

Good practices

The good practices of Principle A are linked to question 6 of the Tax Transparency Benchmark. We noticed that companies often provide a general description of the mission and/or responsibilities of the tax department. However, in order to meet best practice, the KPIs of the tax department should be specific, measurable, attainable, realistic and timely (SMART). We hope to see more 'smart' KPIs for tax departments in the near future.

ING Group clearly describes the mission of the Tax Department (ING):

ING Tax Department's mission

- To provide high-quality tax support to ING's businesses and management
- To safeguard ING's tax position in compliance with applicable laws and regulations
- To ensure that ING's tax position is correctly reflected in our financial statements in liaison with ING's Finance Department.

In all our activities, wherever we operate, we take due account of long-term considerations, manage risks and carefully weigh the interests of all stakeholders, while at all times respecting the ING Values.

DSM clearly describes which responsibilities it has in achieving its objectives with regarding to the execution of its tax strategy (DSM).

Main responsibilities

- Define the fiscal policies for DSM globally and ensure understanding of observance these policies;
- Set corporate requirements for the management of the legal entities;
- Advise and support the Managing Board, the Support Functions and Functional Excellence departments, the Business Groups and their legal and organizational entities with regard to fiscal issues;
- Maintain communications with the tax authorities;
- Participate in international groups of experts on tax matters to promote DSM's interests.

B. Tax must be aligned with the business and is not a profit centre by itself

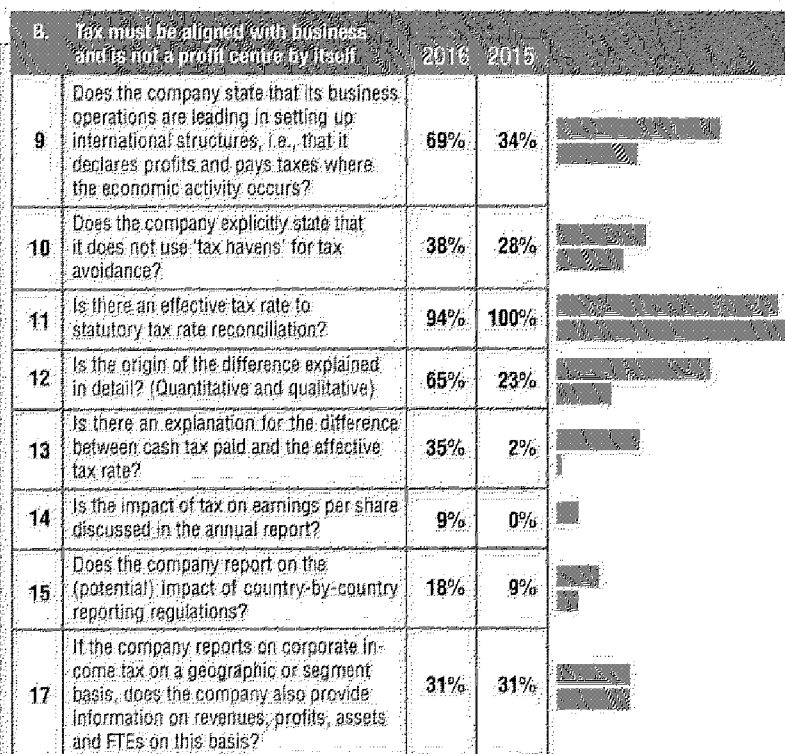
It should be understood that tax is an integrated part of doing business. Tax is not the exclusive domain of the tax department anymore. In principle, a company should declare profits and pay taxes where it conducts business activities, and it should demonstrate how it does so. A company must be able to extract tax information when needed.

Top scorer

Delta Lloyd Group – with a score of 12 out of 17 points

Results

In comparison with the results of the Tax Transparency Benchmark 2015, the average number of points awarded under this principle has increased by 11% points. This increase is due in part to 'tax follows the business' being made clear in publicly available documentation, i.e. the company declares profits and pays taxes where the economic activity occurs. The increase is also due to more detailed information on the effective tax rate being made available.

**Figure 8:** Percentage of companies that are transparent about their tax payments

An increasing number of companies are reporting on the effective tax rate to statutory tax rate reconciliation in detail (see Figure 8). Also notable is the 33% point increase in the number of companies explaining the difference between cash tax paid and the effective tax rate in detail. However, only 18% of the companies are transparent on the potential impact of country-by-country reporting regulations. We are expecting to see more information on this from a qualitative and quantitative perspective in future benchmarking exercises. See the FAQs below for more information.

Even though more companies are providing information on taxes other than corporate income tax – a 30% point increase on last year – only seven companies report on this in a detailed way (on a country, region or segment basis). A detailed distinction of the different kinds of taxes due provides a more complete picture for stakeholders of the total amount of taxes paid by the company. It provides insight into the added value, i.e. on the company's economic footprint, which is valuable information for stakeholders. We expect that there will be an increased amount of information on total tax contributions over the next years.

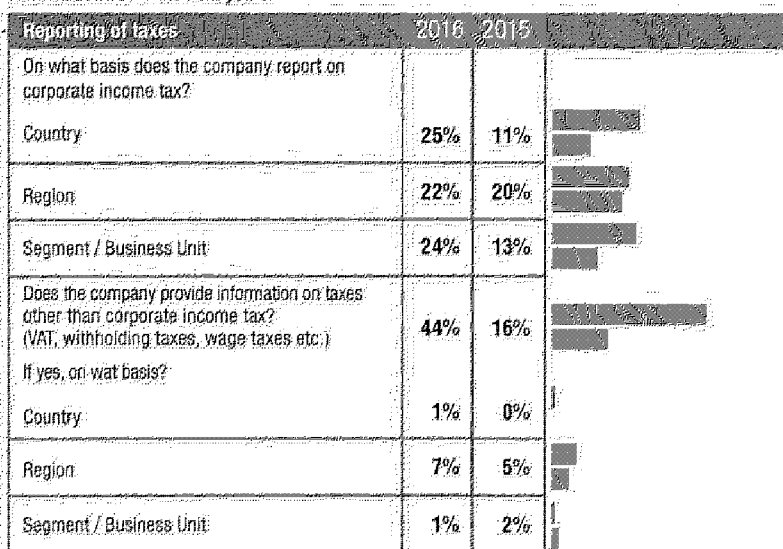


Figure 9: Percentage of companies that report their taxes on country, regional or segment basis

FAQ

What is the added value of adding the impact of tax on the earnings per share (EPS)?

Information on the impact of tax on EPS provides further explanation of tax as part of an economic impact measurement disclosure. In addition, shareholders benefit from increased transparency around the costs that relate to shareholder value. Some companies argued that the EPS could be derived from the financial overview. However, we believe this could easily be wrongly interpreted.

FAQ

What should I report with regard to the potential impact of country-by-country reporting regulations and why is this important?

The OECD have broadened the information required from taxpayers significantly and both the master file and local file require a great deal more quantitative analysis than what is required for current transfer pricing documentation. There is an expectation of significant transparency, operational and systems challenges in meeting country-by-country reporting and/or master file and local file requirements. Therefore, companies should consider questions such as:

- How will data be interpreted and compared to the master file and local file by tax authorities and other stakeholders?
- Do you have the technology and systems in place to gather and report the data required?
- Do you have adequate governance and control frameworks to ensure accurate reporting and execution of transfer pricing policies?

Being transparent on the potential impact of country-by-country reporting will give stakeholders the assurance that the company is taking these questions into consideration and is aware of the consequences regarding CbCR. It is also clear that some countries and the EU are proactively pushing public country-by-country legislation and initiatives.¹⁵

¹⁵ For example, the European Commission proposed public country-by-country reporting for multinational enterprises in April 2016. Also, the UK opted for public country-by-country reporting in September 2016. It is the first country to include public country-by-country reporting in its statute books, with amendments to its Finance Bill giving the Treasury power to switch on the requirement for public disclosure of tax filings.

Good practice

Wolters Kluwer reports on the effective tax rate in detail. The figure below is an example of good practice because it provides a detailed comparison with 2014. This relates to questions 11 and 12 of the 2016 benchmark (Wolters Kluwers, 2015).

Reconciliation of the effective tax rate

	2015		2014	
	%		%	
Profit before tax		542		512
Normative income tax expense	29.4	160	37.5	192
Tax effect of:				
Tax incentives and exempt income	(7.0)	(41)	(11.7)	(60)
Tax benefits on results of previously divested assets	-	-	(22.0)	(112)
Recognized and unrecognized tax losses	1.0	9	2.6	14
Adjustments previous years	0.0	0	(0.6)	(3)
Non-deductible costs and other items	(1.5)	(9)	1.6	7
Total	21.9	119	7.4	38

The normative income tax expense has been computed as the weighted average statutory tax rates of the jurisdictions where the Group operates.

tax charge on internal asset transfers. In 2015, the tax rate reflects a one-time favorable adjustment relating to deferred tax assets.

