

WINFID 28-9-2017

What we stand for

Tax code of
conduct for
the global PwC
network

pwc

All of our people have an obligation to abide by our global code of conduct, applying to all member firms of the PwC¹ network.

<http://www.pwc.co.uk/who-we-are/code-of-conduct.jhtml>

This is constructed in the context of our Global Purpose Statement - 'To build trust in society and solve important problems'.

In addition to that, we have a Global Tax Code of Conduct setting clear principles to assist our people in the judgements they make in advising clients on tax matters.

Global Tax Code of Conduct

Governments enact laws and enter into treaties with other nations so as to determine how companies and other taxpayers should be taxed. These laws are then interpreted by taxpayers, taxing authorities and, ultimately on occasion, by the courts.

It is a general principle that taxpayers have a right to manage their tax affairs provided they act within the law. Equally they should also be able to access independent advice on their tax position. However, the global nature of the business world together with the complexity and competing priorities of national laws - including tax competition amongst nations - is such that it is not always clear where lines should be drawn. In order to assist with this, the member firms of the PwC Network act according to the following Global Tax Code of Conduct.

What PwC firms do

The main business of the tax practices of PwC firms is to support their clients, where so engaged, to:

- understand and comply with their legal and regulatory obligations for taxation;
- plan their affairs so as to be tax efficient in the business or other financial decisions they make;
- understand the tax risks they face and the effectiveness of their organisation's internal controls relating to tax; and
- resolve tax disputes through domestic law and/or treaty-based dispute resolution mechanisms.

Who PwC firms act for

PwC firms work with clients that demonstrate high standards of legitimacy and integrity in their business and financial activities. Before accepting clients, and in continuing to work with existing clients, PwC firms satisfy themselves that the client intends to comply with their legal and regulatory obligations in relation to taxation. In this regard we pay particular attention to the following:

- the reputation of the client and the conduct of its/their activities;
- understanding who is behind the client in terms of control, influence and the legitimacy of any financial interests or funding;
- the integrity and reliability of management/individuals including their responses following situations in which actions may have fallen below the appropriate standards;
- relevant ethical, professional and regulatory requirements; and
- other relationships and potential conflicts of interest.

¹ PwC is a global organisation and individuals responsible for its actions are working for the network of firms in 152 countries and more than 200,000 people who are committed to delivering quality in assurance, tax and advisory services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

PwC refers to the PwC network globally in terms of its member firms. Each is an owned & separate legal entity. Please see www.pwc.com/structure for further details.

Contacts

Rick Stamm

Vice Chairman, Global Tax

Tel: +1 646 471 1035

Email: rick.s Stamm@us.pwc.com

Stef van Weeghel

Leader, Global Tax Policy & Administration Network

Tel: +31 (0)84 792 6763

Email: stef.vanWeeghel@nl.pwc.com

Mary Manfries

Global Tax Reputation Leader

Tel: +44 (0)20 7212 7927

Email: mary.manfries@uk.pwc.com

www.pwc.com/tax

This publication has been prepared for general guidance of readers of international and does not constitute professional advice. You should not rely on the information contained in this publication without obtaining specific professional advice. No responsibility is taken by PwC for any loss or damage caused by the use of the information contained in this publication, and no liability is accepted by PwC for any loss or damage caused by the use of the information contained in this publication. You should seek the advice of a qualified professional before acting on any information contained in this publication. PwC is not responsible for any loss or damage caused by the use of the information contained in this publication.

© 2017 PwC. All rights reserved. PwC refers to the U.S. network member or one of its member firms, each of which is a separate legal entity. Please see www.pwc.com/membership for further details.

Design Services 2017 PwC

8F11 28-9-2017

How PwC firms act

PwC firms:

- act in accordance with the law and with regulatory requirements;
 - advise on the basis of proper disclosure as required by those laws or requirements;
 - follow applicable technical standards; and
 - comply with professional standards of integrity and objectivity.
- d. Tax advice involves discussion of the wider considerations involved, as appropriate in the circumstances, including economic, commercial and reputational risks and consequences arising from the way stakeholders might view a particular course of action.
 - e. PwC firms advise clients of appropriate options available to them under the law having regard to all of the principles contained in this code.

Principles PwC firms apply

- a. Tax advice which results in positions taken in a client's tax return must be supported by a credible basis in tax law.
- b. No tax advice relies for its effectiveness on any tax authority having less than the relevant facts. Advice that a PwC firm gives includes consideration of, and is based on the assumption that the client will make relevant disclosures that both comply with the law and enable tax authorities to make further enquiries should they wish to do so.
- c. Tax advice is given in the context of the specific facts and circumstances as provided by the client concerned and is appropriate to those facts and circumstances.

We expect all of our people to apply these principles to the way they work, and we encourage them to consult whenever they are in doubt.

Originally issued 2005 and most recently updated as of 1 July 2015.

We expect all of our people to apply these principles to the way they work, and we encourage them to consult whenever they are in doubt.



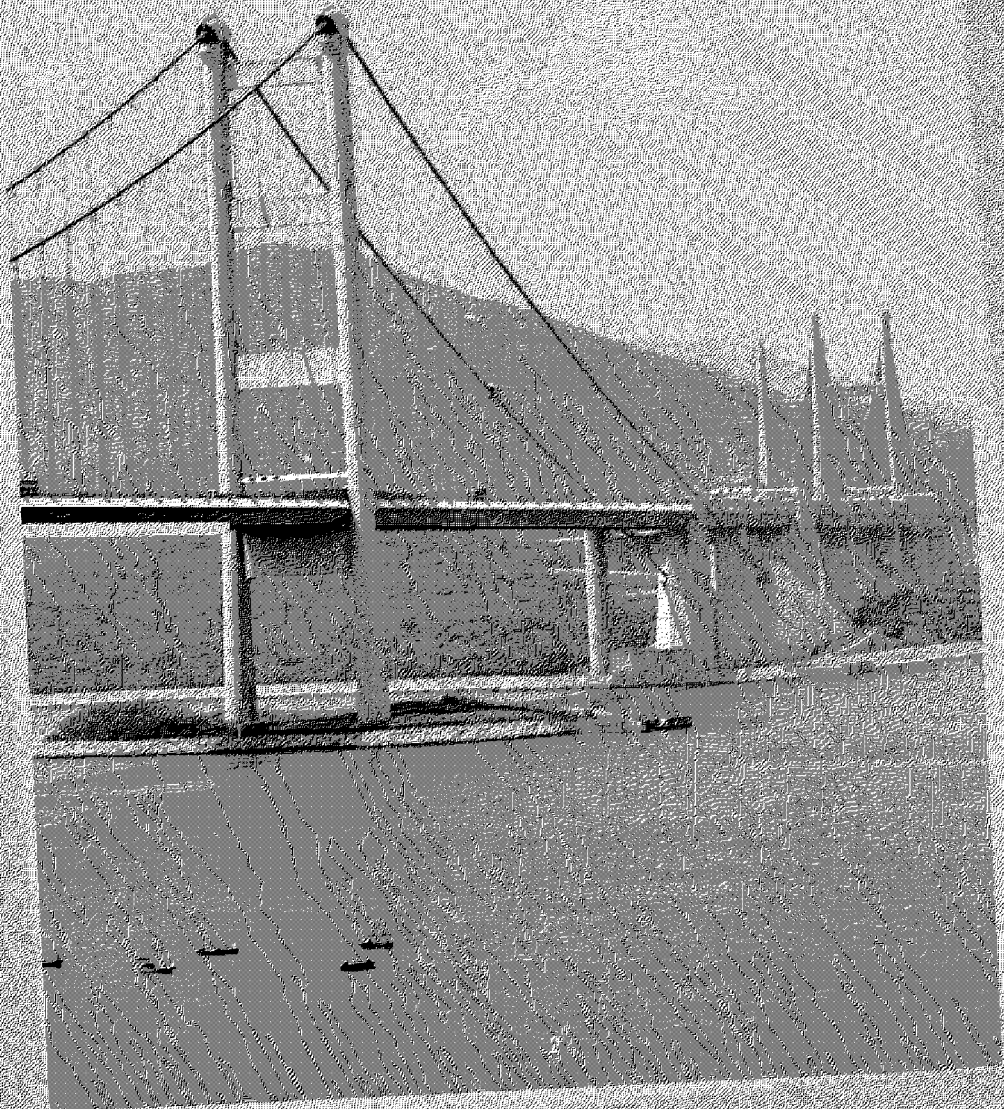
WAX

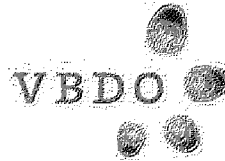
A comparative study of 68 Dutch listed companies

TRANSPARENCY BENCHMARK 2016



THE UNIVERSITY OF CHICAGO PRESS





Tax Transparency Benchmark 2016

A comparative study of 68 Dutch listed companies

Authors:

Hedy Verstappen (VBDO), Marië van den Akker and Leonie Kainp (PwC)

Input and support:

Vicky van Herck, Frank Wagenvoort (VBDO), Edco van der Enden, Dave Reutzaert
and Manon van Aarts (PwC)

For information:

Please contact Sijt Simons, PR and Communications VBDO 10.2.e@vbdo.nl

Dutch Association of Investors for Sustainable Development (VBDO)
Utrecht, the Netherlands

October 2016

This report has been made possible thanks to the contribution of:

