The next round of tax transparency – preparing for greater scrutiny

Building trust through tax reporting

Trends in voluntary tax reporting

Eleventh edition

June 2024: A review of the FTSE100 for 2023 year ends

pwc

Contents

Introduction from Andy Wiggins

Preparing for greater scrutiny: a focus on public country-by-country reporting

Making tax part of the sustainability conversation

Trends in transparency across the FTSE100 for 2023 year ends

A closer look at Total Tax Contribution disclosures, 2018 – 2023

Appendices:

A. PwC commentary on transparency review of FTSE100 2023 year ends
B. A history of transparency initiatives
C. A comparison of country-by-country disclosure requirements

Introduction

Andy Wiggins

UK ESG Tax Reporting Lead and Tax Transparency and Total Tax Contribution Leader

Email: andrew.wiggins@pwc.com
Phone: + 44 (0) 7803737681

Welcome to the eleventh edition of trends in voluntary tax reporting. In **our last edition**, we looked at the oncoming wave of sustainability and tax reporting legislation and suggested that while many groups were holding fire on further substantive disclosures until the new rules come into force, there were some signs of businesses beginning to lay the groundwork for more extensive disclosures.

Now that we're a year closer to those reporting deadlines, and have another year of data, what have we learnt?

In short, the amount of complexity associated with the new reporting requirements is becoming ever more apparent and in general businesses are not introducing new disclosures sooner than they have to.

Given the challenges of the new reporting regimes, however, we would encourage businesses to start preparing well in advance of any new reporting deadlines.

New reporting regulations are more complex than they first seem

We've been working with a range of companies over the last year to help them understand how public country-by-country reporting (pCbCR), the EU's Corporate Sustainability Reporting Directive (CSRD), and other reporting regimes will apply to them. The thing that has struck me most is that the legislation and its implications for individual organisations are far more complex than they first appear. Understanding the reporting options and how all the different rules fit together is a major challenge.

Taking EU pCbCR as just one example, it has been implemented differently across the 27 EU Member States with different introduction dates, filing deadlines, disclosure requirements and penalty regimes. And we are seeing a similar picture with the implementation of CSRD. Keeping abreast of these changes, and understanding the impact of this on an specific organisation, is difficult.

We've also seen many organisations starting to implement CSRD by carrying out legal entity scoping exercises and preparing double materiality assessments. All too often, tax departments have not been fully brought into these processes and we would encourage all tax teams to make sure they are speaking to financial and sustainability reporting colleagues. CSRD will require a lot of information on a group's value chain to be published and it is vital that this aligns with information previously shared with tax authorities, for example through the transfer pricing master file.

With so much change and uncertainty it can be difficult to know where to start. All of the tax disclosures, however, require robust and reliable data and the knowledge that day to day tax matters are being dealt with in line with the tax strategy. Time spent on ensuring that tax governance and controls are fit for purpose will help to support all of these areas, no matter which reporting requirement is involved.

Tax reporting in the FTSE100 has shown moderate increases in a handful of areas

Our review of the tax reporting of the FTSE100 shows movements in some key disclosure areas compared to last year. Notably, we have seen more disclosures around tax in Task Force for Climate-Related Financial Disclosures (TCFD), more detailed explanations of the tax reconciliation and more detail on transfer pricing.

Total Tax Contribution (TTC) disclosures have, on average, become richer and more detailed, though a similar number of companies are making TTC disclosures compared to last year.

We have not seen an increase in country-by-country disclosures. We expect this to change this year with the first disclosures in respect of pCbCR in Romania due by the end of 2024. It seems that many businesses are not looking to increase their country-level tax reporting ahead of the statutory reporting deadline.

Taking an industry perspective, over the last five years, disclosures by companies in the consumer sector have increased markedly, despite there being no industry-specific reporting requirements such as for financial services and extractive companies. This may reflect a more general awareness by consumers of sustainability issues, in which tax plays an important role.

Don't leave it too late…

Given the complexity of reporting legislation, the amount of internal and external stakeholder communication required and the need to get data, controls and processes right, it can often take longer than expected to implement significant changes to tax reporting.

Please let us know if you would like to have a conversation about how you can make sure your tax reporting is fit for the future.