The reported effective tax rate increased to 21.9% (2014: 7.4%). In 2014, the tax rate reflected a non-taxable revaluation gain on Datacert and a positive tax impact relating to previously divested assets partly offset by a

For corporate income tax recognized directly in statements of equity and other comprehensive income, reference is made to Note 20 (Tax Assets and Liabilities).

C. Respect the spirit of the law. Tax compliant behaviour is the norm

A company should aim to comply with the letter as well as the spirit of the law, which entails that also the intention of the legislator is guiding to ensure tax-compliant behaviour. By definition, the spirit of the law cannot be described unambiguously. It requires discussion with internal stakeholders, including tax, legal, compliance and CSR officers, as well as external stakeholders such as government officials, tax authorities, civil society organisations and investors. Being compliant with tax laws and regulations, statutory financial obligations and international accounting standards is the core responsibility of the tax function.¹⁸

¹⁸ See for example the tax codes designed by Australian ATO and UK HMRC in the previous chapter on good tax governance.

Top scorers

Binckbank, Brunel, ING Group, Rabobank, Unilever – all scored 2 out of 2 points.

Results

There has been a 15% point increase in the number of companies that explicitly state that the spirit of the law is embedded in their tax strategy (see Figure 10). A few companies (12%) are transparent about whether they have a programme in place to train employees on how to deal with tax related dilemmas or possible breaches of the tax strategy. This is a small increase of 4% compared with last year. However, we believe that a training programme is essential in order to ensure the company's tax strategy is effectively embedded in the organisation and employees are supported to deal with tax in an ever-changing tax landscape. This is further explained in the FAQ below.

We expect to see a greater increase of points awarded for this principle in the future, based on the increased amount of points awarded this year for Principle A - defining and communicating on their tax strategy - and Principle B - the alignment of tax with the business.

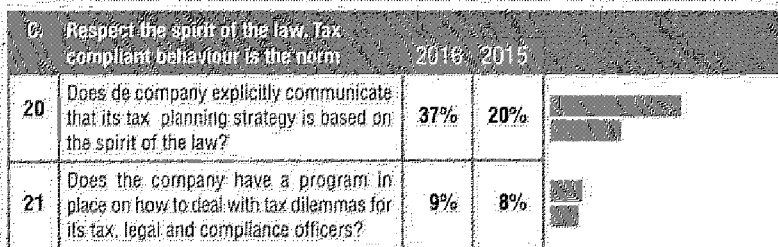


Figure 10: Percentage of companies that are transparent about respecting the spirit of the law

FAQ

We already have a responsible person appointed when it comes to tax. What more can we do? Why do we have to create a training programme on how to deal with tax dilemmas for tax, legal and compliance officers and be transparent about it?

The tax landscape is rapidly changing; what was acceptable five years ago is questioned nowadays. Governments, NGOs, intragovernmental organisations and so forth, are becoming more actively (and aggressively) involved. Tax dilemmas are becoming increasingly complex. Overall, this requires an increase in the number of people involved, specifically people with multiple perspectives on tax (not just with a legal and/or tax compliance perspective).

To ensure that certain tax principles are fully embedded in the organisation, the company can create a programme to train its tax, legal and compliance officers on how to deal with tax related dilemmas or possible breaches of the tax strategy. This training programme could be an online training course for those employees who make decisions concerning tax. In addition, new procedures could be implemented for assessing whether material transactions or changes in doing business comply with the tax strategy. Communicating in the annual report about, for example, the ethical training courses a company offers on tax dilemmas, demonstrates that tax considerations are actively integrated within the business.

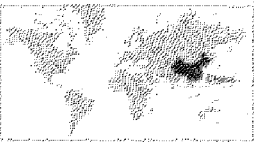
Good practice

The figure below is an example of good practice because it shows that the tax principles are important to ING.

'These Tax Principles are applicable worldwide. Our employees must act with integrity and adhere to ING's Values when managing tax affairs. It's important for us to keep our employees up to date and to make sure they consistently make the correct decisions in line with our Tax Principles. One way we do this is to regularly hold internal meetings where presentations are given and dilemmas are discussed, with our experts explaining what the right choice for ING is and why.' (ING)

Unilever prepares scorecards to ensure that complex transactions fit within their tax principles.

Tax Principles: scorecard example

<p>What was the transaction? Unilever Ventures wanted to participate in an investment fund managed by a third party. The fund was based in the Cayman Islands, with the business investment being in China. Unilever Ventures wanted to invest in around 7% of the fund value.</p>		<p>How did we assess this? We reviewed the transaction against our Tax Principles, taking into account the jurisdictions involved, the size of the transaction, and the impact for Unilever of alternative structure scenarios.</p>
<p>What did we conclude?</p> <ul style="list-style-type: none"> • With only 7% we were a minority investor, with no significant influence over the investment fund structure. • The tax impact for Unilever was the same as if we had directly invested into China, so there was no tax benefit to Unilever as a result of the fund investment. • Therefore, the transaction did not go against our Tax Principles. 		

Source: (Unilever)

D. Know and manage tax risks

Tax risk management is a proactive process that is demonstrably embedded within the risk management and internal control function of the company.

Top scorers

Arcadis, ASM International, ASML, Boskalis Westminster, Corbion, Eugro, Kendrion, Randstad – all scored 4 out of 4 points

Results

Many companies report on tax risks, as such companies scored best on this Principle. In comparison with last year's findings, the average number of points awarded for Principle D increased by 4% point. This increase is mainly due to the fact that 72% of the companies report on tax risks – including financial, regulatory or reputational risks, which is an increase of 14% on last year. In addition, companies are becoming increasingly transparent about their tax risk appetite (see Figure 11).

However, the reporting of tax risks is often just an enumeration. More than half of the companies do not describe their tax risks in detail and therefore are not transparent on their overall tax risks analysis. In some cases, companies replied that they do not find it necessary to report on tax risks in publicly available documentation, as this is not considered a 'top risk' of the company.

Organisations need to adapt to change. They need to think strategically about how to manage the increasing volatility, complexity and ambiguity of the world. The complexity of tax risks has changed and new kinds of risks – for example reputational risks – have emerged as is illustrated by LuxLeaks, Panama and Bahama Papers and current EU state aid investigations.

In order to be adaptive to the current fast-changing tax world, an early risk identification is key. In addition, linking the tax strategy and objectives to both risk and opportunity helps to accelerate growth and to enhance performance (COSO, 2016).

Stakeholders are more engaged today, seeking greater transparency and accountability for managing tax risks. Clarity and insight into the link between tax strategy, tax risk and performance is needed in order to demonstrate 'the complete picture' to stakeholders. Therefore, we would like to encourage companies to report more elaborately on tax risks, including their tax risk appetite and risk response, because it provides stakeholders with a better understanding of the potential and actual risks involved.

Investors need better information

According to Eumetion, investors would like to have forward-looking information on taxes, preferably in the annual report, in order to better understand and model a company's tax position. Better information on a company's tax position allows for an in-depth analysis of where taxes are paid, and where potential risks stemming from excessive tax optimisation may exist. Eumetion participants will ask company management and supervisory boards to demonstrate sound tax practices and tax policies, and clarify how these issues are supervised (Eumetion, 2015).





D. Know and manage tax risks		2016	2015	
22	Does the company explicitly describe its tax appetite?	29%	23%	
23	Does the company report any tax risk, including financial, regulatory or reputational risks?	68%	58%	
24	Are the tax risks described in details? (Not just as an enumeration)	44%	41%	
25	Is there a description of the company's response to these tax risks?	40%	42%	

Figure 11: Percentage of companies that are transparent about their tax risks

FAQ

How can I report about my tax risks if there are no tax risks of material misstatement?

A risk of material misstatement in audit terminology refers to the risk that the financial statements are materially misstated. A misstatement arises where there is a difference between the reported figures and what is expected to be reported in order for the financial statements to be fairly presented (to show a true and fair view).

With the tax risks we are referring to in the benchmark we have a broader perspective in mind than the tax risks of material misstatements in the annual report. The tax risks we are referring to are risks caused by, for instance, the fast changing tax legislation and public views on taxes. These external factors can result in the risk of being unwillingly uncompliant with newly incorporated tax legislation, unknown mismatches between countries with double taxation as a consequence, and the uncertainty of tax claims caused by a disagreement with tax authorities about the interpretation of the law. All companies in the Tax Transparency Benchmark face these kinds of risks, e.g. possible state aid investigations in Europe.

Good practice

Corbion clearly describes its tax risks, the impact of these risks and Corbion's mitigating actions:

Tax event	Cause and potential impact	Mitigation actions
Non-compliance with applicable tax laws	Failure to timely detect and anticipate changes in a wide variety of tax laws or in the application thereof could adversely affect our financial results.	Adequate quarterly reporting system is in place, we hold regular tax meetings, and review tax compliance of our operating companies. Our global tax control framework warrants compliance. Transfer pricing policy and documentation are in place as well. We seek the advice of external tax experts in compliance matters.