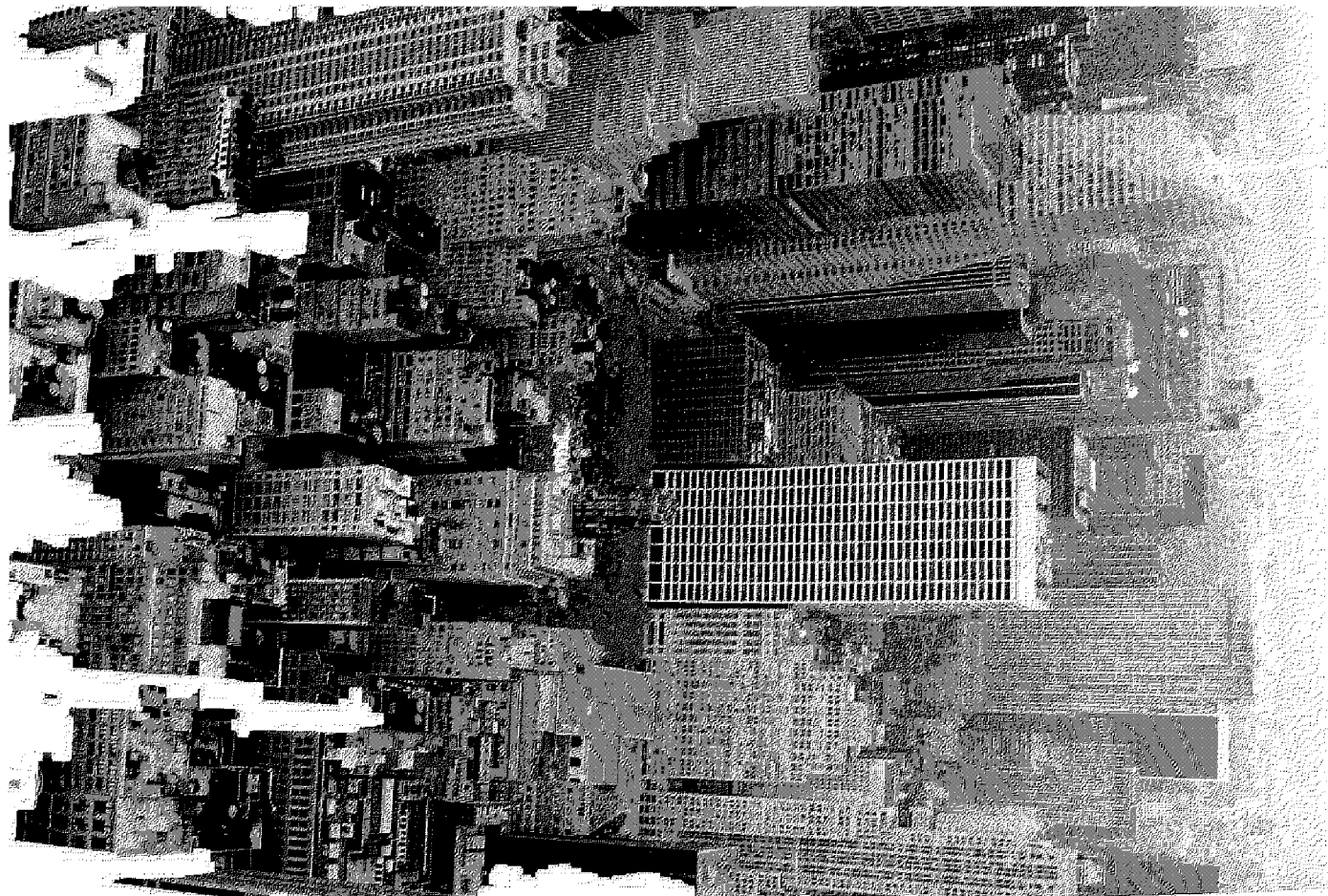
PwC the Netherlands



This publication was exclusively prepared as a general guideline for relevant issues and should not be interpreted as professional advice. You should not act on the basis of the information contained in this publication without obtaining further professional advice. No explicit or implicit statement is made or guarantee offered in respect of the correctness or completeness of the information contained in this publication and, insofar as permitted by law, PricewaterhouseCoopers Belastingadviseurs N.V. and the Dutch Association of Investors for Sustainable Development (VBDO), its employees and representatives accept no liability whatsoever for the consequences of any action or omission made by yourself or any other person on the basis of the information contained in this publication or for any decision based on that information.

© 2016 PricewaterhouseCoopers Belastingadviseurs N.V. (KvK 34190284) and VBDO (KvK 40530960). All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

The contents, conclusions and recommendations of the report are the sole responsibility of the VBDO.



Contents

Preface	6
Executive Summary	10
1) Introduction	14
2) Motivations for tax transparency	18
3) International developments on good tax governance	22
4) Methodology	32
5) Results	36
6) Recommendations	57
References	59
Appendix A: Jury report 2016	62
Appendix B: Methodology in detail	64

Preface



Angélique Laskewitz
Executive Director VBDU

Fuelled by revelations such as the Panama Papers and investigations by the European Commission, the issue of 'tax behaviour' has taken center stage in the global public debate. Both multinational companies and governments find themselves increasingly under scrutiny, and in some cases even criticism, for pursuing tax policies and behaviour that are beneficial to either or both but all too often come at the expense of other stakeholders.

There is an increasing awareness of the adverse effects of such aggressive tax strategies, including a substantial reduction in global tax revenues originating from multinational companies, as well as uneven, and what many see as unfair and unsustainable, patterns of distribution of these revenues.

When companies do not pay their taxes where they actually add value to economies, it becomes increasingly difficult to sustain the favourable environments which attracted them to do business there in the first place. Furthermore, the growing public perception that multinational companies are allowed to determine where and how much taxes they pay, threatens to undermine the credibility of both the tax system and the principle of fair competition. In short, it looks like the debate about 'good tax governance' and 'paying your fair share in taxes' is here to stay.

The Tax Transparency Benchmark aims to contribute to this debate by presenting a clear picture of the state of socially responsible tax governance by multinational companies listed in the Netherlands. As a general trend it can be concluded that the companies in scope are becoming increasingly transparent on tax. Nevertheless, still more than one third of the examined companies ranks in the lowest transparency bracket, demonstrating that a lot of work remains to be done.

From a strategic perspective, multinational companies need to see taxes not merely as a 'technical' matter but as part of the wider business picture, more specifically, as part of the role they have to play as corporate citizens. Not only because the growing public outcry indicates that tax behaviour has emerged as a serious reputational risk - 'if a company is not transparent about its taxes, it must have something to hide' - but also because creating shared value for both company and society is the only sustainable way to do business.

By including tax behaviour in corporate social responsibility strategies and being transparent about profits and tax remittances, multinational companies can demonstrate their commitment to fair distribution of tax revenue in the global economy. Fair distribution of tax revenues is a key factor in fostering the business climate and economic growth that both multinational companies and societies need to thrive.

Transparency is the first requirement for an informed and constructive dialogue on fair taxation by multinational companies. I trust this second edition of VBDO's Tax Transparency Benchmark will make a meaningful contribution to meeting that requirement.

Angélique Laskewitz
Executive Director VBDO

Tax Transparency Benchmark 2016

Overall ranking

Rank	Company	Listing	Ops	Score Benchmark 2015	Score Benchmark 2016 (max 30 points)
1	DSM	AEX		21	28
2	Unilever	AEX		22	25
3	Shell	AEX		20	23
4	Randstad	AEX		17	22
5	Aegon	AEX		14	21
6	ING Group	AEX		19	20
6	KPN	AEX		22	20
6	NN Group	AEX		3	20
6	Rabobank	NA		18	20
6	Vastned	AMX		7	20
7	ABN Amro	AEX		NA	19
7	BinckBank	Other		5	19
7	Heineken	AEX		18	19
7	Kendrion	Other		18	19
8	Ahold Delhaize	AEX		11	18
8	Philips	AEX		18	18
9	ASM International	AMX		5	17
9	BAM Group	AMX		14	17
9	Brunel	Other		12	17
9	Corbion	AMX		6	17
9	Delta Lloyd Group	AMX		10	17
9	PostNL	AMX		6	17
10	Flow Traders	AMX		NA	16
10	Telegraaf Media Group	Other		3	16
10	Van Lanschot	Other		16	16
10	Wessanen	Other		16	16
11	Arcadis	AMX		14	15
11	ASML	AEX		10	15
11	RELX	AEX		11	15
11	Vopak	AEX		4	15
12	AkzoNobel	AEX		15	14
12	SBM Offshore	AEX		5	14
12	Wolters Kluwer	AEX		10	14
13	Boskalis Westminster	AEX		8	13

Rank	Company	Listing	Ops*	Score Benchmark 2015	Score Benchmark 2016 (max 30 points)
13	KAS Bank	Other		7	13
13	NIBC	Other		NA	13
14	Achmea	Other		NA	11
14	ASR	AMX		NA	11
14	Beter Bed	Other		9	11
14	Fugro	AMX		10	11
14	GrandVision	AMX		NA	11
14	Ordina	Other		4	11
14	Unibail-Rodamco	AEX		NA	11
15	Gemalto	AEX		10	10
15	NSI	Other		9	10
15	OCI Nitrogen	AMX		7	10
16	Aperam	AMX		5	9
16	IMCD	AMX		NA	9
16	Sigro	AMX		7	9
16	Wereldhave	AMX		10	9
17	Acomo	Other		1	8
17	ArcelorMittal	AEX		5	8
17	BE Semiconductor Industries	AMX		7	8
17	Eurocommercial Properties	AMX		3	8
17	TKH Group	AMX		2	8
18	Aalberts Industries	AEX		1	6
18	Heijmans	Other		4	6
18	Holland Colours	Other		2	6
18	Intertrust	AMX		NA	6
19	Altice	AEX		NA	5
20	AMG	Other		6	4
20	TomTom	AMX		NA	4
21	Air France - KLM	AMX		3	3
21	Airbus Group	**		7	3
21	Galapagos	AEX		NA	3
22	WDP	AMX		NA	2
23	Accell Group	Other		2	1
23	Nedap	Other		1	1

Figure 1: Overall ranking of 68 companies on tax transparency

* Company with global operations (ops). A 'global company' is defined as a company that is active in more than 10 countries of which at least 3 non-OECD.