Preparing for greater scrutiny: increasing disclosure through public country-by-country reporting

The EU's public country-by-country reporting directive

Public country-by-country reporting (pCbCR) is high on the agenda for many tax teams given the impending reporting and compliance obligations arising from the regulation across the EU. For the vast majority of large businesses, this will be the first time potentially sensitive country-level data on profits and tax will be disclosed publicly, and strategically, there is a lot to consider.

The EU Directive is a minimum standard allowing member states to expand its scope as well as leaving some options open for domestic implementation. Transposition of the directive into national legislation has not been uniform across member states creating a layer of complexity for businesses, especially those headquartered outside of the EU, but with operations in the bloc.

The PwC pCbCR interactive tracker offers a comprehensive overview of the regulation across the 27 individual EU member states. The tool shows where the local reporting and filing requirements, as well as available exemptions and deferrals, may diverge from the EU Directive. The tracker is designed to cut through the complexity in order to help tax teams make informed decisions as they prepare their business for greater disclosure.

Similar pCbCR proposals have recently been introduced into Australian Parliament. The rules, which are intended to take effect for reporting periods commencing on or after 1 July 2024, will require public disclosure of certain tax information by large groups with a presence in Australia.

Owning your tax narrative – what next?

Understanding pCbCR legislation and the scope of the reporting requirements is only one aspect of the challenges tax teams are facing with this new regulation. The significant increase in the availability of data makes reputational risks an important consideration. In addition, greater reliance will be placed on CbCR data for the purposes of the Pillar 2 CbCR-based Transitional Safe Harbour.

PwC's pCbCR tracker – Helping you navigate regulatory complexity

Romania

Status of the directive	Transposed into local legislation
Implementation date	7 September 2022
First year of reporting	1 January 2023
Publication date	12 months after first financial year starting on/after 1 January 2023
Optional deferrals	
• Commercially sensitive	Yes
• Parent company not sharing data	Yes
• Website publication exemption	Yes
Penalties	No specific penalty regime yet.
Responsible personnel for reporting and penalties	The member of the administrative, management, and supervisory bodies are responsible for the preparation and publication of the report.
Place of publication	Company website and submitted to commercial registry

Source: PwC's interactive pCbCR tracker

How can PwC assist you in preparing for public CbCR disclosure?

Although pCbCR focusses on corporate income taxes it gives businesses a foundation on which to base their holistic tax story. Successful businesses will want not just to navigate the regulatory complexities of EU pCbCR, but use it as an opportunity to demonstrate their commitment to responsible tax practices. PwC has developed a 10-step plan to help businesses prepare for pCbCR. The table below summarises our plan and lays out the key challenges that we're helping tax teams address.

Topic	Challenge for tax teams	How can PwC help?
Stakeholder engagement	For many businesses, this will be the first time they have publicly disclosed CbCR data, including country-level revenues and profits. Tax teams will need to engage proactively with stakeholders, from the Board to local operations teams, to ensure an agreed and uniform approach.	• Facilitating stakeholder workshops and advising on strategic communication with internal stakeholders. • Helping formulate a unified approach to tax transparency across the business.
Confidence in your data	Tax teams need to have confidence in their CbCR data. Stakeholders can already use technology and AI to scrutinise datasets and this will only become easier. Data collection and governance processes, including the basis of preparation for CbCR, should therefore be reviewed carefully to ensure the robustness of CbCR data.	• Advising on the interpretation of OECD guidelines, reviewing, or preparing qualifying datasets for Pillar Two's Safe Harbour, and reviewing controls. • Advising on reconciliations with financial statements or other datasets and best practices for disclosure.
Understanding your data	As the amount of publicly available data increases, so too do the reputational risks. Some key questions to consider when formulating your approach to disclosure are: • How could different stakeholder groups (mis)interpret your CbCR data? • What (un)favourable comparisons could be made with peers or wider industry? • How will you explain outliers or operations in the EU's 'black/grey' list of non-cooperative jurisdictions? An internal consensus on a clear and concise narrative to accompany the data is key.	• Providing tech-enabled data analytics skills for data scrutiny and trend analysis. • Leveraging the PwC CbCR risk analyser and reporting tool. • Delivering transparency insights from strategic benchmarking and proprietary databases.
Taking a strategic view of compliance	The transposition of the EU directive into local member state legislation has led to important deviations from the requirements of the EU Directive, and affected the availability of exemptions and deferrals in some countries. These variations have created a layer of complexity which could influence strategic decision making when considering compliance.	• Leveraging PwC's global network to ensure you know the most recent developments and compliance requirements in each country.
Telling your tax story through robust reporting	Narrative around an organisation's pCbCR should be consistent with other disclosures on the business model. Tax teams should compare pCbCR narratives with other disclosures – such as the sustainability value chain disclosures required under CSRD, and private disclosures to tax authorities. This ensures consistency in reporting and alignment with other parts of the business.	• Developing public disclosures and Q&A resources. • Helping to review processes and ensuring consistent narratives. • Providing specialist support in developing strategic voluntary disclosures such as Total Tax Contribution, and disclosures required under CSRD.