Source: (Corbion, 2015)

E. Monitor and test tax controls

It is important that a company has a standardised approach for monitoring and testing the execution of its tax strategy and controls, and that it does so on a regular basis to ensure the findings and outcomes are addressed promptly. By communicating on these issues with stakeholders, a company could demonstrate its commitment to the design and operating effectiveness of its tax strategy.

Top scorers

Brunel, Corbion, DSM, KPN, Philips, Randstad, Shell and Unilever – all scored 3 out of 3 points.

Results

With an average score of 40%, this is one of the principles on which companies are quite transparent. Notable is the increase of 26% points on mentioning tax in the control section of the annual report, which contributes to the average score on this principle. This increase could be the result of a growing awareness of the importance of embedding monitoring and testing practices in the control section of the annual report and of publicly disclosing information about this. However, almost a third of the companies (22 companies out of 68) did not score any points on this principle. This is all the more interesting as stakeholders are increasingly seeking confirmation on whether companies have appropriate governance systems and controls in place. It is clearly important to publicly disclose this information. Tax authorities and other governmental organisations are also paying increasing attention to how companies embed monitoring and testing.

E. Monitor and test tax controls		2016	2015	
26	Is tax mentioned in the control section of the annual report?	54%	28%	
27	Is mentioned that the internal audit department is involved in monitoring tax control?	38%	42%	
28	Is tax risk management included in the reporting to the audit committee?	26%	41%	

Figure 12: Percentage of companies that are transparent about their tax controls

FAQ

Why should the internal audit department be involved in monitoring tax control and why should tax risk management be included in the reporting to the audit committee?

Involvement of the internal audit department in monitoring tax control and tax risk management provides stakeholders with the assurance that these processes are in place and functioning correctly. Including this information in the annual report demonstrates that there is regular monitoring, testing and maintenance of the tax control framework. This level of clarity is important, as it gives stakeholders a more clear and reliable view on, for instance, the tax strategy, tax position and efficacy of the tax risk management system.

As tax is an integral part of doing business, a tax control framework is an integral part of the business control framework. As such, when considering (Dutch) corporate governance codes, the tax control framework is the responsibility of the audit committee or broader supervisory board members.

Dutch Corporate Governance Code: tax policy on tax planning

The recently Dutch Corporate Governance Code provides details about the required composition and role of the audit committee of the supervisory board. The function of the audit committee is to prepare the decision making of the supervisory board. If the supervisory board decides not to appoint an audit committee, best practice provisions still apply to the entire supervisory board. In order to adhere to best practices, the audit committee should focus on supervising the activities of the management board with respect to the policy of the company on tax planning. The supervisory board should report on how the duties of the committee have been carried out in the financial year (Corporate Governance Code Monitoring Committee).

F. Provide tax assurance

A company should be prepared to provide additional tax information to regulators, tax authorities and other stakeholders in order to provide a certain level of assurance in regard to tax data and processes. This tax assurance should be based on the implementation and outcome of the five aforementioned principles.

Top scorers:

Beterbed, BinkBank and KPN – all scored 2 out of 3 points

Results

Compared with last year's findings, the average amount of points awarded for this principle has seen a minimal increase of 1% point. With this small increase, this principle is still the principle on which the companies provide by far the least transparency. The small increase is caused by the fact that 34% of companies state that they are participating in a co-operative compliance programme with the tax authorities (which is called 'horizontal monitoring' in the Netherlands). This is an increase of 3% points compared to last year.

However, in most cases, co-operative compliance requires some sort of tax assurance towards tax authorities, mostly on the initiative of taxpayers. Very few companies provide a Tax In-Control Statement and none of the companies provide third party tax assurance. In the Netherlands, external tax assurance – other than the mandatory assurance of the tax paragraph in the annual accounts – is clearly not yet on the radar of companies or the tax administration.

Meanwhile, in other countries we do see a trend of additional external assurance, specifically towards tax authorities. For example, in the United Kingdom the Senior Accounting Officer (SAO) of large companies is required to report to HMRC on the adequacy of the company's tax accounting systems for producing an accurate tax return. In Australia, a form of regulated self-assessment is implemented, requiring auditors to sign-off on the corporate income tax return of large companies (Towell, 2014).¹⁷

¹⁷ For example, Germany introduced legislation that links the validity of a tax return with a tax control framework. If a tax return is incorrect, and the company has no tax control framework in place, it is deemed that the company has committed a criminal (financial) offence (Bundesministerium der Finanzen, 2016).

Third party tax assurance (towards tax authorities) could imply statistical sampling by a third party in a manner approved by the tax authorities. A country example of third-party assurance towards tax authorities is Mexico. In Mexico invoices must contain a digital tax stamp in order to be considered valid. These stamps are provided by certified third parties (called PACs) which are approved by the Mexican tax authorities. This is to prevent fake invoices and to provide a clear view on the amount of taxes companies have as credit or debit. The companies that want to be certified by PACs need to pass through a process and meet several requirements from the government. For this reason we would expect large companies to be able to provide third party assurance in the near future.




E. Provide tax assurance		2016	2015	
29	Does the company provide Tax In-Control Statement?	4%	5%	
30	Does the company provide third party tax assurance to stakeholders?	0%	0%	
31	Does the company participate in a co-operative compliance program? (in the headquarter country)	34%	31%	

Figure 13: Percentage of companies that are transparent about their tax assurance

FAQ:***What is the added value of a Tax In-Control Statement?***

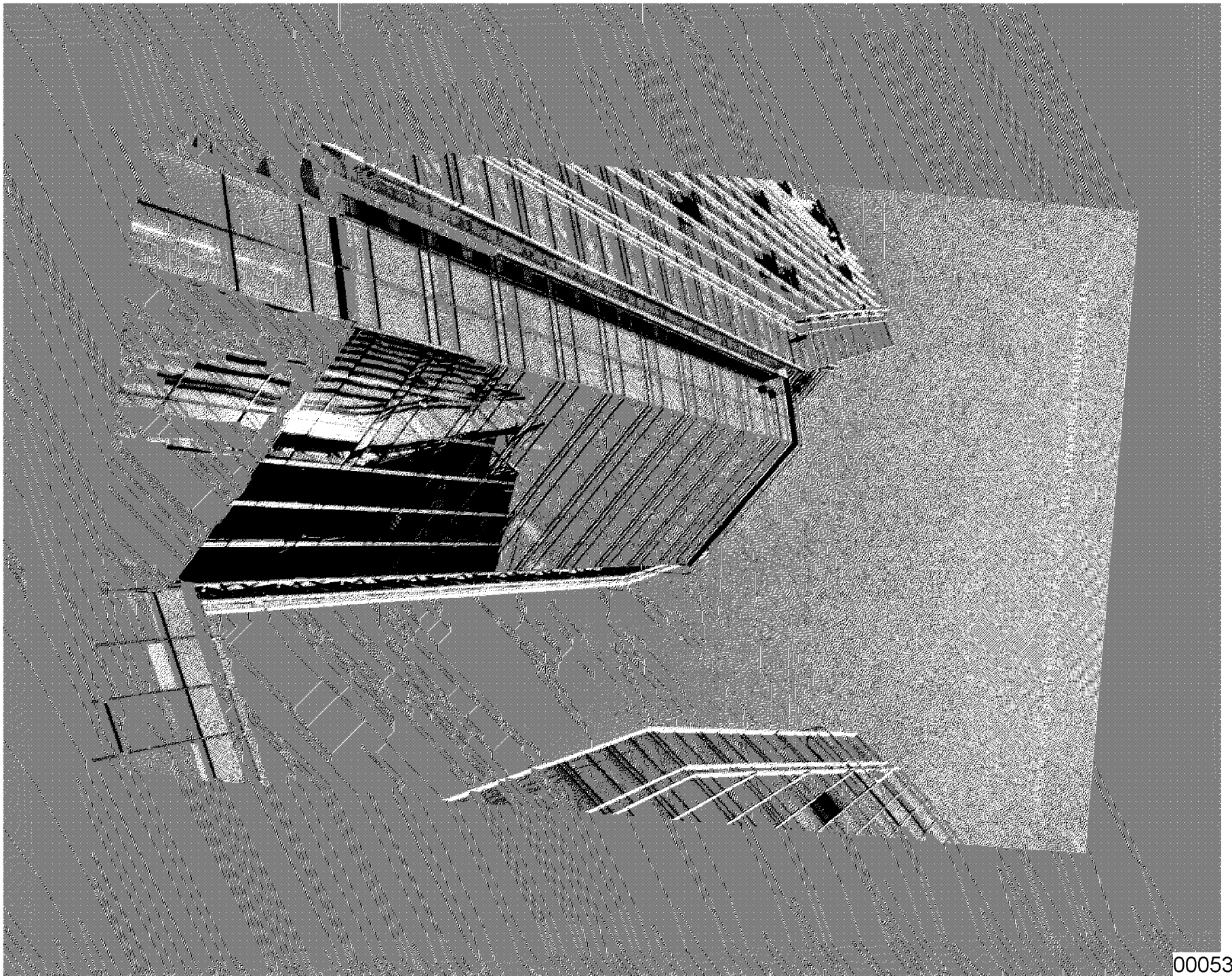
An In-Control Statement refers to a statement from the board (or executive level) that the organisation is in control of its risks and that the financial output can be relied on. From a tax perspective, communicating that there is a Tax In-Control Statement gives transparency over the involvement of the board on tax, attention for the controls on taxes and the confirmation that the quality of the tax position is trustworthy and the tax returns are correct.