** Not listed in Amsterdam (AEX, AMX, ASX).

Executive Summary

In this report we share the results of the second Tax Transparency Benchmark. The study ranks 68 Dutch multinational companies on the transparency that they provide regarding their responsible tax strategy and its implementation. The methodology of this benchmark is based on the six Good Tax Governance principles, which were published in 2014 by the VBDO and Oikos. (VBDO & Oikos, 2014)

These principles are as follows:

- A. Define and communicate a clear tax strategy
- B. Tax must be aligned with the business and is not a profit centre by itself
- C. Respect the spirit of the law. Tax compliant behaviour is the norm
- D. Know and manage tax risks
- E. Monitor and test tax controls
- F. Provide tax assurance

Key findings include:

- 76% of the companies are transparent on their tax strategy.
- 69% of the companies state that business operations are leading in setting up international structures.
- A 41 percentage point increase – to 65% – of companies reporting on the effective tax rate in a detailed way.
- Country-by-country reporting on corporate income tax increased with 14 percentage point to 25%.
- A 26 percentage point increase – to 29% – of companies explicitly describing their tax risk appetite.
- A 26% point increase – to 54% – of companies who mention tax in the control section of the annual report.
- Companies scored lowest on Principle F – ‘Provide tax assurance’.

An independent jury has named DSM as the winner of the Tax Transparency Award 2016 and acknowledged the improvement of NN-Group, BinckBank and Vastned on the Tax Transparency Benchmark 2016.

Our research has included discussions with multinational companies, governments, NGOs, tax advisory firms and investors. Based on this, we are able to offer the following recommendations:

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.



1. Introduction

Tax is vital to society and by paying taxes companies contribute to society. However, some companies perceive taxes only as a cost. According to the European Commission, these companies use aggressive tax planning strategies to minimise their tax burden. By exploiting loopholes in tax systems and mismatches between national rules, they reduce their tax bill (European Commission, 2016).

This undermines the credibility of the tax system. In general, people want the tax burden to be shared fairly amongst taxpayers. However, this is not the case if some companies and citizens have to carry a disproportionate share of the tax burden. This undermines the ethical and voluntary compliance by all taxpayers. (OECD, 2013). In recent years, there has been a large public outcry regarding companies that use aggressive tax planning strategies. This was fuelled by revelations from Luxleaks in 2014, Swissleaks in 2015 and the Panama Papers and Bahama Papers in 2016. The investigations by the European Commission on illegal state aid to Starbucks, Apple and others are still fresh in our minds.

The Panama Papers

The Panama Papers refer to the exposure of documents from the internal administration of a Panama-based law firm, Mossack Fonseca. This company sets up offshore companies for clients in locations where their assets are lightly taxed (International Consortium of Investigative Journalists, 2016). Not all activities uncovered in the Panama Papers were illegal and even though the journalists who broke the news had a relatively nuanced stance, all companies mentioned in the Panama Papers seemed to be perceived as 'guilty' by the general public.

The Panama Papers resulted in the resignation of the prime minister of Iceland and officials in different countries, indicating that they were beginning investigations into possible malfeasance from money laundering to tax evasion (New York Times, 2016).

Furthermore, companies that evade or avoid taxes can gain a competitive advantage over companies that pay their taxes. It therefore undermines fair competition between businesses (European Commission, 2016).

Finally, aggressive tax strategies reduce government revenues, which are used to provide society with public services. A study commissioned by the European Parliamentary Research Service claimed that the revenue loss amounted to EUR 50 – 70 billion (17 – 23%) of corporate income tax (CIT) revenue in 2013 (European Commission, 2016). According to the OECD/G20 BEPS report, an empirical analysis estimates that the scale of global CIT revenue losses could be between USD 100 and 240 billion annually at 2014 levels (OECD, 2015).

Guiding principles for Good Tax Governance

In 2014, the VBDO and Oikos published a report entitled 'Good Tax Governance in Transition'. The intention of the report was to create awareness of good tax governance. Good tax governance aims to take the interests of all stakeholders into account when drafting and implementing the company's tax strategy, rather than simply minimizing the corporate tax burden by all means within the boundaries of the law. The report provides a set of guiding principles, which were developed with the intention of helping to create a common understanding and language on what good tax governance could be. The good tax governance principles are as follows (VBDO & Oikos, 2014):

- A. Define and communicate a clear tax strategy
- B. Tax must be aligned with the business and is not a profit centre by itself
- C. Respect the spirit of the law. Tax compliant behaviour is the norm
- D. Know and manage tax risks
- E. Monitor and test tax controls
- F. Provide tax assurance

Following the introduction of the Good Tax Governance Principles, the VBDO published the first edition of the Tax Transparency Benchmark in collaboration with PwC in 2015 (VBDO, 2015). The aim was to benchmark 64 Dutch listed companies on their level of transparency on tax, based on the publicly available documentation of 2014. The methodology was based on the six guiding principles for good tax governance. For the overall ranking of the Tax Transparency Benchmark 2015, refer to the overall ranking on page 8.

VBOO asks questions on tax transparency to stock-listed companies

Each year the VBOO attends the Annual General Meeting (AGM) of the largest Dutch companies. Good tax governance and tax transparency have been one of the three focus themes in the period 2013 - 2016. The VBOO asks companies whether they are willing to adopt the good tax governance principles.

The impact of addressing this theme for the fourth year is high: 29 out of 37 analysed companies (78%) have a responsible tax policy in place to which they comply, going beyond national and international regulations. If exactly the same companies are compared to those of last year, this percentage increases to 90%, compared to a mere 13% in 2013.

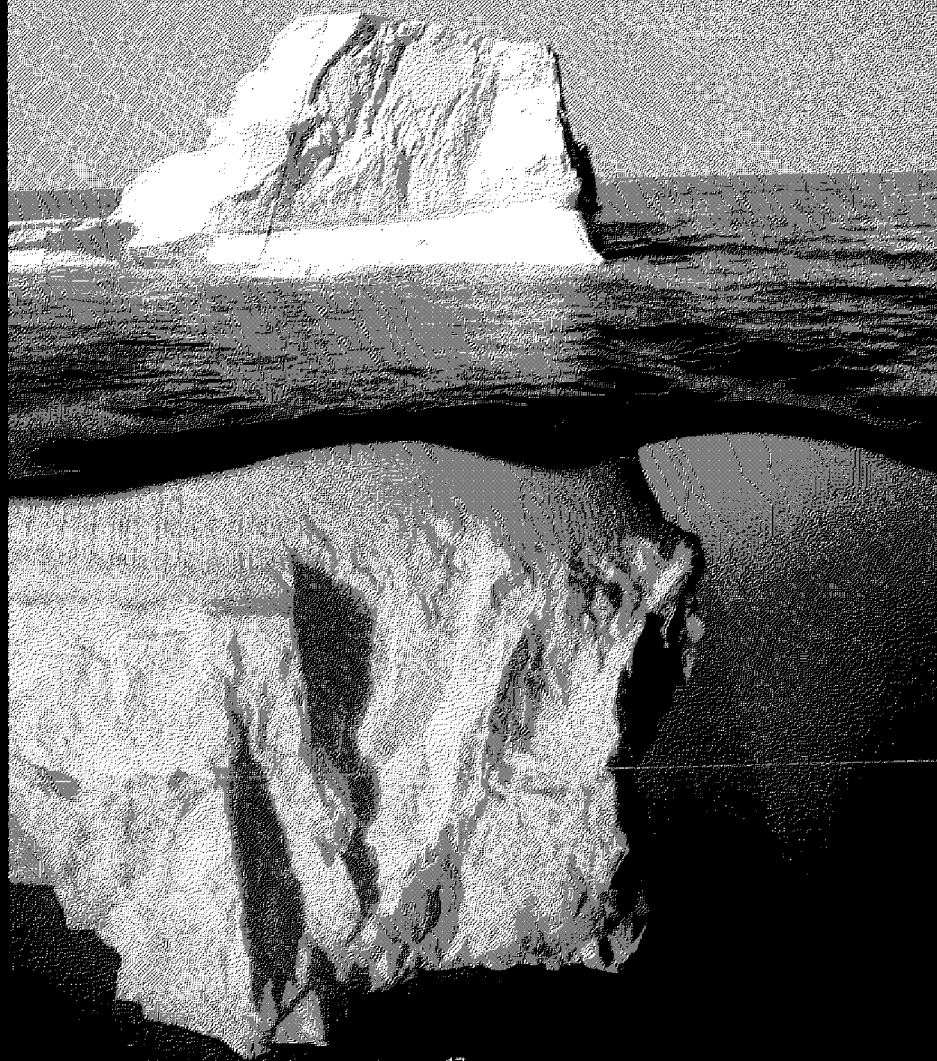
Nevertheless, the number of companies that report on a country-by-country basis as well as on their total tax rate is still lagging behind. Adopting country-by-country reporting seems to be a smaller step to firms with a local (Dutch) scope of activities (e.g. Sligro). However, most multinational companies are concerned that country-by-country reporting will reveal competition-sensitive information. In addition, they argue that they lack precedents of comparable companies with country-by-country reports. It appears that the main driver for companies to start country-by-country reporting would be a mandatory requirement (e.g. enforced by legislation). The awareness and relevance of reporting a total tax rate in their annual reports still need to be emphasized further for most of the analysed companies.

