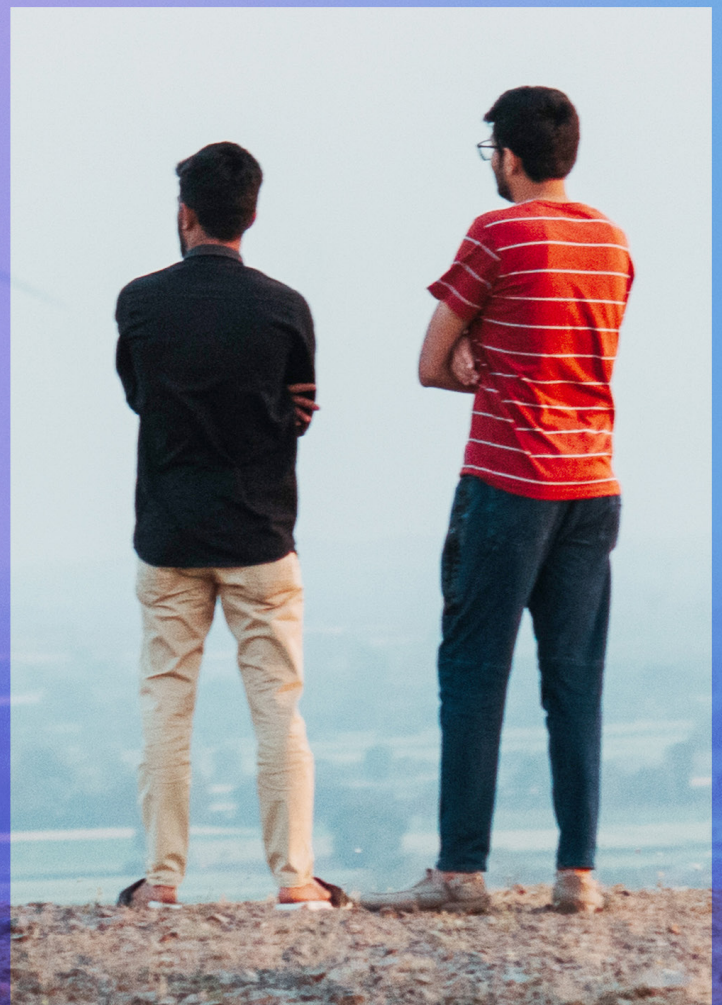




# Shaping change with tax issues

How taxes can support sustainability







# Introduction

As well as being an omnipresent issue in everyday life, sustainability is becoming increasingly important in almost every area of economic activity, including in tax departments. The points of intersection between ESG (environmental, social, governance) and taxes are numerous and go far beyond environmental taxes. Sustainable action and forward planning can frequently reduce ESG-related (tax) burdens even before they happen.

As a tax officer, you call the shots – meaning you can respond at an early stage and take advantage of the available opportunities, rather than waiting until the costs (e.g. CO2 taxes) have been incurred. This document shows you how and where you can take action. We discuss the following tax issues in an ESG context:

## **Environmental taxes**

With the European Green Deal and the “Fit for 55” package, the EU has initiated various environmental taxes as a first step on the way to achieving climate neutrality in the EU by 2050.

## **Tax reporting**

The Global Reporting Initiative (GRI) added taxes to sustainability reporting in 2020 with the publication of the GRI 207 standard. The EU is aiming to introduce a similar obligation and is significantly expanding the scope of companies affected.

## **Transfer pricing in the supply chain**

Implementing a sustainability strategy often means making adjustments to supply chains – with consequences for the functions of the individual subsidiaries as a result of insourcing or outsourcing. This requires modifications to transfer pricing and an analysis of tax aspects such as indirect taxes and customs duties.

## **Work from anywhere**

Sustainability also means offering a secure workplace to employees with widely differing requirements under fair conditions. This often means introducing new working models, including greater flexibility with regard to the place of work, which gives rise to issues under employment and tax law. This includes compliance issues such as payroll tax or permanent establishment risks.





## Environmental taxes



## Tax reporting



## Transfer pricing



## Work from anywhere



## Ideally positioned for you

**You can also find more information on our websites:**



Some or all of the services described here may not be permitted for KPMG audit clients and their affiliated companies.



A photograph of a wind farm in a forested landscape during sunset. The sky is a mix of orange, pink, and blue. In the foreground, a large white wind turbine is partially visible, with its blades extending towards the top of the frame. Another turbine is visible in the background, further into the forest. The ground is a mix of brown and green, with some trees and a small building visible in the distance.