It is important for stakeholders to be able to determine whether, and to what extent, a company is in control of its tax affairs. A Tax In-Control statement, which managing directors periodically and explicitly report on the extent to which the company is in control of its tax affairs, stipulates the importance of the company in question being in control when it comes to tax. In order to provide greater assurance on this Tax In-Control Statement, a company could also accompany it with a report by an independent assurance provider. This report should adhere to existing internationally recognised auditing standards (ISAE 3402, together with ISAE 3000 and ISRS 4000, which is a sound basis for an auditing standard regarding the monitoring of tax control, i.e. the tax control framework). Combined with the company's Tax In-Control Statement, this would provide the assurance required by stakeholders regarding the management of tax risks.

FAQ:***Why does having our annual report audited by one of the Big-Four and/or participating in a co-operative compliance programme not count as providing third party tax assurance?***

A third party can provide assurance on the risk taxonomy (tax data and tax processes) of a company. This goes beyond the regular (mandatory) audit as it requires a more in-depth audit.

Participating in a co-operative compliance programme means that there is an agreement on mutual trust, transparency and understanding. This obliges a company to work on having a tax control framework in place, and to further develop it. However, this does not assure the maturity and quality of the tax control framework, and doesn't therefore qualify as third party assurance. Despite that there is some tax information included in an annual report or in a sustainability report, the audit of an annual report and the assurance engagement of a sustainability report does not cover a Third-party tax assurance. They have a different scope, different purpose and a different type of user group compared to third-party tax assurance. The audit of an annual report and the assurance engagement of a sustainability report are aimed at performing to establish procedures whether such reports comply with particular criteria, such as respectively the International Financial Reporting Standards or the G4 Guidelines of Global Reporting Initiative.



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6. Recommendations

The multinational organisations have demonstrated progress regarding tax transparency in 2016. The average transparency rating of the companies in scope increased from 25% in 2015 to 32% in 2016. However, while the number of companies scoring a minimal amount of points (0–10) has decreased, from 55%, the figure still stands at a relatively high 37%. Therefore, there is still room for further improvement. The recommendations outlined below are based on the results of the Tax Transparency Benchmark 2016.

To multinational companies

Governance

- Organise a proactive dialogue about your tax strategy, with the different stakeholders, such as investors, NGOs, trade unions, governments and clients, and ensure that this is an ongoing process.
- Keep the Executive Board up to date and share knowledge about the tax strategy.
- Incorporate your tax and CSR strategy in the decision-making processes.

Strategy

- Do not treat tax 'in isolation' when designing a tax strategy, see tax as part of both your broader business and your CSR strategy.
- Include tax in the business' control and governance risk framework.

Implementation

- Based on the tax strategy, create tax criteria that are implementable (design them in a way that you can actually work with them in your daily operations).
- Implement, execute and monitor the tax strategy and criteria in the company's business operations and include KPIs for the tax department.
- Raise awareness around tax and the strategy, by organising training and communication programmes on an ongoing basis.
- Provide comfort to stakeholders on the execution of the tax strategy (including risk management) by communicating in a clear way via publicly available documentation.

Accountability

- Consider reporting on your corporate income taxes and other taxes, such as VAT, wage taxes and withholding taxes, on a country-by-country basis. Give a more complete picture by including information on revenues, profits, assets and FTEs on the same basis.

To tax authorities

- Increase the transparency of compliance management strategies and accountability on tax affairs with companies.
- Be transparent about how rules are applied.

To NGOs

- Create an open and constructive dialogue with companies and focus on encouraging them to change. Differentiate in approach for the leaders and the laggards.
- Provide companies with best practices regarding responsible and transparent tax behaviour.
- Do not only focus on multinationals and tax advisors but also on tax administrations.
- Enter into dialogue with governments to promote transparency.

To tax advisory firms

- See tax in a broader context, not only from a legal perspective.
- Promote responsible tax behaviour and support tax transparency initiatives of companies. Dare to have a robust dialogue on this topic.
- Apply the firm's tax code of conduct.
- Ensure alignment of tax advice with the clients tax strategy.

To investors

- Design and implement a tax strategy (with criteria) that applies to a) your own organisation, b) your investments and c) how you structure your investments.
- Integrate tax in the valuation of investee companies by including it in investment and ESG policies. Collaborate with stakeholders to develop common standards.
- Enter into a dialogue with portfolio companies on the public and political debate on responsible and transparent tax behaviour.

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Appendix A:

Jury report 2016

The jury is pleased to see that transparency on tax is improving. This improvement included not only more extended quantitative data, but also more detailed qualitative as storytelling information was included to explain the company's tax strategy to non-professionals.

Jury members

The jury consists of four members acting in their personal capacity who are appointed by the VBDO. The jury is independent from the VBDO and is formed by the following members:

- Hans Gribnau, Professor Tax Law at Tilburg University and Leiden University;
- Victor van Kesteren, Director Tax Services at the International Bureau of Fiscal Documentation (IBFD) and Professor Tax Policy at Utrecht University;
- Carola van Lamsweerde, Head Governance and Active Ownership at Robeco;
- Francis Weyzig, Policy advisor at Oxfam Novib.

Nominees

The jury discussed the top 10 companies that scored highest in the Tax Transparency Benchmark 2016: DSM, Unilever, Shell, Randstad, Aegon, ING Group, KPN, NN Group, Rabobank and Vastned.

Winner

From the nominees, the jury selected the winner based on the following criteria:

- Score and analysis performed by the VBDO;
- Depth of tax strategy;
- Embedding of tax strategy into the organisation;
- Sector and the availability of legislation.

The jury would like to congratulate DSM on winning the Tax Transparency Award 2016. This was a unanimous decision.

DSM was the top scoring company in the benchmark. The company performed well on all principles and especially on the questions that indicated the intrinsic motivation of DSM in improving on tax transparency, such as the status and progress of the implementation and execution of the tax strategy.

Furthermore, the company helps readers who are not fiscally educated on how to interpret the tax strategy. This is comparable with Unilever.

Large improvements

The jury also noted three companies that showed a large improvement in score in comparison with last year. These are NN Group, BinckBank and Vastned. These companies were laggards in last year's benchmark and showed that much progress is made and that they are now front-running companies. This is impressive, because normally progress goes slowly in larger companies and therefore it shows that with the right commitment at the top a difference can be made in a short timeframe.

Recommendations for next year

For next year, the jury recommends including more international companies, also non-listed large companies, both originally Dutch and international companies with a headquarter in the Netherlands. The study is deemed less relevant for the smaller companies and that mainly operate in the Netherlands these should therefore not be included in the study. Furthermore, it recommended that besides transparency, the VBDO should also focus on how responsible the taxation of the companies was. An example was provided of a company that was transparent about its aggressive tax strategy. To keep the next Tax Transparency Benchmark comparable with current edition, this could be done via an additional questionnaire. Finally, the jury also indicated to change the questionnaire should be changed from yes/no to multiple options to better diversify between the companies.

Appendix B

Methodology in detail

This appendix contains a comprehensive list of all indicators and their respective scores:

A. Define and communicate a clear strategy

Points

- | | | |
|----|--|---|
| 1. | Does the company communicate its views on tax? (e.g. in the annual report / CSR report / website / other) | 1 |
| 2. | Has the company's tax strategy/policy been part of the dialogue with the company's stakeholders? (including investors and civil society organisations) | 1 |
| 3. | Does the company explain to what extent the stakeholder dialogue has influenced the tax strategy/policy? | 1 |
| 4. | Is a vision of the company's relationship with the tax authorities included in the tax strategy? | 1 |
| 5. | Does the company see tax as part of its corporate social responsibility? | 1 |
| 6. | Have the KPIs of the tax department been clearly communicated? | 1 |
| 7. | Does the audit committee review the tax strategy? | 1 |
| 8. | Does the company describe the status and the progress of the implementation and execution of the tax strategy? | 1 |

B. Tax must be aligned with the business and is not a profit centre by itself

- | | | |
|-----|---|---|
| 9. | Does the company state that its business operations are leading in setting up international structures, i.e., that it declares profits and pays taxes where the economic activity occurs? | 1 |
| 10. | Does the company explicitly state that it does not use 'tax havens' for tax avoidance? | 1 |

Tax rate

- | | | |
|-----|--|---|
| 11. | Is there an effective tax rate to statutory tax rate reconciliation? | 1 |
| 12. | Is the origin of the difference explained in detail? (Quantitative and qualitative) | 1 |
| 13. | Is there an explanation for the difference between cash tax paid and the effective tax rate? | 1 |
| 14. | Is the impact of tax on earnings per share discussed in the annual report? | 1 |