Several companies have committed to VBOO to increase their tax transparency next year. Randstad committed to follow international CSR guidelines on tax, which will lead to increased transparency compared to their current reporting on tax. HELIX will update its tax policy, including a clear link between tax and corporate social responsibility and following the spirit of the law. VBOO is glad that these companies were willing to make commitments to increase tax transparency and will follow-up on the realization of these commitments next year (VBOO, 2016).

Tax Transparency Benchmark 2016

As with the 2015 version of the Tax Transparency Benchmark, the 2016 version examines to what extent Dutch listed companies are transparent about their responsible tax strategy and tax payments. By conducting this study for the second time, and by using almost the same methodology, it becomes possible to make comparisons with last year's results. This report is structured as follows: Chapter 2 provides an overview of motivations for corporate tax transparency. Chapter 3 gives an introduction to the (international) developments regarding good tax governance and tax codes of conduct. Chapter 4 describes the methodology of the Tax Transparency Benchmark 2016. Chapter 5 will give an overview of the results of the benchmark. Finally, in chapter 6 we present our recommendations for the next steps that need to be taken by the different actors in the field.

TAX TRANSPARENCY BENCHMARK 2016 A COMPARATIVE STUDY OF 69 LISTED FIRMS



2. Motivations for tax transparency

There are different reasons why a company should consider becoming more transparent about its taxes. These can be split into two groups. The first of these is of a legal/financial nature, and the second is from ethical perspective. Both are relevant for the company and it should take both perspectives into account when deciding on developing or improving the tax strategy. Because using only one perspective could lead to professional deformation and specialist professionals making only one dimension absolute (Gribnau, 2016), a more holistic approach on tax strategy is needed. We provide an explanation of both lines of reasoning below.

Legal/financial perspective

In recent years there have been various international developments by intragovernmental organisations and countries to improve tax transparency. This is not expected to decline in the coming years. According to Holland et al, there are two different approaches in the new legislation on tax transparency (Holland, Lindop, & Zainudin, 2016).

The first is the initiative of the Organisation for Economic Cooperation and Development (OECD), which started the project on Base Erosion and Profit Shifting (BEPS) in 2013. BEPS refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. The project aims to create a single set of consensus-based international tax rules to address BEPS, and hence to protect tax bases while offering increased certainty and predictability to taxpayers. A key focus of this work is to eliminate double non-taxation (OECD, 2014). This project recommends increasing disclosure between companies and the specific tax administrations. Here the focus is not on improving 'external' tax transparency, but to assist tax authorities both in administering existing tax laws more efficiently and effectively, and responding to developments in a timelier manner (Holland, Lindop, & Zainudin, 2016).

Another approach can be seen in the Finance Bill 2016 (FB 2016) of HMRC. It requires large companies to publish their UK tax strategy. This section of the FB 2016 is designed to change behaviour around 'tax planning'. The Financial Reporting Council (FRC) has called for increased tax disclosure in companies' annual reports, because shareholders will then be able to better assess the companies' future tax liabilities and risks (Holland, Lindop, & Zainudin, 2016). Comparably, under the European Capital Requirements Directive IV financial institutions are obliged to publish

their country-by-country-reporting. Currently, the European Commission is debating whether all companies should publish their country-by-country-reporting or not (European Commission, 2016). The focus of this kind of legislation is to increase transparency by forcing companies to make more information publicly available to all stakeholders.

Institutional investors are shareholders or bond owners of companies. Increasingly, these investors integrate environmental, social and governance criteria into their investment decisions to create a better risk-adjusted return (termed ESG integration) (VBDO, 2014). When a company is not transparent on tax, it is not possible for an investor to assess whether a company is in control of its (tax) strategy and if it has risk and control mechanisms in place regarding legal, financial and reputational tax risks.

Two of the most highly regarded best-in-class indices have included tax in their assessment to determine which companies perform best regarding sustainability. Tax transparency is one of the four main governance themes in the FTSE4Good-indices (FTSE Russell, 2016) and Dow Jones Sustainability Index. Both ask questions regarding tax strategy, tax reporting, tax governance and risks, and media and stakeholder tax strategy (RobecoSAM, 2016). Furthermore, in engagement meetings between companies and investors and during Annual General Meetings (AGMs), responsible tax behaviour and tax transparency are increasingly becoming topics of debate (Eumedion, 2016).

Some companies fear that becoming tax transparent will lead to a distortion of competition. However, much of the data is already publicly available and it consists of basic information on the difference between financial and tax accounting (Van der Enden, 2016). The European Commission has looked into the costs of tax transparency and concluded that disclosure of more information will not lead to serious additional administrative costs (European Commission, 2014). From a risk management perspective, non-transparency to avoid financial or reputational risks is not a sign of good corporate governance. This is because the company cannot know if its tax tactics will become public in the next Luxleaks, Panama Papers or Bahama Papers. By being transparent about the tax strategy and tax control framework, the company demonstrates to its stakeholders that tax risks are being avoided and managed (Van der Enden, 2016).

Another problem for corporations is that in the public debate emphasis is being placed on preventing tax avoidance, while companies have to deal with double taxation. Increased transparency could lead to a fairer payment of taxes (Van Aalst, Vellenga, & Reijngoud, 2015). It is expected that increased transparency would deter companies from aggressive tax planning and result in a fairer spread of taxable income among countries. The issue of double taxation will not automatically

disappear. However, transparency offers an opportunity for companies to confront the public and politicians on the bad behaviour of tax administrations in the case of double taxation or aggressive behaviour (Van der Enden, 2016).

Ethical perspective

In the past, tax authorities only judged the company on its compliance with the law. However, the tax discussion's ethical dimension also landed at the tax administration's office (Gribnau, 2016). In assessing the risk of non-compliance by taxpayers, tax ethics is now also taken into account by tax officials. Therefore, companies should not only take the opinions of the general public and NGOs into account, but viewpoints of tax administrations as well.

While tax avoidance consists of legal means of planning, various groups within society are challenging the social acceptability or legitimacy of tax avoidance (Holland, Lindop, & Zainudin, 2016). This negatively affects the licence to operate of a company and results in the increase of reputational risks for the company.

For the average citizen, it is difficult to understand that companies report profits and at the same time have low tax expenditure. There can be very good reasons why companies have a lower effective tax rate, such as specific rules and incentives, loss relief or different tax systems and tax rules that do not match between the countries (Van Aalst, Veilenga, & Reijngoud, 2015). The general opinion regarding companies that appeared in disclosures such as the Panama Papers appeared to be: 'if the company is not transparent about its taxes, it must have something to hide'. NGOs and journalists will keep publishing such information in a format over which companies have no control. Voluntary transparency can result in more public and political understanding of the tax strategy of companies. The company will therefore have more control over which information is shared and in what format. This can result in more public and political understanding of the tax strategy of (transparent) companies (Van der Enden, 2016).

As stated in the Tax Policy of Unilever: "Addressing public concerns that some multinationals are not paying their fair share of tax requires not only technical international tax reforms but also better efforts to improve public understanding and awareness. Providing user-friendly information about a company's tax position to a broad range of stakeholders plays an important role in this" (Unilever, 2016).

Transparency is the first requirement for an informed and constructive dialogue of fair taxation by multinational companies. However, if transparency is seen as preventing tax optimisation, and therefore as a competitive disadvantage, then the question is: "How does this relate to a company's tax governance and corporate social responsibility strategy?" (Van der Enden, 2016). The company's tax governance should be more aligned with the corporate social responsibility strategy of the company.

When it comes to society, the benefits of increased tax transparency are evident. When companies become more transparent, it will enable citizens, NGOs and journalists to assess tax strategies and the contribution to society by multinationals. Furthermore, it can help the public to engage with corporations in order to change their behaviour. The public expects large companies to play by the same rules as ordinary taxpayers. Increased tax transparency is a means to explain one's tax behaviour.

3. International developments on good tax governance

This chapter discusses the most important international developments on good tax governance and is inspired by the article: 'Tax Codes of Conduct: Fit for Purpose?', published in the Bulletin for International Taxation.¹ It demonstrates that the international developments around good tax governance are emerging quickly. But how to respond to these developments as a company? We will provide a brief explanation on how good tax governance could be embedded in a company's tax function (Van der Enden, 2016).

