformation or misunderstanding. The search for the best metrics and data sets can be the vehicle for such dialogue, relationship building and therefore trust building.

It seems that as we will inevitably and rightly search for the perfect tax data set, there are four corner pieces of the transparency puzzle we should focus on:

1. The narrative about the approach to tax, strategy, controls, etc., and the direction of travel aligned with the company’s purpose and ESG strategy.
2. A diagrammatic way of showing the key information that is easy to understand.
3. Appendices with detailed numbers and an explanation to make them accessible.
4. A process of open, humble and respectful dialogue on which numbers and what reporting structure works best with all the stakeholders that matter.
5. After all, an endless game of tax transparency whack-a-mole is unlikely to satisfy anyone but the most cynical.

Ironically it was in search of the perfect middle-way tax metric, through the conversation and the debate, that we discovered that tax is all about the journey and that the data is merely a means to an end — trust.

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Appendix 1: Acknowledgements

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