Country-by-country reporting

- | | | |
|-----|---|---|
| 15. | Does the company report on the (potential) impact of Country-by-Country Reporting regulations? | 1 |
| 16. | On what basis does the company report on corporate income tax? | |
| | • Country | 3 |
| | • Region | 2 |
| | • Segment/Business Unit | 1 |
| | • Company-wide | 0 |
| 17. | If the company reports on corporate income tax on a geographic or segment basis, does the company also provide information on revenues, profits, assets and FTEs on this basis? | 1 |

Total tax rate

- | | | |
|-----|--|---|
| 18. | Does the company provide information on taxes other than corporate income tax? (VAT, withholding taxes, wage taxes, etc) | 1 |
| 19. | On what basis is this done? | |
| | • Country | 2 |
| | • Region | 1 |
| | • Segment | 1 |
| | • Company-wide | 0 |

C. Respect the spirit of the law. Tax compliant behaviour is the norm

- | | | |
|-----|---|---|
| 20. | Does the company explicitly communicate that its tax planning strategy is based on the spirit of the law? | 1 |
| 21. | Does the company have a program in place on how to deal with tax dilemmas for its tax, legal and compliance officers? | 1 |

D. Know and manage tax risks

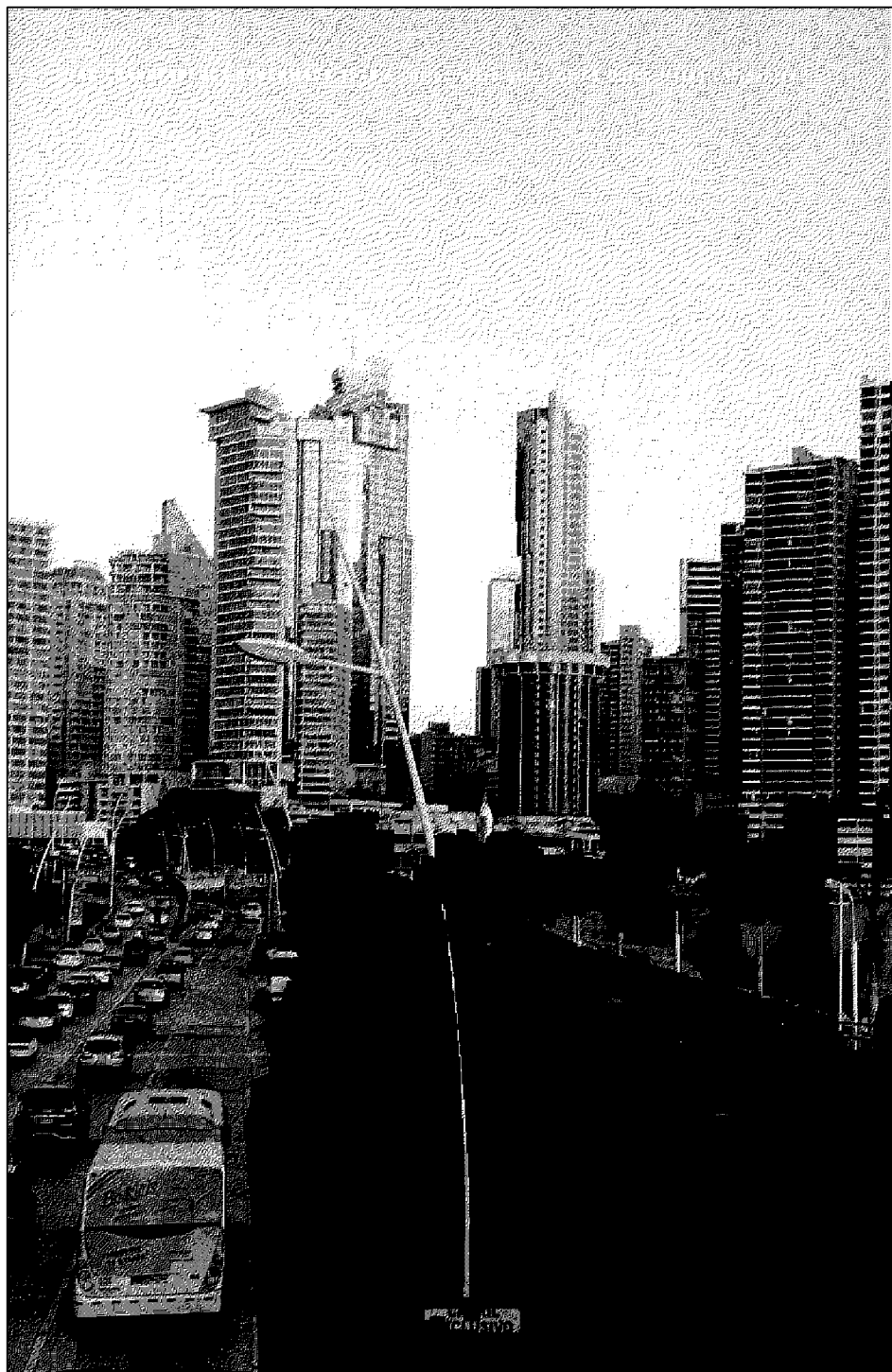
- | | | |
|-----|---|---|
| 22. | Does the company explicitly describe its tax risk appetite? | 1 |
| 23. | Does the company report any tax risks, including financial, regulatory or reputational risks? | 1 |
| 24. | Are the tax risks described in detail? (Not just as an enumeration) | 1 |
| 25. | Is there a description of the company's response to these tax risks? | 1 |

E. Monitor and test tax controls

- | | | |
|-----|--|---|
| 26. | Is tax mentioned in the control section of the annual report? | 1 |
| 27. | Is mentioned that the internal audit department is involved in monitoring tax control? | 1 |
| 28. | Is tax risk management included in the reporting to the audit committee? | 1 |

F. Provide tax assurance

- | | | |
|-----|--|---|
| 29. | Does the company provide a Tax in-control statement? | 1 |
| 30. | Does the company provide third party tax assurance to stakeholders? | 1 |
| 31. | Does the company participate in a co-operative compliance programme? (in the headquarters country) | 1 |



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VBDO (Dutch Association of Investors for Sustainable Development)
www.vbdo.nl

Pieterstraat 11, 3512 JT Utrecht, the Netherlands
T +31 (0) 30 234 00 31 info@vbdo.nl



Good Tax Governance in Transition

Transcending the tax debate to CSR

International

Association

of Taxpayers

and

Stakeholders

Association

of Taxpayers

and

Stakeholders

Association

of Taxpayers

and


Stakeholders

Association

of Taxpayers

and

Stakeholders



Coördinator: **Wim van der Laan** (Driepen (Oikos))
Schriftgeleider: **Saskia Verbeek**, **Saskia Verbeek**, **Inara Vellenga** (VBDO)
Input and support: **Rob van der Laan**, **Enko van der Ende**, **Eric van der Sluis** (PwC)
Lay-out: **Stavros**, **Stavros** - PR and Communications: **Sigi Simon**

April 2014

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Foreword

This publication is the result of a joint project of Oikos and the VBDO that started more than two years ago. We felt that, after the turmoil that the tax behaviour of several companies created in the UK, it was time to bring a new angle into this discussion. The resulting negative impact on the reputation of these companies was destroying value. Meanwhile, the European Parliament agreed that the tax policy was part of the corporate social responsibility of a company. But what does this mean? To what extent is transparency necessary? How do we bring back the trust in some of these companies? How to deal with the ethical element in this discussion? What is a fair tax, and how do we deal with these requirements in a rapidly changing and uncertain environment? To what extent do companies have to take the opinions and interests of various stakeholder groups into account?

This publication cannot supply an answer to all of these questions, but makes a first attempt to structuring the discussion and start a dialogue. After depicting the changing legal and societal environment, a number of tax governance principles are being suggested. The exact level of implementation will vary per company, and should be the result of a discussion with all stakeholders. It is a prerequisite that the responsibility for the policy, the quality of the implementation and the level of reporting should be in the hands of the board, not merely in the hands of the fiscal experts.

This publication looks at the issue of responsible tax from various angles; due to the rather unusual cooperation between NGOs, investors, and the consulting industry. We hope that others will join this cooperation.

We want to thank PwC for their extensive input and support during this process and ICCO for their financial support. As this is but a first step in a long process, we are looking forward to hear the feedback of all stakeholders, one of them being you, the reader. We will certainly appreciate all your comments and suggestions.

Gerhard van der Schuur *Executive Director Oikos*

Giuseppe van der Helm *Executive Director VBDO*

Executive summary

The way of doing business is in transition. A shift in the importance of natural and social capital has led to a new perspective on the role of stakeholders. Companies are engaged in a dialogue with multiple stakeholders to define what corporate social responsibility means for their business.

In this publication we address the topic of 'tax'. Tax is often regarded as an obligatory burden for a company's profits. Yet, this perspective does not seem to help restoring trust with stakeholders. In the era of transparency companies are a visible part of society, and as such have a responsibility to contribute to it. Therefore, we think that defining a responsible tax strategy is part of corporate social responsibility. We hope to contribute to a balanced debate on what good tax governance means for companies.