Definition of Good Tax Governance and Tax Code of Conduct

Before going into detail on the international developments of good tax governance, it is key to define corporate governance, as tax governance is a derivative. While there is no universal definition of corporate governance, the OECD states that:

'Good corporate governance is not an end in itself. It is a means to support economic efficiency, sustainable growth and financial stability (...) Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.' (OECD/G20, 2015, p. 9)

From corporate governance, it is possible to go down a level to a code of conduct that embodies the rules of behaviour within a company. Generally, corporate governance and codes of conduct are non-binding 'soft law' instruments.² While there is no universal definition of a code of conduct, the International Federation of Accountants describes it as:

'Principles, values, standards, or rules of behaviour that guide the decisions, procedures and systems of an organization in a way that (a) contributes to the welfare of its key stakeholders, and (b) respects the rights of all constituents affected by its operations.' (International Federation of Accountants, 2007)

¹ This chapter and the country practices are inspired by the article: 'Tax Codes of Conduct: Fit for Purpose?', published in the Bulletin for International Taxation (Van der Enden, 2016).

² Soft law is a generic term referring to a category of social norms that are not legally binding per se as a matter of law, but which nevertheless have a certain legal relevance in influencing the conduct and decisions of state and non-state actors.

Specifically, a tax code of conduct provides guidance and sets rules on how to behave as a company with respect to tax compliance, transparency, dealing with tax authorities and general principles to ensure robust risk governance, including monitoring and accountability.

Good tax governance – OECD and country practices

Some tax administrations and NGOs are recommending – and in some cases even legally requiring – specific Tax Codes of Conduct, which could make good tax governance possible.³ Although good tax governance is not yet tangible in the Netherlands⁴, we see that it is tangible in many other parts of the world. A more detailed view on this subject from the OECD, and detailed information on countries with specific tax codes of conduct, is described below.

OECD – ‘Co-operative compliance: Building better Tax Control Frameworks’

The OECD's latest report, 'Co-operative compliance: Building better Tax Control Frameworks', is inspired by the common standards on general and financial risk management, such as COSO (The Committee of Sponsoring Organisations of the Treadway Commission). It recommends the following six building blocks of a tax control framework (OECD, 2016):

1. A clearly documented tax strategy that is "owned" by the senior management and/or Board;
2. That is applied comprehensively, i.e. the TCF must be able to manage the full range of business activities, and embedded in daily operations;
3. That is applied responsibly, i.e. the role and responsibilities for the design, implementation and effectiveness of TCF should be clearly defined;
4. Documented governance, i.e. risk management, testing, i.e. there is regular monitoring, testing and maintenance of the framework;
5. Assurance that tax risks are under control and that tax returns can be relied on, as a result of implementing all of the components noted in (1) to (5).

³ The International Corporate Governance Network (ICGN), a network of investors that promotes effective standards of corporate governance, published in June 2016 its view on taxation as part of ICGN's overarching policy with a focus on culture, ethics and risk. The committee made tax part of its corporate governance principles, and informed shareholders how they can play a constructive role in engaging on tax policy with companies.

ICGN emphasize the understanding that dealing with tax governance is a fast moving situation, to which it is necessary to return on a regular base (ICGN, 2016).

The Principles for Responsible Investment (PRI), with the goal to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions, provided guidance to investors on how to conduct company engagement for corporate tax responsibility. Whereby they support on a more responsible corporate approach to tax practices, including better disclosure and transparency, good governance and appropriate management of tax-related risks by companies, resulting in achieving the right balance between controlling the tax bill and mitigating related risk (PRI, 2015).

⁴ The authors believe this has to do with the fact that there is no guidance by the Dutch tax administration on this topic, nor any legal or regulatory obligations on tax governance or the concept of tax control framework. According to the Dutch tax administration, the concept of tax control framework is a 'subjective dynamic open standard'. We would like to stress to Dutch companies that outside the Netherlands other views and other approaches are applicable.

The OECD poses that (a) when large companies have a TCF in place, (b) they are participating in a co-operative compliance programme, (c) the TCF is deemed effective, and (d) the company is transparent on all relevant tax items including risk reviews, the amount of tax audits performed could be decreased significantly.

United Kingdom - A frontrunner in promoting tax governance

In the United Kingdom, Her Majesty's Revenue & Customs (HMRC) has been at the forefront of actively promoting tax governance and good behaviour among taxpayers. This has resulted in a Code for Banks (2009), a consultation document to improve tax compliance for large businesses (2015), and a Finance Bill (2016).

HMRC published a Code of Practice on Taxation for Banks (the 'Code for Banks') to encourage banks to comply with the spirit as well as the letter of the law. According to HMRC, this means that banks should: (a) adopt adequate governance to control the types of transactions they enter into, (b) not undertake tax planning that aims to achieve a tax result that is contrary to the intentions of Parliament, (c) comply fully with all their tax obligations, and (d) maintain a transparent relationship with HMRC (HMRC, 2015).

In the consultation document 'Improving Large Business Tax Compliance', the HMRC sets a framework for co-operative compliance where a set of principles for both large businesses and the HMRC is implemented. Specifically, the framework outlines HMRC's expectations on the attitude of large businesses and their behaviour towards tax planning, internal governance and risk management. The level of compliance with the framework will affect a taxpayer's risk rating in HMRC's audit strategy (HMRC, 2015).

Furthermore, HMRC's Finance Act requires the annual publication of a company's tax strategy in relation to UK activities. This legislation sets out the requirements for large companies to prepare and publish their tax strategy, which should cover: (a) the approach to tax risk and internal governance, (b) the general attitude of the company, (c) the appetite for tax planning and (d) the approach to dealing with HMRC. The strategy should be published on the internet as a separate document. Notable is the "special measures regime" included in this Finance Act for large businesses that are persistently engaging in aggressive tax planning.

Finally, HMRC requires board-level responsibility for a company's tax strategy. Once the board approves and signs the document, the board becomes legally liable for the company's tax control environment and its alignment with the wider corporate governance processes (HMRC, 2016; sec 1.76).

Spain – A Code based on OECD recommendations for co-operative compliance

The Spanish Código de Buenas Prácticas Tributarias (Code of Good Tax Practices) has been developed in line with OECD recommendations for co-operative compliance. The code is not mandatory and consists of the following three main requirements:

- Companies are to practice transparency, good faith and co-operation with tax administration;
- The Spanish tax administration, the Agencia Tributaria (AT) is to commit to transparency and legal certainty in application of the tax law and its interpretation;
- Both parties are to avoid lawsuits and conflicts.⁹

Good tax practice for companies means:

1. A reduction in significant tax risks and proper management;
2. Avoiding the use of tax structures of an opaque nature;
3. Collaboration with the AT regarding the detection of fraudulent tax practices;
4. The board is responsible for the (adoption of) the tax strategy.

In this regard, it is interesting to note the correspondence of these four elements of good tax practice with the Codes of the HMRC (UK).

Australia – Tax Transparency Code linked to Tax Risk Management and Governance Review Guide

In February 2016, the Australian government published the voluntary Tax Transparency Code (TTC), which is expected to be adopted by taxpayers in the 2016 financial year (Board of Taxation, 2015). Of particular note is that the TTC is designed to provide information to 'interested users', i.e. NGOs, media and 'people in the street' and not the Australian Tax Office (ATO), which, by definition, has access to far more detailed information on taxpayers. The TTC is divided into two parts:

- Part A requires disclosure of the more financial and tax technical elements, like the calculation of the current and deferred tax positions and a reconciliation of the effective tax rate, explaining the origin of the difference with the statutory tax rate.
- Part B requires, as a minimum, the disclosure of the approach to tax strategy and governance, a tax contribution summary in respect of corporate taxes paid and information regarding international related-party dealing (McCartin, 2016).

⁹ The Código de Buenas Prácticas Tributarias was approved on 28 July 2010 by the full Foro de Grandes Empresas (Forum of Large Businesses) (Agencia Tributaria, 2010).

Australia linked its Tax Risk Management and Governance Review Guide to the Tax Transparency Code. The Tax Risk Management and Governance Review Guide is based on the premise that tax risk management must be a part of good governance. From this starting point, the ATO provides guidance on how companies should manage their tax affairs and what items should be included in building a tax control framework. The guide is focused on the following two levels:

- Board-level responsibilities: strategy, establishing a framework to identify and manage tax risks, and a regular assessment of policies and controls.
- Managerial-level responsibilities: enforcing policies and implementing strategies approved by the board.

As with the approach of HMRC (UK), the presence and quality of the tax control framework affects a taxpayer's risk profiling by the ATO. The guide contains control checks at both board-level and management-level responsibilities. A detailed description of all nine of the controls is explicitly covered in the guide, most of them in line with the existing corporate governance practices, i.e. COSO Internal Control (COSO, 2013) and Sarbanes-Oxley (US Congress, 2002).

China – A tax risk oriented tax administration

The Chinese State Administration of Taxation (SAT) has adopted a risk management model for compliance by multinationals since 2008 (SAT, 2011). Like the United Kingdom, Australia and Spain, the Chinese SAT defines a taxpayer's risk level based on the quality of a tax control framework. The requirements for a company's tax control framework are set out by the SAT in the Guideline on Tax Risk Management of Large Business Enterprises (LBE) (SAT, 2009) and include:

- general provisions;
- tax risk management structure;
- tax risk identification and assessment;
- strategies and internal control;
- information and communication;
- monitoring and improvement.

The measures of tax and individual control mechanisms defined by SAT mainly correspond with the ATO's Risk Management and Governance Review Guide.