Making tax part of the sustainability conversation

The EU Corporate Sustainability Reporting Directive (CSRD) and tax

The EU CSRD will significantly increase sustainability reporting for companies with EU operations. The directive aims to drive accountability and transparency through mandated disclosure on material sustainability topics. It will require businesses to collect, analyse, and disclose large amounts of data on the sustainability impacts of their value chains.

While there is no explicit tax standard in the CSRD directive, tax intersects with the regulation in important ways. The main challenge for tax teams will be to ensure that they are involved in CSRD decision-making across the business. They will need to actively engage with sustainability and corporate reporting teams to ensure tax remains on the CSRD agenda and that the corresponding risks are appropriately managed.

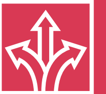
What are the intersections between tax and the CSRD?

- Under CSRD, companies must carry out a double materiality assessment[1] to determine the material sustainability topics on which they will report. Tax teams should be involved in this process. Tax could be considered a material topic as it can be an indicator of a company's social impact, and given the heightened focus on tax transparency from the investor community.
- Tax is critical in ensuring alignment with the EU Taxonomy. A company that is required to report under CSRD is also in scope of the Taxonomy which relies on businesses' compliance with four minimum safeguards – one of which is taxation. In turn, the minimum safeguard on taxation draws on the OECD Guidelines for Multinational Enterprises (MNEs) which sets the following expectations for MNEs:
  - Compliance with the letter and spirit of tax law and regulations of the countries in which they operate.
  - Treat tax governance and tax compliance as important elements of their oversight and broader risk management systems.

  MNES are deemed not to meet the minimum safeguards where a lack of adequate tax governance and risks management processes are in place or where the group has been found of violating tax laws.

  Meeting the above expectations are not straightforward and the expertise of tax teams will be needed to ensure the business does not fail one of the minimum safeguards.
- Assessing which groups, and which companies in those groups, have to comply with CSRD requirements can be complex and requires careful consideration which should involve Tax. Group reorganisations or restructurings arising from M&A activity or sustainability transformations could have substantial implications on the tax profile of the business.
- CSRD will require businesses to disclose their value chains and the sustainability impact of the business model on stakeholders and the environment. The challenge for tax teams will be ensuring that there is alignment between the sustainability disclosures and the transfer pricing documentation submitted to tax authorities.

How can PwC help?