In our study we found that some companies already make efforts in their reporting on tax. A general cohesive approach on good tax governance from a strategic, risk management and CSR perspective is still lacking. CSR is about creating shared value. If tax is part of CSR it should also be seen as an instrument to create shared value and not just as a cost. We believe that the discussion about good tax governance is one that should benefit all and could also help as a yardstick for acting in an ever more transparent fiscal world. With understanding each stakeholder position we hope to help to create a common language on what good tax governance could be and to create more understanding between multinational operating companies, tax administrations, advisors and the public. We therefore 'crafted' six principle-based guidelines on what we think good tax governance could be.

1. Companies should define and communicate a clear strategy on Tax governance
2. Tax must be aligned with the business and it is not a profit centre by itself
3. Respect the spirit of the law. Tax compliant behaviour is the norm
4. Know and manage tax risks
5. Monitor and test tax controls
6. Provide tax assurance

Tax as CSR deserves serious boardroom and government attention. We hope this publication will stimulate that objective.

1 Introduction

Nowadays sustainability and corporate social responsibility (CSR) have become important issues for almost every business. Most listed companies make an effort to define a CSR policy; they have a sustainability department and sustainability is part of the criteria for remuneration of board members. Some CSR themes, such as environmental measurement and management, have been developed and operationalized in an advanced stage. Others, however, are slowly emerging on the CSR agenda. Tax is one of them.

Over the last years, tax policy and tax avoidance schemes have drawn the attention of media and politics, often resulting in negative publicity and harmed reputations.

In *Good Tax Governance In Transition: Transcending the tax debate to CSR*, we will try to open the debate on how tax could be regarded as part of a company's corporate social responsibility strategy.

Approaches to corporate tax policy have traditionally been very practical and operational. In order to develop good tax governance today, we feel that more than just operational excellence should be taken into account. A clear vision on tax (e.g. why do we pay it at all?) and ethics are important indeed.

By means of this publication we intend to give a positive twist to a subject that has turned into a match between those who are guided by ethical principles alone and those who cling to the letter of the law in order to justify their tax behaviour.

In chapter two we will explain the relevance of tax as integrated part of a company's CSR policy. In the following chapter we will describe the current status of tax as part of corporate responsibility. We will analyse current policies of Dutch companies, and give some examples of relevant practices. Chapter four will focus on integrated reporting and tax. We point out that we need to change our perspective on reporting and the language we use in our reports. In the final chapter we provide a concept of guiding principles for good tax governance and a holistic approach on tax to facilitate the discussion. Following these principles we will end with some food for thought and describe dilemmas companies and competent authorities face.

Tax is hardly ever part of the core business of a company. Usually tax reporting is assigned to (in- and external-) tax experts and left outside the boardroom. However, with recent attention of the press regarding tax issues and the many transparency- and anti-avoidance initiatives³, we are convinced that tax should be part of the corporate responsibility strategy of companies and should as such be integrated throughout the business. That is the reason why we joined forces in writing this publication, as we hope for a wide audience.

³ For example Base Erosion and Profit Shifting (BEPS) initiated by the OECD or Country by Country Reporting in the European Union.

2 Importance of corporate social responsibility on tax

2.1 "Tax is where the environment was 10 years ago"

In 2004 it was Jeffrey Owens, former director, Centre for Tax Policy and Administration at the OECD, who said: "tax is where the environment was 10 years ago"². Ten years later there is little concrete news to report. This statement still provides an important perspective on today's debate on tax and corporate social responsibility. It leads to the question what we can learn about good tax governance if we take a good look at how organizations have dealt with the pressure of stakeholders concerning their environmental and social impacts. When it comes to classic CSR themes, we see that many companies tend to invest more in reducing their environmental or social footprint than the international law prescribes. How different was Friedman's view on CSR in 1970: "There is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game."³ This vision no longer applies to most activities businesses engage in. For instance leading companies in the Dutch textile industry have signed a voluntary agreement to invest in human rights in their supply chain, reaching out to e.g. Bangladesh to reduce negative social impacts (such as the Rana Plaza Disaster in Bangladesh). If human rights and environment have emerged on the corporate social responsibility agenda, then why should this not be the case for tax?

2.2 Why we pay taxes

Although citizens and businesses consider taxes alike as a cost, Arjo van Eljdsen (Partner at E&Y) points out that: "tax is a distribution of profits. That puts tax in the same category as dividend - a return to stakeholders in the enterprise. This reflects the fact that companies do not make profit merely by using investor's capital, they also use the societies in which they operate, whether that is the physical structure, the people the state has educated or the legal infrastructure."⁴ In his critically acclaimed book 'A Theory of Justice' John

² Financial Times (2004) "The tax avoidance story as a morality tale" November 22, 2004.

³ Friedman, M. (1970) New York Times Magazine, September 1970.

⁴ Eljdsen, A. van (2013) "The Relationship between Corporate Social Responsibilities and Tax: Unknown and unexplored", EC Tax Review, 2013-1.

Rawls describes societies as a cooperative venture for mutual advantage whose commitments demand reciprocity.¹¹ In broad terms, a tax payment should therefore not be seen as costs that need to be avoided, but as a legitimate payment from wealth created to communities that contributed to the wealth creation in the first place.¹²

An issue that has been addressed by NGOs is the negative impact aggressive tax avoidance can have on societies, especially in developing countries. In 2010 Global Financial Integrity calculated that between 2002 and 2007 developing countries lost around 107 billion dollars in tax revenue, due to transfer mispricing.¹³ On the one hand, developing countries struggle to receive tax revenue in order to increase the national budget, while on the other hand, they aim to attract investments. We observe that the outflow of capital in developing countries exceeds the inflow of capital, with the largest outflow of capital being an illicit one.¹⁴ As Norad, a Norwegian NGO puts it: "the African continent is rich in natural resources and many countries in Africa are experiencing healthy economic growth. Nonetheless little of this growth is benefiting the poor. Due to tax exemptions and evasion, the tax contribution of many companies and individuals is close to negligible. This means that entire societies lose out on vast revenues which could have been used in areas such as infrastructure, education and health care."¹⁵

As the UK Co-operative Bank states: "One of the most effective ways that businesses can contribute to poverty reduction is to pay income tax in developing countries."¹⁶ Several studies have shown that there is a positive correlation between tax and development.^{17, 18} Not only will revenues increase, taxation will also lead to redistribution and it supports the implicit social contract and legitimacy of the state, that way creating more stability.¹⁹

But also in the rest of the world, while being faced with austerity cuts, the general public has become highly critical of companies that employ aggressive tax avoidance tactics and by doing so shift the fiscal burden to the rest of society.²⁰ The *Eurobarometer* survey ascertained that 89% of the general public in Europe wants stricter regulation against tax

¹¹ Rawls, J. (1971) "A Theory of Justice"

¹² Sustainabilitycs (2013) "It's Time to Call for More Responsibility: Multinational Corporations and Tax Transparency: A Guide for Responsible Investors"

¹³ Global Financial Integrity (2010) "The implied tax revenue losses from trade mispricing" p.14

¹⁴ Baker, RW (2005) "Capitalism's Achilles Heel"

¹⁵ Norad (2013) www.norad.no/en

¹⁶ Goodspeed, J., Martínez-Vázquez, J., & Zhang, L. (2011) "Public Policies and FDI Location: Differences between Developing and Developed Countries" *FinanzArchiv: Public Finance Analysis*, 67(2), 171-191

¹⁷ James, S. (2009) "Incentives and Investments: Evidence and Policy Implications" Washington, DC: World Bank

¹⁸ Coghlan, A. (2005b) "Taxation policy and development" *Economy Analysis No. 2*

¹⁹ SOMO (2013) "Avoiding tax in Times of Austerity: Energias de Portugal (EDP) and the Role of the Netherlands in Tax Avoidance in Europe"

avoidance.¹⁴ Andrew Witty, CEO of GlaxoSmithKline made the following observation: *"I really believe one of the reasons we've seen an erosion of trust, broadly, in big companies is they've allowed themselves to be seen as being detached from society and they will float in and out of societies according to what the tax regime is. I think that's completely wrong"*¹⁵. Public frustration over the fair share debate has showcased tax as a moral phenomenon.

A purely legal technical approach to the issue will not protect companies from charges of irresponsibility and associated reputational damage and eroding brand value.¹⁶

2.3 "The thickness of a prison wall"

Broadly speaking CSR can be considered as a corporate's impact on society. ActionAid¹⁷ shows in their 2011 report on Tax Responsibility that a definition of corporate responsibility needs to be drawn more widely than "moral" considerations only, and includes both:

- *the consideration of a business's impact on society and the environment, beyond its obligation to comply with the letter of the law;*
- *the consideration of the potential impact of environmental and social issues on a business's long-term performance;*

CSR therefore also means a socially responsible view on law. Tax practitioners and corporations often point out that tax evasion is illegal while tax optimization is legal and compliant with the law. However, in practice, the boundary between tax evasion and tax avoidance is up for interpretation and the difference, as it has been famously said, is the "thickness of a prison wall".¹⁸ Because of this grey area of law, actual behaviour becomes a factor of importance when making decisions on tax planning schemes. Sustainalytics identified a spectrum of tax behaviour ranging from evasion to mitigation.¹⁹ Besides the contrast between legal and illegal, we should make a difference between responsible and irresponsible tax planning.