# 01 | Environmental taxes



# Acting sustainably to save on taxes

Mario Urso, Susanne Hüttemann, Marc Goldberg

Many taxes also have an incentive effect. Energy and environmental taxes are a way of sanctioning environmentally harmful behaviour and promoting the transition to a sustainable economy. Current environmental tax measures at EU and national level include:

- The introduction of a plastic tax to promote the circular economy
- Reforming the Energy Taxation Directive to promote a low-carbon, energy-efficient economy
- The planned introduction of a Carbon Border Adjustment Mechanism (CBAM), which aims to prevent CO2 emissions from being moved to countries with fewer or no CO2 taxes
- The German Fuel Emissions Trading Act (BEHG), which forms the basis for national trading in certificates for fossil fuel emissions (CO2) and which affects energy suppliers and the transport sector especially but not exclusively

Although legislative proceedings at EU level and in most member states are still in progress, it is already clear that tax departments will be required to fulfil

various evidence and documentation requirements – and, of course, that the new legislation will result in tax burdens. One key challenge will be gathering the relevant data from various systems and departments, such as the proportion of non-recycled plastic or CO2 emissions in the supply chain. This data is required in order for a company to estimate its burden and the associated costs, and hence consider how its activities could be made more sustainable.

These developments are already making their presence felt: Determining tax-relevant data requires efficient processes, potentially also including support from tool-based solutions. The volume of data and the complexity of data acquisition are generally increasing.

The levies and cost allocations resulting from the expected new obligations and regulatory changes will lead to higher costs. Although this represents a challenge in terms of economic success, it can also help to increase security of supply. This is the intention behind the introduction of the BEHG, for example. It is advisable to keep track of developments at all times so that you can respond at an early stage. At the same time, it is important to be aware and make use of individual opportunities for reducing your tax burden.

## The solution we provide – The benefits you gain

The tax experts from KPMG AG Wirtschaftsprüfungsgesellschaft and the legal experts from our cooperation partner KPMG Law Rechtsanwaltsgesellschaft mbH support you in complying with your legal obligations with a holistic approach aimed at reducing your ESG footprint and ensuring sustainable business activity. The impact of developments in the area of energy and environmental taxes, levies and cost allocations for your company are analysed (risk and impact analysis for financial and non-financial costs), allowing the necessary adjustments to be made and corresponding processes introduced.

We will also be happy to assist you in determining the individual potential for your company to reduce its tax burden.





A photograph of a hand reaching down towards its reflection in a body of water. The hand is wearing a grey sweater. The water is calm, and the background is a soft-focus landscape with trees and a bright sky. The entire image has a warm, golden-yellow tint.

# 02 | Tax reporting



# Transparent reporting as an opportunity

Dr Markus Gsödl, Susanne Hüttemann

For companies reporting in accordance with the GRI standards, taxes are already a fixed element of their sustainability reporting following the introduction of GRI 207. At EU level, public country-by-country reporting (public CbCR) could lead to extensive tax reporting obligations for all companies with consolidated sales of more than EUR 750 million starting from 2026. The necessary data is taken directly from either transfer pricing documentation or financial accounting. Tax departments face the challenge of acquiring the corresponding data. In practice, it is already becoming evident that global data acquisition requires extensive rounds of coordination, especially for companies that do not use a uniform ERP system with a uniform chart of accounts. This ties up capacity and resources.

However, meaningful reporting also offers opportunities: Companies that increase the transparency of their reporting can positively influence their ESG rating, because sustainability is a factor in the decisions made by various stakeholders – from investors to customers.



## The solution we provide – The benefits you gain

We help you to achieve greater tax transparency. We arrange a workshop with you to establish the status quo and define the objectives for your company. If you wish, we can show you various options for presenting your company's sustainable approach in your tax reporting. We can also use innovative cloud-based solutions for data acquisition and analysis as required.

Our modular process takes account of the key requirements of GRI 207 and public CbCR:

1. Review of tax policy using the KPMG Tax Policy Checklist
2. Review of tax risks and governance using the KPMG Tools Tax Control Room
3. Tax benchmarking using the KPMG IMPACT Tax Assessment Tool
4. Development and assessment of tax communication
5. KPMG tax impact reporting and determination of your tax contribution and tax footprint using the KPMG Tax Footprint Analyzer

You can also commission the modules separately depending on your requirements.



An aerial, high-angle photograph of a freight train on a gravel track. The train consists of several flatcars, each carrying large, brightly colored shipping containers. The containers are in shades of red, orange, yellow, and green. The train is moving along a set of parallel tracks that recede into the distance. The overall image has a strong blue and purple color cast, giving it a modern, industrial feel.

# 03 | Transfer pricing



# Correctly pricing sustainability in the supply chain

Janine Müller, Mario Urso, Susanne Hüttemann, Anne-Kathrin Gillig

Many companies are focusing on the transition to sustainable production, insourcing production stages, carbon offsetting and social engagement at their production locations as part of their sustainability efforts. These efforts are underlined by specific statutory obligations, not least those resulting from new legislation such as the German Supply Chain Due Diligence Act and the EU draft on compliance with human rights due diligence obligations in the supply chain. Companies are required to implement corresponding control mechanisms to ensure that environmental aspects and human rights are not violated by their procurement and, in some cases, sales activities. In addition to encouraging the establishment of green branding and modifying the subsidiaries' areas of responsibility, these activities

require a targeted analysis of transfer pricing, because the changes to the supply chain that often accompany them typically need to be reflected in transfer pricing models. These changes frequently have additional tax impacts – e.g. with regard to indirect taxes and customs duties – that also need to be taken into account due to their potential ramifications for ERP systems, for example.