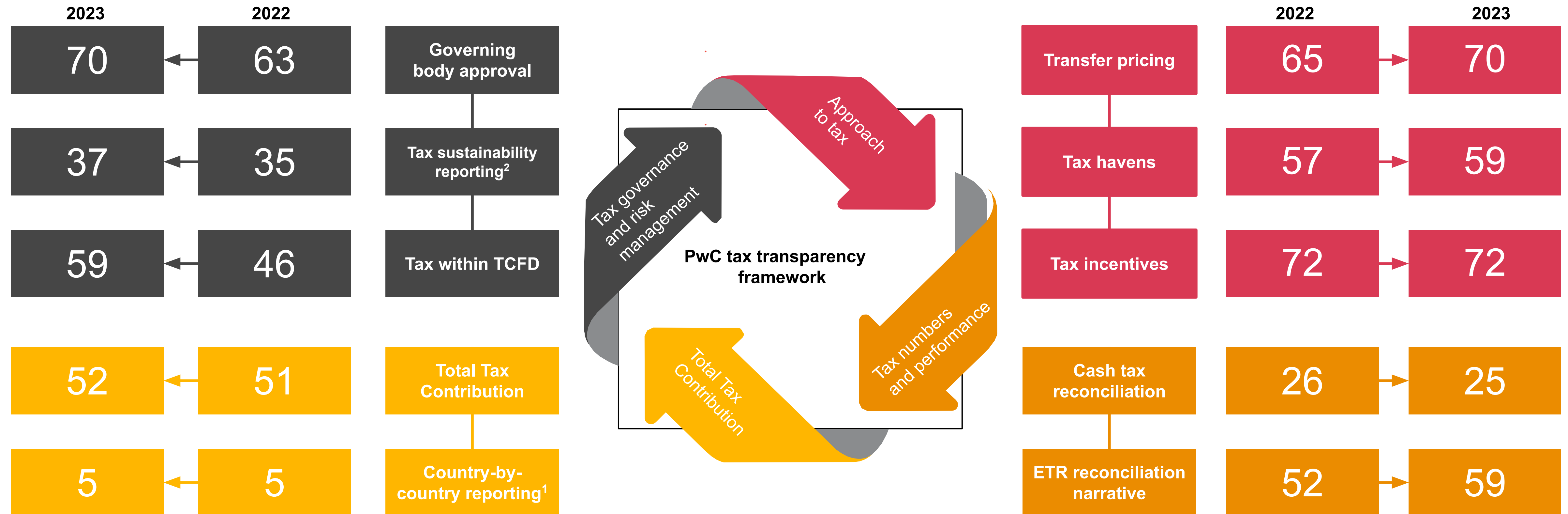


- Tax strategy formulation or review to ensure compliance with minimum safeguards.
- GRI 207 Tax gap analysis.
- Tax governance and control framework development.
- Helping you understand your tax disclosure Obligations under CSRD.
- Supporting you with your overall double materiality assessment process and integrating the results into your risk management and decision-making processes.

[1] A double materiality assessment involves assessing a company's impact on both the environment and society ('impact materiality') and how the sustainability topics may affect future performance of the company ('financial materiality').

Trends in transparency across the FTSE 100 for 2023 year ends

We reviewed the annual reports for financial years ending between January and December 2023 for all companies listed in the FTSE100 at 31 December 2023. Our review uses the PwC Tax Transparency Framework, a set of broadly defined tax transparency indicators to assess the disclosures made. Ten of those indicators are shown below and compared to last year's review. We reviewed the most recent publicly available corporate reporting materials at 30 April 2024. More commentary and detail around this research can be found in Appendix A.



Source: PwC analysis

The numbers shown refer to the number of FTSE100 companies.

[1] Country-by-country reporting (CbCR) disclosure refers to the public disclosure of CbCR data points per OECD BEPS Action 13 table 1.

[2] Companies that are fully or partially aligned with the GRI 207 Tax Standard.

A closer look at Total Tax Contribution disclosures, 2018 – 2023

The evolving tax reporting landscape

The tax reporting landscape has experienced significant change over recent years and has been driven by a history of transparency initiatives and other developments which have a focus on corporate income tax:

- Sector-specific legislation, including the EU Accounting Directive for extractives and CRD IV regulation for banks and capital markets.
- The GRI's voluntary 207 Tax Standard which included a requirement to publicly disclose CbCR data for all companies electing to report under the standard.
- The EU's pCbCR Directive which builds on past developments and mandates the disclosure of CbCR for all large companies with EU operations.
- Global developments around the OECD's Pillar Two project and the reporting implications for companies operating in territories considered to have low or no taxation, is likely also likely a contributing factor.