Other country practices and current developments

Aside from the United Kingdom, Australia, Spain and China, multiple governments are actively engaged in tax governance. For example, Italy has designed the "Decree 128 of August 2015", which regulates the co-operative compliance regime and sets requirements for a tax control framework (Italian Government, 2015). Germany introduced legislation with respect to restoring false tax returns, which is linked to internal control (tax control framework)⁶ (Bundesministerium der Finanzen, 2016). In addition, an increasing number of jurisdictions are using legislation to require the adoption of tax control frameworks that follow guidelines similar to COSO and the Sarbanes-Oxley. According to COSO, linking a company's tax strategy and tax objectives more closely to both risk and opportunity helps to accelerate growth and enhance performance (COSO, 2016). More and more countries are considering the possibilities of linking their practices to a tax code of conduct together with a tax control framework to ensure better compliance.

The level of maturity of the tax function is normative for the quality of a company's tax governance

In the current environment, society is acquiring an ever greater interest in the governance of taxation. In general, this means that stakeholders are demanding more information on large companies' tax strategies, the functioning of their tax systems and the role of tax advisors and tax administrations. Specifically, in the light of tax supervision and co-operative compliance, tax administrations are increasingly interested in tax governance. They want to know more about a company's tax strategy, the quality of the tax function, its ability to be compliant and its ability to validate financial and non-financial data. A tax control framework – an internal control framework supported by a company's tax strategy and its execution – could show the level of maturity of a company's tax function. The level of maturity of the tax function is normative for the quality of a company's tax governance. When a company voluntarily demonstrates the (good) quality of its tax control system – the tax control framework –, tax administrations could decide to adjust (decrease) their tax supervision in the light of co-operative compliance.

Sustainable tax – Setting the norm

Good tax governance can no longer be considered in isolation from the wider business approach to governance risk and controls. It is important to be aware of this when setting your tax norm as a company: Do you only want to be compliant – and therefore only follow hard law – or do you believe tax responsibility goes beyond legal compliance? And how do you communicate this? How do you safeguard your 'license to operate'?

⁶ It defines the framework in respect of a certifiable Tax-Compliance Management System under D/W PS 900.

Sustainable Tax Policy

Your tax norm = your tax behaviour



Norm is based on:

- Organisational values
- Stakeholder engagement
- Business vision and mission
- Tax vision and mission

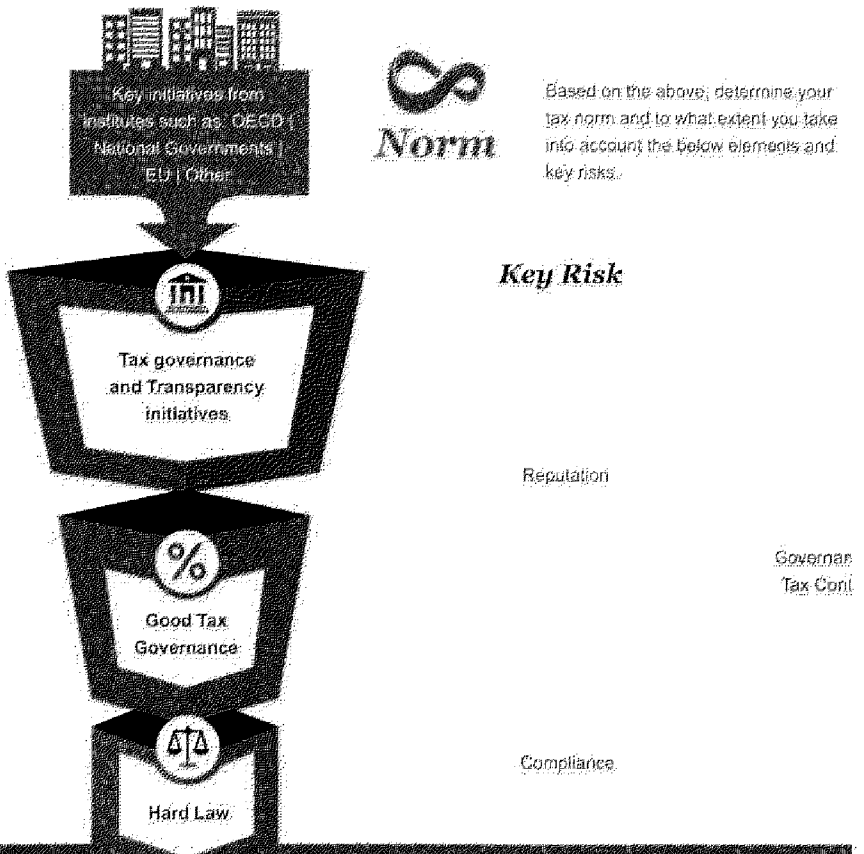


Figure 2: Sustainable tax, setting the tax norm

Source: PwC NL

Sustainable Tax Policy

Approach

The whole is greater than the sum of its parts



Values

Principles

Criteria

Implement & control

Digitalise

Report & Comply

Communicate

Source: PwC NL

Overview – a visual on how to embed good tax governance in a company's tax function

The visual below demonstrates how the function of a tax code of conduct in the light of this article should be interpreted. It starts with a vision: 'What do I want to achieve?', followed by the strategy: 'How am I going to achieve our vision?'. The strategy should be in line with the outcome of discussions with a company's stakeholders. Subsequently, in the code of conduct a set of main/basic rules of conduct is laid down: 'This we do, that we do not'. To implement such a strategy, you need a mature internal infrastructure. If the code of conduct is enforced by an external party it has more the character of a rule of the game. Whether internal or external, enforced code of conducts need a tax control framework. A tax control framework will lead a company to act in the light of their vision, strategy and governance. In a tax control framework, the tax strategy should be established and described comprehensively. It should assign responsibility, document governance, describe what testing should be performed and provide assurance. Once a company has a mature tax control framework in place, it should be able to be transparent on its taxes and obtaining tax assurance should be possible. This tax control framework should be supported by a (tax) technology ecosystem to gather, analyse required data and prepare (transparency) reporting.

This whole set of steps and actions can be defined as good tax governance. It is the interaction between vision, strategy, conduct and controls, taking the interests of all stakeholders into account.

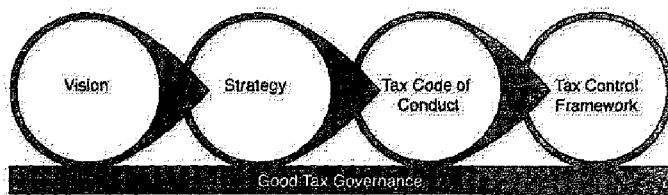
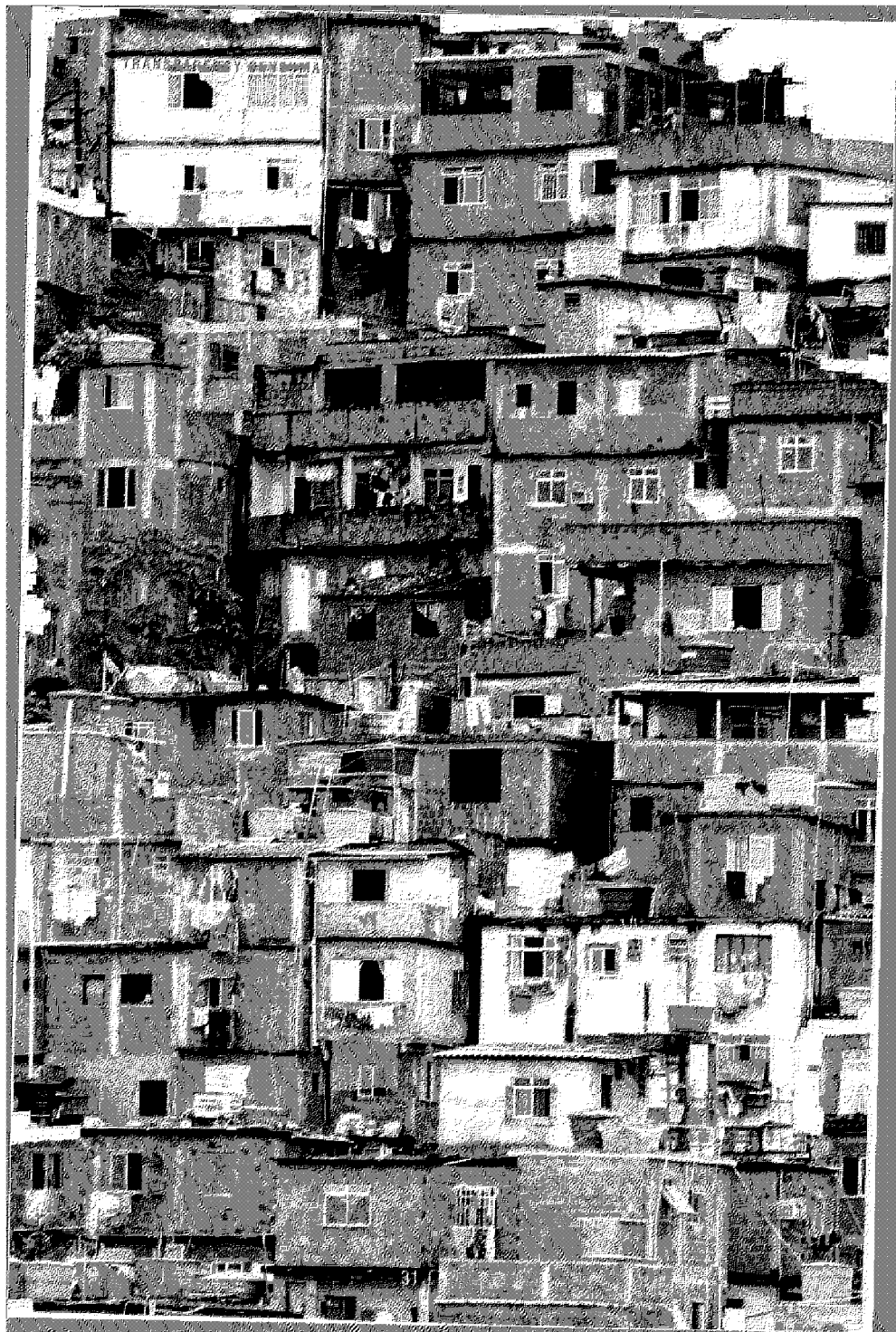


Figure 3: How to embed good tax governance



4. Methodology

The methodology of the Tax Transparency Benchmark 2016 is based on the principles for good tax governance (GTG), and is further explained in detail below.