¹⁴ The Europarameter is published on <http://ec.europa.eu>

¹⁵ The Guardian (2011) "Andrew Witty of GSK: Big firms have allowed themselves to be seen as detached from society" March 20th 2011

¹⁶ ChristianAid (2011) "Tax and sustainability: A framework for businesses and socially responsible investors" p3

¹⁷ ActionAid (2011) "Tax responsibility: The business case for making tax a corporate responsibility issue" p1

¹⁸ Denis Healey, former UK Chancellor of the Exchequer, as quoted in Elliffe, C. (2011) "The Thickness of a Prison Wall - When Does Tax Avoidance Become a Criminal Offence?" New Zealand Business Law Quarterly, Vol. 17, no. 4, pp. 441-466, December 2011

¹⁹ Sustainalytics (2013) "It's Time to Call for More Responsibility: Multinational Corporations and Tax Transparency: A Guide for Responsible Investors"

2.4 Political developments

The above paragraph illustrates that law alone cannot bring business and society back together. However, a number of political declarations were made and (non-) legislative actions were taken to close the gaps in the international tax system. At a global level the current BEPS action plan at the OECD is the most important process. The core pillars of this action plan are the coherence of corporate tax at an international level, realignment of taxation, and substance and transparency, coupled with certainty and predictability. To put it concretely, this will include model treaty provisions concerning the substance of companies that want to use treaty benefits, a proposal for country-by-country reporting and transfer pricing guidelines.

Furthermore, in February 2014 the OECD proposed its action plan for automatic information exchange, which focuses on transparency between tax authorities and will replace the current system of information on request. An initiative by the OECD, Tax Inspectors without Borders, supports developing nations to close tax loopholes and improve the effectiveness of their tax regimes.

Within the EU a number of proposals have been introduced. After stricter transparency regulations have been adopted for the extractive and logging industry²⁰ and the banking sector²¹, the European Commission is keen on introducing country-by-country reporting for all sectors. The Mother-Subsidiary Directive is momentarily also up for revision, with a proposal including national anti-abuse clauses and an initiative to tackle hybrid loans.

2.5 'Shared value'

What is clearly illustrated in the fair tax debate is that the number of key stakeholders has grown rapidly. The tax inspector is no longer the only key stakeholder, as almost every citizen in the country seems to be part of a growing group of stakeholders. This has incited companies to redefine the purpose of their corporation and to learn how to legitimize their business again. As Michael Porter and Mark Kramer wrote in 2011: *"Companies must take the lead in bringing business and society back together. The solution lies in the principle of creating shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. The purpose of the corporation*

²⁰ The European Transparency Directive and the Accounting Directive

²¹ The Capital Requirements Directive

*must be redefined as creating shared value, not just profit per se. This will drive the next wave of innovation and productivity growth...*²² These citations from Porter's article seem to be a valuable contribution to the fair tax debate. Porter implicitly argues that companies can create economic value by addressing the existing frustrations in society around fair tax. As tax is a shared value and shared value is the core business of CSR, tax planning can no longer be considered to be outside the scope of the CSR agenda.

²² Porter, M. and Kramer M. (2011), "Creating Shared Value", Harvard Business Review, January/February 2011.

3. Current status of reporting on tax

To gain a general understanding of the current status of how companies report on tax regarding the above issues, we have looked into publicly available information provided by various listed companies in the Netherlands.

3.1 Tax strategy

Tax strategy and corporate reputation are more and more seen as a business issue¹⁹. For this reason, we were interested to find out if and to what extent companies report their tax strategy. VBDO has done research on whether companies have communicated their tax strategy for financial year 2012²⁰. Sixty-nine companies were included in their review. Of these companies, seven have published their tax strategy in their annual report and/ or on the corporate website. Four companies have mentioned their tax policy briefly in the risk paragraph. In total, 16% of the companies included in the review communicate their tax strategy. However, the thoroughness in which they communicate their tax strategy is arguable. Although tax is gaining an interest among different stakeholders, the number of companies actually communicating their tax strategy seems quite low.

3.2 Tax as a CSR issue in company reporting

Of the sixty-nine companies included in the VBDO review²¹, only four (6%) companies specify tax as a CSR issue. Looking at the extensive debate on tax we have witnessed during recent years, this number indicates that this discussion not yet reflects a real change in the mind-set of companies when it comes to tax. Of the four companies that regard tax as an aspect of CSR, three do this on a fairly high-level by acknowledging that paying taxes contributes to the development of countries. Unilever has a more extensive approach and is thus mentioned by VBDO as a best practice example for linking tax policy to CSR.

3.3 Tax risk management

As tax is an inextricable part of doing business, it is interesting to see whether or not companies include tax in their broader risk management approach. We have reviewed

¹⁹ PwC (2013) "Tax Strategy and Corporate reputation: a business issue", 16th annual Global CSR Survey.

²⁰ VBDO (2013) "Duurzaamheid bij beursgenoteerde bedrijven in de verspreiding: Rapportage aandeelhoudersvergaderingen 2013" For more detailed information on the data included, we refer to this report. We note that VBDO has added some companies to their dataset after publication date.

²¹ Idem.

the financial year 2012 of the 25 companies listed on the Dutch AEX index with respect to their reporting on tax risks and tax risk management.

In total, eight companies have not included any tax related risks. Nine companies mentioned tax risks, but in a general manner and mostly as an enumeration of items. Of the reviewed companies, eight have included a (company) specific tax risk for which some have included risk mitigating factors.

The risk associated with corporate responsibility in relation to tax can be broadly summarized in three categories²⁵:

1. **Reputational risk;** we have found several companies specifically articulating the risks resulting from non-compliance with local tax legislation. In some cases, risk mitigating factors are included, like consulting external tax advisors and having a Tax Control Framework.
2. **Regime or regulatory risk;** several companies mention that operating globally means they are subject to taxation in many different countries and that tax laws in those countries can be amended or differently interpreted. Several companies mention that changing tax legislation (rising taxes) could have an adverse effect on the companies' performance. Some companies also report the risk of double taxation and risks relating to transfer pricing.
3. **Financial or investor risk;** in this category we have found companies reporting on tax accounting risks relating to the inability to utilise deferred tax assets and/or relating to the value of loss carried forward.

3.4 Taxes paid, country by country reporting

Of the 66 companies (three companies only have activities in the Netherlands) included in the VBDO survey²⁷, only 8% reports some sort of country-by-country information on tax. Or, as VBDO states, it can be argued that almost no company seriously and completely reports tax on a country-by-country basis. Only one company (Corio) shows a complete division of tax paid per country. Four other companies give some insight on a regional or country-level of taxes paid, but it is still unclear whether it is validated with their stakeholders.

²⁵ ActionAid (2013) "Tax responsibility, An investor Guide"

²⁷ VBDO (2013) "Duurzaamheid bij beursgenoteerde bedrijven in de versnelling: Rapportage aandeelhoudersvergaderingen 2013"

3.5 Tax governance: roles and responsibilities

To gain an understanding of the importance of tax on the corporate agenda, we looked into the roles and responsibilities in organisations with respect to tax. As starting point of this research we reviewed the financial year 2012 annual reports of the AEX-listed companies. When tax governance was not included in the annual report we did a search on the corporate website, especially looking at the Audit Committee Charter.

In general, we classified the companies in three categories:

1. Companies that only incorporate the responsibility of the supervisory board with respect to tax²⁸ in the Audit Committee Charter on their website. Tax governance is not included in the annual report. Seven of the companies included in our review fall with this category.
2. Companies that have included tax in an enumeration of items the audit committee supervised on. No additional information on tax roles and responsibilities is provided in the annual report. Fifteen companies in our review fall within this category.
3. Companies that included a more detailed list of tax items the supervisory board looked at, or companies that included tax in the company overview and/ or roles and responsibilities of a member of the Executive Board. In our review, we found three companies that provide more information on tax roles and responsibilities.

Overall impression

We see some companies making an effort in their reporting on tax. Still, a real cohesive approach for tax from a strategic, risk management and CSR perspective is lacking. Developments like BEPS and country-by-country reporting will require companies to develop a broader view on tax transparency to enable them to articulate the story behind the numbers. Or, as a PwC UK study on tax transparency states: *"Tax reporting that is limited to historical corporate income tax numbers is unlikely to be enough."*²⁹

²⁸ Paragraph III.5.4, Dutch Corporate Governance Code.

²⁹ PwC (2013) *"Tax Transparency Building Public Trust, How companies are explaining their tax affairs"*

4 A new business language for the 21st century

4.1 Why do we need a new business language?

As we have set out in the chapters above, companies started to change their perspective on their corporate responsibility. This has led to global multi-stakeholder initiatives, which still continues under the heading of integrated reporting as a first step towards a new common business language.