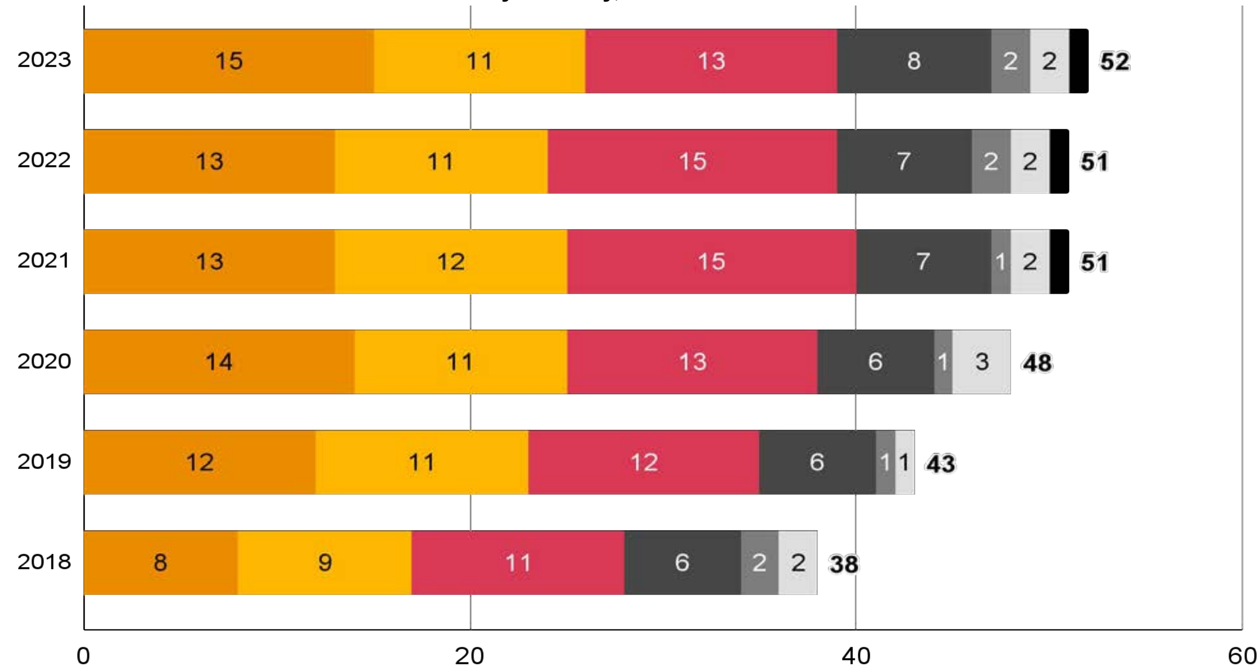
These developments have placed a greater obligation on companies to disclose information about their tax profile and approach to tax. As we move into a new era of tax transparency and tax reporting, the heightened focus and scrutiny on tax from stakeholders is building.

How have companies been responding?

Our review of tax reporting across the FTSE100 over recent years has revealed an increase in the number of companies disclosing their Total Tax Contribution. Thirty-eight companies made a TTC disclosure in 2018, which has increased to fifty two for the 2023 year ends. Many companies find TTC disclosures useful as they provide a holistic overview of the organisation's tax profile and the total tax paid, going beyond corporate income taxes.

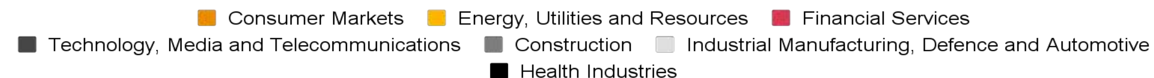
Figure 1 shows the distribution of TTC disclosures between 2018 – 2023 by industry. Given the regulations discussed, it is not surprising that the Energy, Utilities and Resources and Financial Services industries combined make up the largest share of TTC disclosures in the FTSE100. The number of TTC disclosures across the two industries has remained largely stable despite changes in the make-up of the FTSE100. Consumer Markets have experienced the largest increase in disclosure since 2018. Fifteen companies disclosed their TTC in 2023, making up the largest share of TTC disclosures in the FTSE100 that year. Many of these companies are very well known, public brands and are subject to increased scrutiny from consumers and other stakeholder groups with interests in sustainability or Environmental, Social and Governance (ESG) initiatives.