Quick facts

68 companies in scope
31 criteria worth 39 points in total
72% response rate

Scope

In the benchmark 2016, 68 companies have been included. The full list can be found in Figure 1. The companies were selected based on their listing in the Netherlands (AEX, AMX, AScX and locally). Companies included differ slightly compared to the 2015 benchmark. This is mainly due to the fact that some companies entered or left the AEX, AMX or AScX in 2015.⁷ All are sizeable multinational companies, operating in various industries.

Criteria

As mentioned in the introduction, the guiding principles on good tax governance are designed by the VBDO and Oikos in order to help create a common language on what good tax governance could be (VBDO & Oikos, 2014). To determine whether Dutch listed companies act on the good tax governance principles, a list of criteria has been designed which objectifies and quantifies the principles. Each principle is further specified into various elements. These elements have been converted into measurable criteria. For example, the first principle – *Define and communicate a clear strategy* – consists of the elements 'communication' and 'strategy'.

The communication element relates to whether the tax strategy can be retrieved from public sources such as the annual report, the CSR report or the company website. The criteria have been developed by the VBDO and have been reviewed by experts in the field of taxation. The review panel includes representatives from NGOs, multinational companies, academics and tax advisory firms.

⁷ We would like to note that some of the companies investigated are non-listed (financials) and part of the VBDO network. The companies are Achmea, NIBC and Rabobank.

We refer to Appendix 9 for a comprehensive list of the criteria used. In most cases, each criterion is worth one point. However, for topics such as country-by-country reporting, companies could be awarded up to a maximum of six points.

Adjusted criteria compared to last year

In order to facilitate comparison with the 2015 benchmark, only minimal adjustments have been made to the 2016 criteria.⁸

Approach

For all criteria of the Tax Transparency Benchmark, we have reviewed the company's annual report and other publicly available documents (e.g., transparency reports, governance documents, strategy documents). We have examined the extent to which the testing criteria of Appendix B are addressed in any of these documents.

For each company in the benchmark, the scores were totalled and subsequently returned to the company for feedback. Where applicable, we have incorporated the feedback of the companies in the results. In order to make the results as measurable and comparable as possible, a very strict interpretation of the criteria was used. In cases where there could be room for interpretation in the wording used, i.e. it was not clear whether a certain criterion was met, we did not allocate a point to the respective criterion.⁹

Using the results of our research, it was possible to determine the top 10 best performing companies. In order to reach an independent verdict on the winner of the Tax Transparency Benchmark, an expert jury was appointed by the VBDO.¹⁰ The jury further examined the top 10 companies, weighed the results and selected the winner of the Tax Transparency Benchmark 2016.

Total amount of points awarded

The maximum number of points a company can be awarded for the benchmark has decreased, from 41 points (2015) to 39 points. However, it is not the number of points obtained, but the overall ranking that is most important for the comparability of the benchmark:

⁸ Specifically, question 17 has been deleted and the amount of points awarded for question 23 has been adjusted. The questions themselves have not been altered. The relevance of question 17 (Does the company explain why it has chosen to report on corporate income tax on a country, region, segment or company-wide basis?) has decreased due to global transparency initiatives. Furthermore, we adjusted the amount of points awarded for question 23 (Does the company report any tax risks, including financial, regulatory or reputational risks?) based on last year's findings. There was minimal added value for the content by formulating the question into two separate bullets, so we merged these bullets into one question. As a result, the amount of points awarded has been decreased from two points to one point.

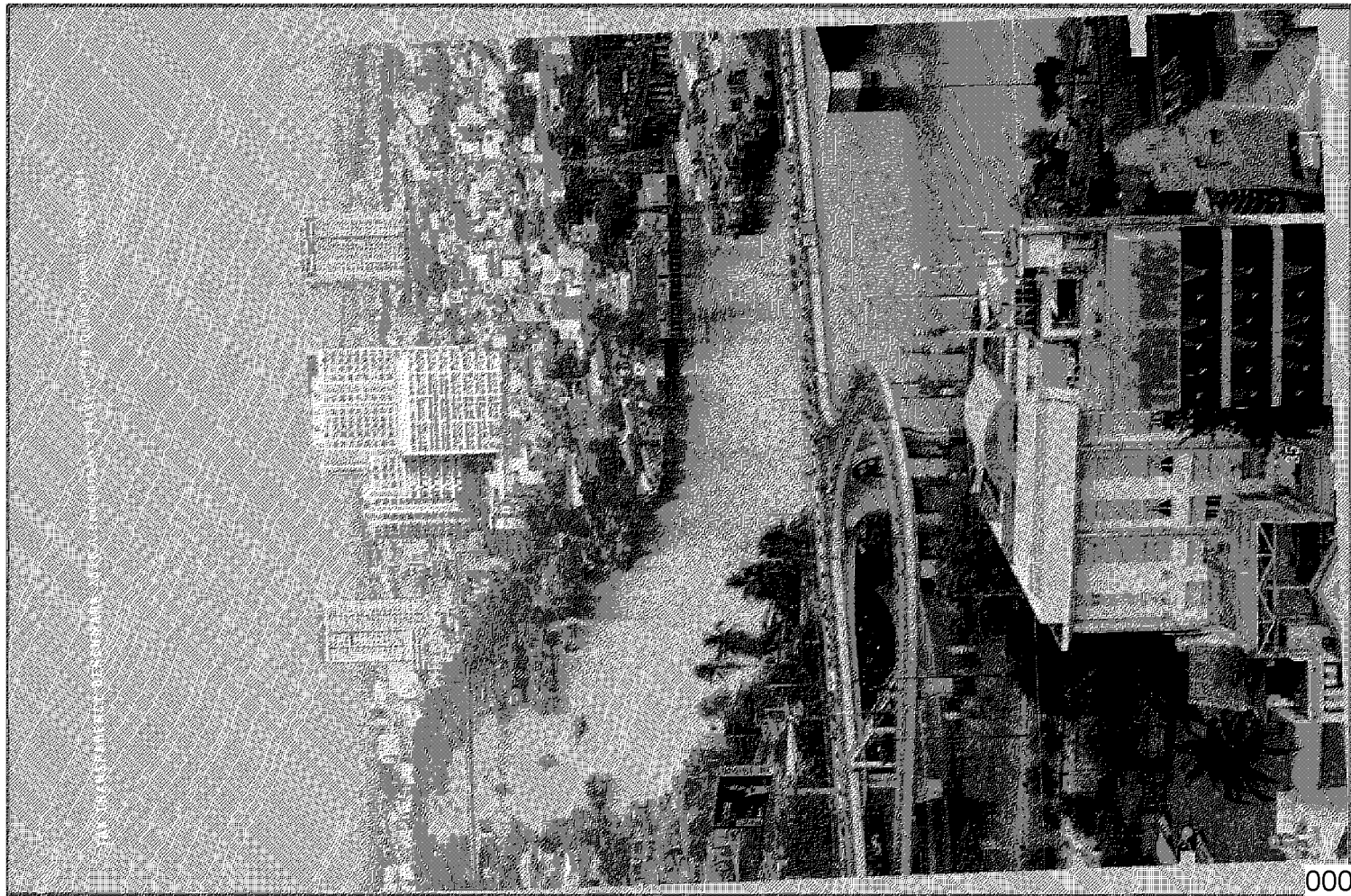
⁹ For example, for questions 10 and 20 the company needs to explicitly state what is required to meet the criteria. If this is not clear from publicly available documentation, no points can be awarded.

¹⁰ See Appendix A for more information about the jury.

Jury

The jury consisted of four members acting in their personal capacity, who capacity who were appointed by the VBDO. These consisted of experts in the field of good tax governance from various backgrounds:

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



5. Results

Overall results

The goal of the Tax Transparency Benchmark is not only to encourage companies to increase and further extend transparency on taxes and the tax function, but also to inspire other companies on how to communicate about tax issues in publicly available documentation.

As described previously in chapter 4, each company has the opportunity to provide feedback on their own results. 72% of the companies provided feedback which could be an indication that they value the outcome of the benchmark. We find this very encouraging, as it shows that our efforts on tax transparency are being taken seriously by the companies. We have received a lot of input and had discussions with many of the companies regarding the scores. Several companies mentioned their ranking in the Tax Transparency Benchmark 2015 (which is based on the publicly available documentation of 2014) in their annual report.¹¹

As a general trend it is apparent that companies are becoming increasingly transparent on tax. This is reflected in the outcome of the Tax Transparency Benchmark 2016. However, tax transparency is still a relatively new consideration, particularly for tax lawyers, who tend to look at tax from a more technical (legal) approach. As such, we have included answers to frequently asked questions in order to provide more guidance on certain topics and facilitate a constructive debate.¹²

This chapter provides a quantitative and qualitative explanation of the outcome of the Tax Transparency Benchmark 2016. As this was the second year we performed the benchmark, we were able to make a comparison with last year. First, this chapter briefly covers the overall and most significant results of the benchmark. These include the winner and the most improved companies of the year. The 68 companies in scope are referred to as 'companies'.