## The solution we provide – The benefits you gain

Our tax experts will support you in adjusting your supply chain to reflect your supply chain in five steps:

1. Analysis of your existing transfer pricing model
2. Identification and realisation of the identified optimisation potential, particularly with a view to economic and sustainability criteria
3. Development and definition of the future transfer pricing model and determination of its impact on indirect taxes
4. Simulation of the potential financial consequences of the future transfer pricing model
5. Implementation support taking into account indirect taxes and the impact on customs duties

The experts from KPMG Law Rechtsanwaltsgesellschaft mbH will advise you on the legal requirements of the German Supply Chain Due Diligence Act.





# 04 | Work from anywhere



# Work from anywhere – done right

Dr Tobias Preising, Susanne Hüttemann, Sabine Paul

Remote working has become commonplace in many areas since the pandemic at the latest. The benefits for employees and employers are numerous: A successful work-from-anywhere strategy can have a positive impact on a company's corporate culture. As well as increasing equal opportunities and diversity, it gives the company a competitive edge by making it a more attractive employer. In a hard-fought employment market, companies that give their employees the greatest possible autonomy as to when and where they work will find it easier to recruit and retain talented individuals and keep them motivated. This can also allow them to increase their sales and profit margins while simultaneously reducing the time and expense required for travel and permanent office space.

However, remote working has its pitfalls for companies and involves compliance requirements that need to be observed. From individual cases at short notice to the development of a sustainable strategy, there are a lot of aspects to take into account. Issues falling within the responsibility of the tax department can also play a bigger role than many believe.

Cross-border flexibilisation in particular involves legal risks, employment law risks and tax compliance risks, especially in the areas of wage and income tax, permanent establishment, residence and employment law\*, social security law, requirements in connection with the employer's duty of care, and data protection and security. Accordingly, tax officers may find it beneficial to become involved in the concept development process at an early stage. In any case, it is advisable to examine whether the corresponding compliance regulations have been observed.

\* Legal services are provided by KPMG Law Rechtsanwalts-gesellschaft mbH.



## The solution we provide – The benefits you gain

We work with you to develop a compliant work-from-anywhere strategy. From case-by-case analysis to fundamental design, the experts from Tax and Law will support you with a structured four-stage process:

1. Discover: Company-specific needs analysis
2. Define: Concept creation with a view to potential compliance risks
3. Design: Implementation planning with the involvement of all stakeholders
4. Deploy: Implementation of your individual work-from-anywhere strategy



# Ideally positioned for you

ESG is set to see even greater movement over the coming years. Be sure to stay on the ball with the help of our interdisciplinary team. Our experts from the areas of indirect taxes, customs, corporate tax, transfer pricing, payroll tax, global mobility and employment law\* work hand in hand to comprehensively examine your ESG-related challenges in the context of the wider environment. On all of these issues, we work in close cooperation with the lawyers from KPMG Law to develop holistic solutions that are tailored to your individual requirements. Talk to us.

\*Legal services are provided by KPMG Law Rechtsanwaltsgesellschaft mbH.

## KPMG AG Wirtschaftsprüfungsgesellschaft



### Mario Urso

Partner, Tax,  
Head of Trade & Customs  
M +49 171 3130960  
murso@kpmg.com



### Dr Markus Gsödl

Partner, Tax,  
International Transaction Tax  
M +49 174 3097520  
mgsoedl@kpmg.com



### Janine Müller

Partner, Tax, Global  
Transfer Pricing Services  
M +49 174 3013359  
janinemueller@kpmg.com



### Dr Tobias Preising

Partner, Tax,  
Global Mobility Services  
M +49 151 24285126  
tpreising@kpmg.com





## Susanne Hüttemann

Partner, Tax,  
Corporate Tax Services  
M +49 172 6729141  
shuettemann@kpmg.com



## Marc Goldberg

Partner, Law,  
Energy Law  
M +49 151 67339350  
marcgoldberg@kpmg-law.com

### KPMG Law Rechtsanwalts-gesellschaft mbH



## Anne-Kathrin Gillig

Partner, Law,  
Head of Foreign Trade Law  
M +49 151 52578951  
agillig@kpmg-law.com



## Sabine Paul

Partner, Law,  
Employment Law | Global Immigration Services  
M +49 174 300 9293  
sabinepaul@kpmg-law.com

[www.kpmg.de](http://www.kpmg.de)

[www.kpmg.de/socialmedia](http://www.kpmg.de/socialmedia)



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