Figure 1: FTSE100
Total Tax Contribution disclosures by industry, 2018 – 2023

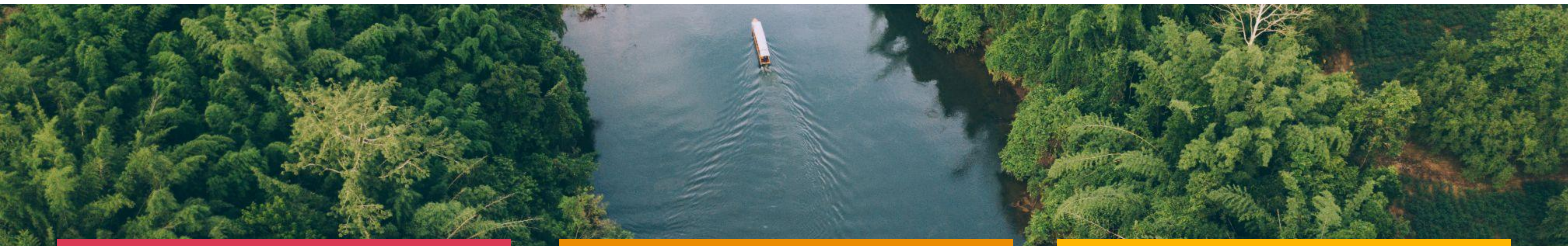


Source: PwC analysis

Number of companies



Appendix A: PwC commentary on transparency review of FTSE 100 2023 year ends



Tax havens

59 companies discussed tax havens in this year's review, up 2 from last year. Building on a larger increase in the prior year review, the continued uptick in companies disclosing information around their operations in low-tax jurisdictions is likely to be driven by ongoing pCbCR and Pillar Two developments. The EU and Australian pCbCR rules in particular require disclosure of tax and other economic data for companies with operations in 'non-cooperative' jurisdictions.

Transfer pricing

Transfer pricing was discussed by 70 companies, up from 65 on 2022 year ends. The increase in disclosure is not surprising given the heightened focus on transfer pricing and diverted profits tax by HMRC. With the number of enquiries and the average age of settled enquiries increasing since the COVID-19 pandemic, many businesses are now at the stage where they are thinking about provisioning and disclosure.[1] HMRC also recently introduced new transfer pricing documentation requirements for the largest UK businesses,[2] which may also have prompted more FTSE100 companies to disclose additional information.

Tax incentives

Tax incentives were mentioned by 72 companies, the same as last year. We expect tax incentive disclosures to increase over the coming years as transparency around sustainability reporting and the role of green incentives in influencing business decisions grows.

[1] HMRC transfer pricing and diverted profits statistics
[2] Transfer pricing documentation requirements for UK businesses

Appendix A: PwC commentary on transparency review of FTSE 100 2023 year ends (continued)

Governing body approval

70 companies made reference to either the Board or a delegated governing body approving the tax strategy. In most instances where the review and approval of the strategy had been delegated, it became the responsibility of the Audit Committee.

HMRC guidance on large business tax strategies was updated in June 2018 and indicated that there should be Board approval of the tax strategy. It is now generally accepted best practice for this review and approval to take place on an annual basis. HMRC continues to increase Business Risk Review Plus (BRR+) activity and the number of BRRs[3] completed each year. The target for 2024 is 1,100 BRRs, up from 900 in 2023. Senior stakeholders 'setting the tone' from the top and engaging with the company's tax strategy and overall approach to tax governance is an important factor that HMRC considers when assigning risk ratings under the BRR+ process.

Tax sustainability reporting

Our review found 37 companies choosing tax as a topical standard for the purposes of GRI reporting. While compliance with the standard is voluntary, the companies identified were either partially or fully aligned with the disclosure requirements recommended under the GRI 207 Tax Standard. The European Financial Reporting Advisory Group (EFRAG) and the GRI released a statement of interoperability in September 2023 indicating that the GRI standard could be used where tax is assessed to also be a material topic of the purposes of reporting under the EU's CSRD.[4] In May 2024, the GRI and IFRS released a similar statement to optimise how GRI and ISSB standards can be used together.[5]

GRI research indicates that 26% of the largest 1,000 public companies worldwide are voluntarily using the GRI Tax Standard in their sustainability reporting.[6]

Cash tax reconciliation

The number of companies providing a cash tax reconciliation decreased by 1 on 2022 year ends to 25 companies. This decrease was due to a change in the makeup of the FTSE100. The disclosure remains less common, but it is provided by companies seeking to explain and clarify to stakeholder groups how the tax charge in the accounts relates to actual cash tax paid to the authorities. Investors and analysts tend to be more interested in information on cash tax payments given its simplicity and usefulness in predicting future cash flows.[7]

[3] The new BRR+ was introduced in October 2019 and places significantly more emphasis on the tax risk and control framework and governance within the business's tax function than the prior BRR system.