	Benchmark 2016	Benchmark 2015
A Define and communicate a clear strategy	40%	29%
B Tax must be aligned with the business and is not a profit centre by itself	34%	17%
C Respect the spirit of the law. Tax compliant behaviour is the norm	24%	14%
D Know and manage tax risks	47%	41%
E Monitor and test tax controls	41%	37%
F Provide tax assurance	13%	12%
	32%	25%

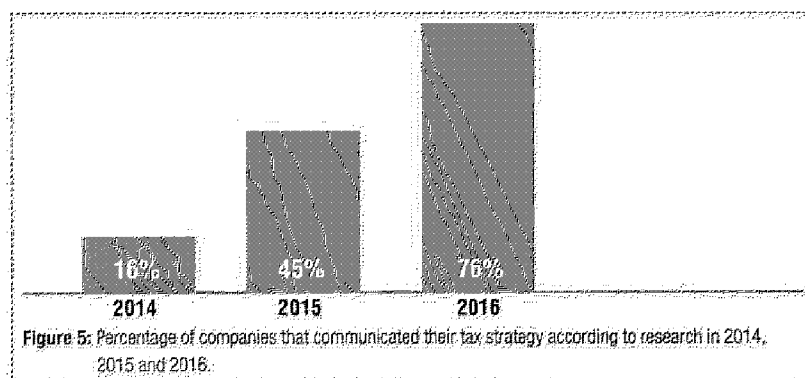
Figure 4: Percentage of companies scoring per principle in the Tax Transparency Benchmark of 2015 and 2016

¹¹ Refer to figure 1 for the overall ranking of the Tax Transparency Benchmark 2016.

¹² The frequently asked questions are based on the feedback we received from the companies investigated.

The main findings of the benchmark are:

- 76% of the companies are transparent on their tax strategy.
- 69% of the companies state that business operations are leading in setting up international structures.
- A 41 percentage point increase – to 65% – of companies reporting on the effective tax rate in a detailed way.
- Country-by-country reporting on corporate income tax increased with 14 percentage point to 25%.
- A 26 percentage point increase – to 29% – of companies explicitly describing their tax risk appetite.
- A 26% point increase – to 54% – of companies who mention tax in the control section of the annual report.
- Companies scored lowest on Principle F – ‘Provide tax assurance’.



The percentage of companies that scored a minimal amount of points (0 - 10), decreased significantly, from 55% to 32%. From this could be concluded that the ‘minimum bar’ of tax-transparent reporting is shifting upwards.

Results per company

The independent jury, as presented in chapter 4, discussed the top 10 companies that scored highest in the Tax Transparency Benchmark 2016 (see figure 6).

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.

For a detailed jury report including good practices, please refer to Appendix A.

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.

Most improved companies compared to last year

The independent jury has noted the impressive improvement of **NN Group**, **BlokkBank** and **Vastned** on the Tax Transparency Benchmark 2016 compared to last year. The jury would like to congratulate these companies with this improvement in tax transparency.

Companies	Benchmark 2015	2016 Benchmark	
1 DSM	21	28	
2 Unilever	22	25	
3 Shell	20	23	
4 Randstad	17	22	
5 Aegon	14	21	
6 ING Group	19	20	
6 KPN	22	20	
6 NN Group	3	20	
6 Rabobank	18	20	
6 Vastned	7	20	

Figure 6: Top 10 companies

Results per principle

A. Define and communicate a clear strategy

A proper tax strategy is assessable and clearly communicated (transparent). It contains the company's vision and objectives in respect to taxation, takes stakeholders' interests into consideration and explains the company's view on its relationship with the tax authorities. It also clearly defines roles and responsibilities and sets out longterm Key Performance Indicators (KPIs) for the tax department. These KPIs do not only deal with managing the effective corporate tax rate (ETR), but also with the execution of the tax strategy.¹³

Top scorer

DSM - scored 8 out of 8 points

Results

Companies are becoming more and more transparent on tax, which is reflected in our benchmark study. For Principle A, there was a 12% point increase in the average number of points awarded compared with last year. This is due in part to the significant increase in the number of companies that are now transparent about their tax strategy, and to the increase of companies including their tax strategy in communications to stakeholders. We are pleased to see that 76% of the companies communicate about their tax strategy in publicly available documentation, a significant increase on last year's 45%.

In addition, there is a notable increase (24% points) in companies that are transparent about their relationship with the tax authorities. This relationship is often described as 'based on good mutual understanding'. Mutual understanding is an important basis for a company's relationship with tax authorities, particularly given the current environment where tax authorities are increasingly demanding 'good behaviour' from large companies.¹⁴

Almost half of the companies discuss the tax strategy with stakeholders, an increase of 21% point on last year. However, it is remarkable that only 12% of the companies are transparent as to what extent they discuss the strategy, and whether the stakeholder dialogue has actually influenced the strategy. Providing insight on the actions taken as a result of dialogue would provide stakeholders with the assurance that their views are being taken seriously.

¹³ This concerns the following questions: 6, 8, 14, 21, 29 and 30.

¹⁴ For example, the UK's HMRC requires that (large) businesses publish their tax strategy annually. Furthermore, the UK HMRC clearly provides guidance on the tax strategy as to what areas it should cover (HMRC, 2015).

¹⁵ See for example the tax codes designed by UK HMRC and Spain AT in the previous chapter on good tax governance.

Only a few companies (7%) are transparent on the status and progress of the implementation and execution of the tax strategy. From the responses received it became clear that this is often due to a lack of understanding about how to report this. For example, companies responded that their tax strategy had already been fully implemented, but the public information did not make this clear. In order to provide more insight on how to report on this issue, two FAQs have been answered below. Only a small percentage of the companies (6%) define the Key Performance Indicators (KPIs) of the tax department. When a company is transparent on these KPIs, stakeholders will have more insight into whether the measurement of performance of the tax department is in line with the company's tax strategy. For more information on why it is important to be transparent on KPIs, see the FAQ below.

FAQ

Why report on the status and progress of the implementation and execution of the tax strategy? Especially when the tax strategy is already implemented?

A tax strategy is more than principles written down on paper. It is important to ensure that the tax strategy is properly implemented and executed. To provide insight into whether the tax strategy is embedded within the company, communication about its status and progress is needed. In a fast-changing environment and especially when multiple business units are involved, it is important to see this as an ongoing process.

For this reason, it is key to find ways to monitor the status and progress of the implementation and execution of the tax strategy, for example by designating a responsible person. Furthermore, a company must know what measures are in place to monitor the proper execution of the tax strategy. After all, the argument that a tax strategy is already fully implemented does not guarantee that the strategy is being executed correctly. Furthermore, a training programme which clearly defines roles and responsibilities so that (new) employees know how to execute the company's tax strategy in practice, could contribute to the proper implementation and execution of the tax strategy.

FAQ

Why is it important to clearly communicate the KPIs of the tax department in publicly available documentation?

Companies that are transparent on the KPIs of the tax department communicate to stakeholders what they think the tax department should accomplish. KPIs are measurable and therefore increase the accountability of companies. For both internal and external stakeholders, this is valuable information. The KPIs can be formulated with regard to subjects such as (a) planning on the amount of meetings with different stakeholders, (b) having contact with the tax authorities on a regular basis, (c) making company's TCF or risk management model more mature and (d) involving the tax department on legal, finance and accounting and reporting items.

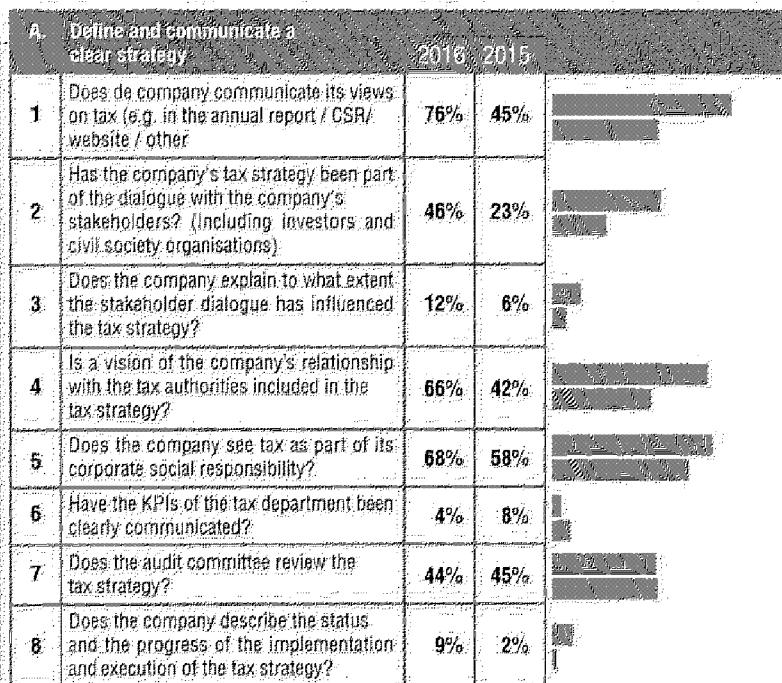


Figure 7: Percentage of companies that define and communicate a clear tax strategy