Why did this initiative gain such momentum in 2011? Referring to interviews with eighteen opinion leaders within the Dutch financial system about their perspective on the future of reporting²⁰, not one opinion leader opposed integrated reporting. Yes, the world has changed and reporting must change too. Board members and other decision makers are still confronted with complex issues, such as biodiversity, human rights, climate change, obesities, and other mega trends. And on top of all that, fair tax and good tax governance. How can you explain your performance with regard to such complex issues to your stakeholders? This shows the need for a *new common language*, which enables decision makers to make better informed decisions related to all those complex issues and to communicate them to the diversified group of stakeholders.

4.2 Measuring and managing total impact:

A new common language for business/tax decisions

We have argued that tax impact not only deserves just as much attention as economic, environmental and social impact, but also with the same rigour as these topics and using the same business language. We have found no literature which tries to explain a new business language which parallels the people, planet and profit impact with tax impact. And why should we not try to benefit from the lessons learnt in those other domains? The tax domain is a world which requires more than tax specialists in order to look at tax impact in an integrated manner. The following diagrams provide insight into this notion:

²⁰ Boelofs, E. and Laan, R. van der (2013) "Voorkauwen of voeg houden" Euron, 2013

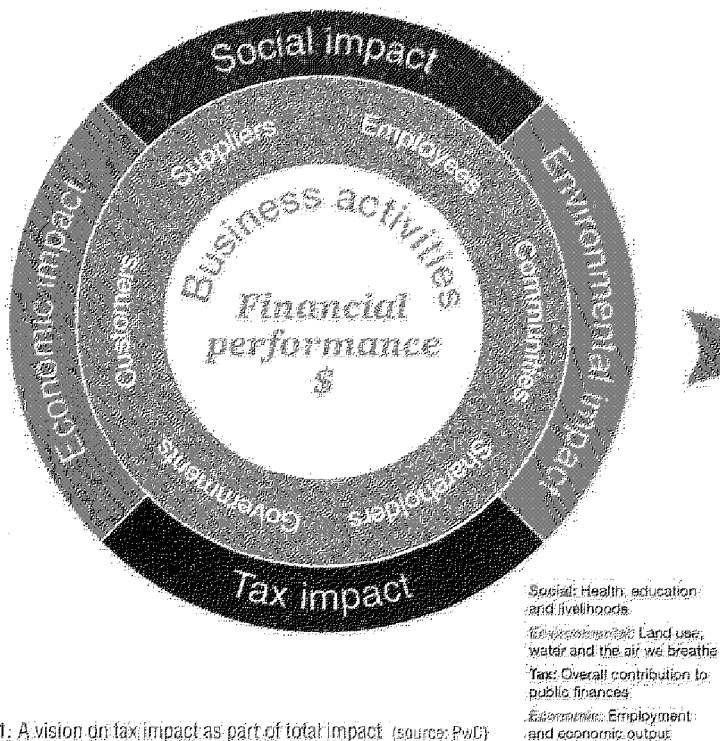


Figure 1: A vision on tax impact as part of total impact (source: PwC)

As Mervyn King, the world's most famous advocate of integrated reporting, stated: *"... the world's iconic companies have realized that the impacts of their activities on their stakeholders and generally on society, the environment and the economy, are critical... integrated thinking requires all these [complex] factors to be considered in a holistic manner, so that the company can understand, and make decisions based on the overall impact it has on all its stakeholders. Total impact measurement and management is a new language to assist companies in understanding the overall impact of their activities... and to assist them in moving towards integrated reporting."*³¹

³¹ PwC (2013), "Measuring and managing total impact: A new language for business decisions" www.pwc.nl/integratedreporting

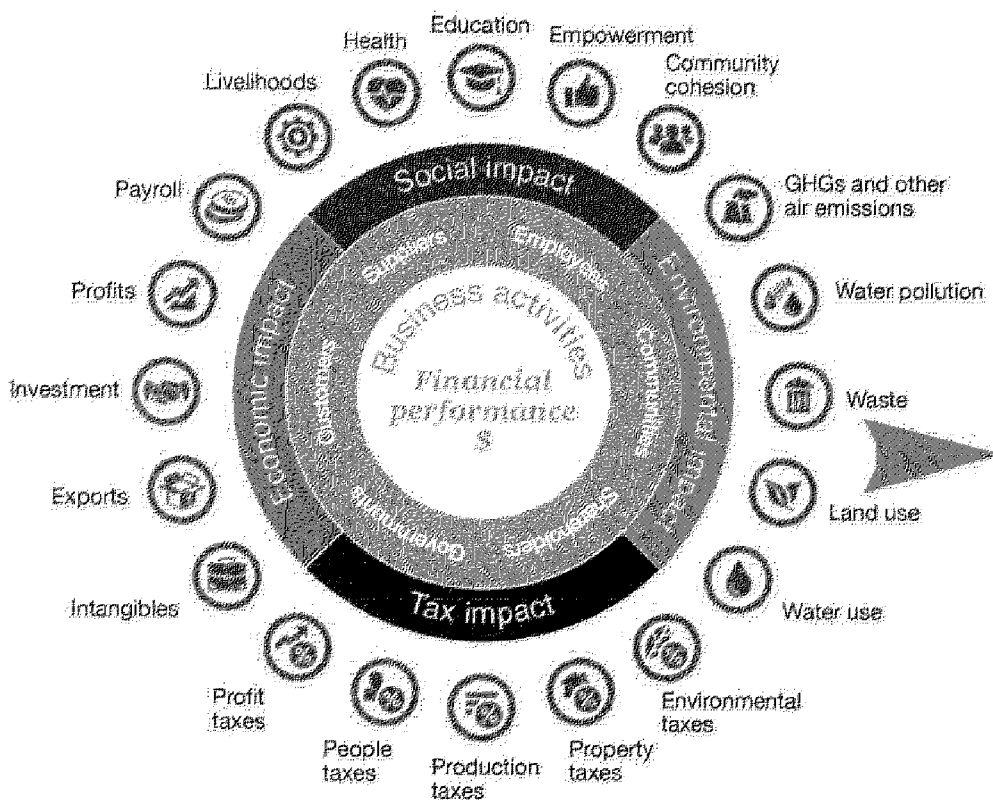


Figure 2. Total Impact diagram with concrete examples. (source: PwC)

Three fundamental concepts are at stake here: materiality analysis, value creation and measuring impact. These three concepts have been fully embedded in the (integrated and sustainability) reporting guidelines that have been launched in 2013¹⁸. Based upon our experience on how companies follow the roadmap towards integrated reporting, we could also depict the roadmap towards good tax governance:

¹⁸ The international GRI framework, 2013, www.thegri.org; G4 Sustainability Reporting Guidelines, www.globalreporting.org, 2013.

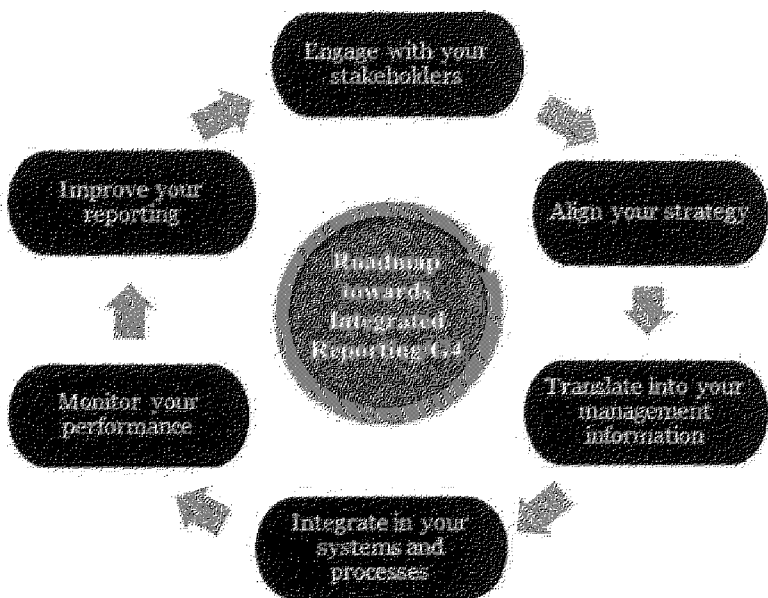


Figure 3. The continuous learning cycle towards good tax governance, step-by-step and focusing on material aspects. (source: PwC)

What will we learn from following this learning cycle? We do not yet know how we can develop a new common business language from this learning cycle. Yet, working along this learning curve will result in developing that new common business language. In connection with this we refer to the Barley Case in appendix 1¹⁷.

It is beyond the scope of this report to further explore the new language for the 21st century in order to explain the complex tax impact. However, we believe that by continuously going through the learning cycle, new principles for good tax governance will emerge. In the next chapter we will further examine this subject.

¹⁷ PwC (2013) "Measuring and managing total impact: A new language for business decisions" www.pwc.nl/integratedreporting