[4] EFRAG-GRI Joint Statement of Interoperability

[5] GRI and IFRS Foundation collaboration to deliver full interoperability that enables seamless sustainability reporting

[6] Analysis of top 1,000 businesses on use of the GRI 207 for tax transparency

[7] European Financial Reporting Advisory Group – Improving the Financial Reporting of Income Tax

Appendix A: PwC commentary on transparency review of FTSE 100 2023 year ends (continued)

Tax reconciliation narrative

59 companies provided additional narrative around their statutory/effective tax rate reconciliation, an increase of 7 from last year.

The increase may well reflect a renewed focus from both investors and regulators on the tax reconciliation in recent years. From a UK perspective, the Financial Reporting Council released a review of companies' deferred tax asset disclosures in September 2022,[7] building on a thematic paper published in 2016[8] on increasing income tax disclosures to meet stakeholders demands.

In December 2023, the Financial Accounting Standards Board (FASB) in the US issued an Accounting Standard Update to enhance the transparency of income tax disclosures.[9] These rules are for US-based groups to address investor requests for more transparency around income tax information and primarily relate to the rate reconciliation and income taxes paid.

Total Tax Contribution

We found 52 companies disclosing their TTC, which is an increase of 1 on the previous year. The momentum seen in previous years has slowed as companies have shifted focus to other developments (i.e. pCbCR, Pillar Two, etc). The significant increase in TTC disclosures over recent years highlights the value many businesses see in collecting and publishing more holistic tax data, especially in the face of certain stakeholders intensifying their focus on corporate income tax.

Tax within TCFD

We found 59 companies including tax within their Task Force for Climate-related Financial Disclosures (TCFD), which is an increase of 13 on the 2022 year ends. Compliance with the TCFD framework has been mandatory for listed companies since January 2021. It is likely that the continuing inclusion of tax within companies' TCFD is a result of their reporting under the framework maturing and as tax gradually becomes more embedded within sustainability.

The tax disclosures ranged from expansive narrative and modelling on the anticipated risks of environmental taxes, to less mature disclosures acknowledging that taxation is a potential risk to the business.

The most common tax disclosures were references to and/or impact modelling of increasing carbon taxes/carbon pricing, with 47 companies including this within their TCFD. In addition our review found 2 companies discussing the impact of plastic packaging taxes and 10 companies mentioning environmental taxes more broadly.

[7] FRC thematic review of deferred tax assets
[8] FRC thematic review of income tax disclosures
[9] Improvements to Income Tax Disclosures

Appendix A: PwC commentary on transparency review of FTSE 100 2023 year ends (continued)

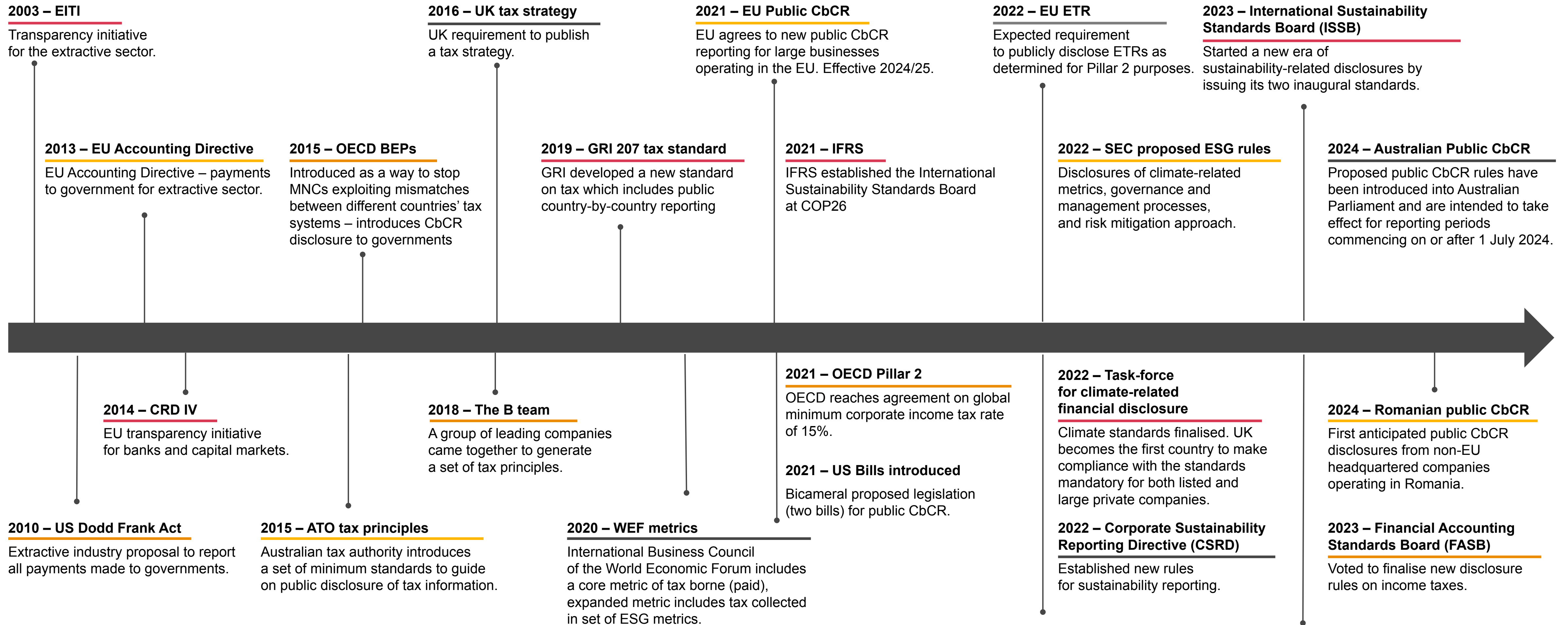
Country-by-country reporting

Our review found 5 companies disclosing all CbCR data points as per the OECD BEPS Action 13 table 1. This is unchanged compared to last year's review. In addition to this we also found 15 companies publishing 'partial' CbCR disclosures that included some of the data points contained in the OECD template.

As a minimum baseline, all 15 companies publishing 'partial' CbCR disclosed profits and corporate income tax paid per country in their most material locations. Some went further than this and also disclosed other data points such as revenues and the number of employees per country.

Our review this year also looked at qualitative disclosures around CbCR data. This was to determine whether large businesses were also providing stakeholders with additional information around how tax interacts with the business model. We found that 19 out of the 20 companies who publish some form of CbCR disclosing narrative around that. These disclosures ranged from short explanations to more extensive of the link between business activities and tax profile in some or all of the jurisdictions disclosed.

Appendix B: A history of transparency initiatives



Appendix C: A comparison of country-by-country disclosure requirements

Below are the differences between CbCR disclosures required under the EU, OECD, GRI 207-4 and Australian rules.

	GRI 207-4	OECD	EU CbCR	Australia (June 2024 proposed bill)
Total revenue	✗	✓	✓	✗
Revenue from third parties	✓	✓	✗	✓
Revenue from related parties	Between jurisdictions only	✓	✗	✓ *
Profit/loss before tax	✓	✓	✓	✓
Cash tax paid	✓	✓	✓	✓
Tax accrued	✓	✓	✓	✓
Tangible assets other than cash and cash equivalents	✓	✓	✗	✓
Number of employees	✓	✓	✓	✓ **
Reasons for the difference between CIT accrued on profit/loss and the tax due if the statutory rate is applied to profit/loss	✓	✗	✗	✓ *
A description of the country by country reporting group's approach to tax	✓	✗	✗	✓
Total accumulated earnings	✗	✓	✓	✗
Stated capital	✗	✓	✗	✗

*Per GRI 207
**This does not apply to RoW (aggregated)

pwc.co.uk

This document has been prepared only for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2024 PricewaterhouseCoopers LLP. All rights reserved. 'PwC' refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.