

The responsible tax agenda has been re-energised. Where are we heading now?

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While most people were enjoying their holidays – in their home countries – and keeping their distances from each other, the responsible tax agenda has progressed in a number of areas, energised in part by the current crisis. This note aims to summarise the most significant news you may have missed during the summer, and to bring some insight into where we are heading on the responsible tax agenda.

Transparent and fair tax will be key in our recovery from COVID-19

The past two months have seen most of the world dealing with the aftermath of a first wave of the COVID-19 pandemic. Governments across the globe have put various economic plans in place to help companies and individuals cushion the impact of the pandemic and associated shutdown, and encourage a quick recovery. The World Economic Forum's latest estimate put the global cost of the pandemic between €6.9 trillion to €13.4 trillion¹, equivalent to 1/10th to 1/5th of the world's GDP in 2019.

In its tax report to the G20, the OECD stressed that while efforts to restore public finances through taxes should not be pursued in haste, to avoid undermining the economic recovery, public tolerance of tax avoidance by companies is expected to reach a historic low in the aftermath of the COVID-19 crisis.

Consequently, the post-COVID-19 world is shaping discussions in all political and economic forums. A large part of this conversation aims to figure out how the recovery should look like, how it should be financed, what areas of our economies it should support and prioritise, and how we want the global economy to look like.

The four most significant news

Amongst others, we see from recent EU communications and publications how much the discussion has influenced recent decisions. From a tax perspective, what we see is that recent trends and efforts around fair taxation, tax governance and transparency have been re-energised by the pandemic. The most significant news being:

1. The EU Commission unveiled its new Tax Package², focused on fairness and simplicity of tax systems within the EU. The new Tax Package does not include anything on digital taxation or on a minimum effective tax rate, as the Commission awaits the conclusions from the OECD. However, the Package includes measures

¹ World Economic Forum (August, 2020), *Fighting COVID-19 could cost 500 times as much as pandemic prevention measures*, <https://www.weforum.org/agenda/2020/08/pandemic-fight-costs-500x-more-than-preventing-one-future/>

² European Commission (July 2020), *Package for fair and simple taxation*, https://ec.europa.eu/taxation_customs/general-information-taxation/eu-tax-policy-strategy/package-fair-and-simple-taxation_en

aimed at reducing tax obstacles for business in the Single Market, enforcing tax rules and improving tax compliance within the Member States³; a proposed reformed EU Code of Conduct⁴ on business taxation; and a proposed revision to the *Directive on Administrative Cooperation*⁵, which extends the EU tax transparency rules to digital platforms.

2. The EU Commission issued a recommendation⁶ on making state financial support to undertakings in the Union conditional on absence of links to non-cooperative ('black-listed') jurisdictions. This follows similar conditions recently imposed by various EU governments for companies to qualify for COVID-19 financial support.
3. The EU Parliament is setting up a subcommittee on tax matters⁷ to focus on tax transparency matters, including tax fraud, tax evasion and tax avoidance.
4. Following the EU General Court's annulment of the European Commission's decision on Irish tax ruling (the 'Apple tax ruling'), reports have emerged⁸ that the Commission is exploring ways to trigger Article 116 of the EU Treaty, which has never been used before. This would allow the EU Parliament and Council to issue directives in order to eliminate laws, regulations or administrative actions taken by a Member State, which distort competition within the EU internal market. Such a directive would only require a qualified majority to vote in favour, so no single Member State could veto it.

The overarching message coming from EU institutions is that tax revenues will be key in financing a green recovery. To achieve that, the EU aims to further reduce tax evasion, limit harmful tax practices within the EU, lower the cost of tax compliance through technology and an EU framework for cooperative compliance, encourage good tax governance and transparency, and simplify corporate tax and VAT rules across the EU^{9 10}.

Additionally, once the OECD has agreed on an approach for the taxation of the digital economy, and on a minimum effective tax rate, the EU Commission plans to quickly implement those recommendations¹¹. On the other side of the Atlantic, Joe Biden is proposing, as part of his electoral programme, to implement a tax floor in the USA at 15% of reported profits. This goes to show just how much of a paradigm shift we are experiencing with regards to the role of (corporate) tax revenue, what is considered fair taxation, and what is expected from the corporate world by civil society at large.

However, neither the EU Commission nor the EU Council have announced anything with respect to public country-by-country reporting (CbCR) since the EU ministers' failure to agree on an approach to public CbCR in November 2019. It may be that the newly-formed EU Parliament subcommittee on tax matters will push for an agreement, since the EU Parliament already voted on a (non-binding) resolution on public CbCR in October 2019.

³ EU Commission (July 2020), *Communication from the Commission to the European Parliament and Council – An action plan for fair and simple taxation supporting the recovery strategy*,

https://ec.europa.eu/taxation_customs/sites/taxation/files/2020_tax_package_tax_action_plan_en.pdf

⁴ EU Commission (July 2020), *Communication from the Commission to the European Parliament and the Council – on Tax Good Governance in the EU and beyond*,

https://ec.europa.eu/taxation_customs/sites/taxation/files/2020_tax_package_tax_good_governance_communication_en.pdf

⁵ EU Commission (July 2020), *Proposal for a Council Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation*, https://ec.europa.eu/taxation_customs/sites/taxation/files/2020_tax_package_dac7_en.pdf

⁶ EU Commission (July 2020), *Commission Recommendation on making State financial support to undertakings in the Union conditional on the absence of links to non-cooperative jurisdictions*,

https://ec.europa.eu/taxation_customs/sites/taxation/files/2020_tax_package_dac7_en.pdf

⁷ EU Commission (June 2020), *Commission welcomes the creation of a new subcommittee on tax matters in the European Parliament*,

https://ec.europa.eu/taxation_customs/news/commission-welcomes-creation-new-subcommittee-tax-matters-european-parliament_en

⁸ Law 360 (June 2020), *EU Examining Treaty Article To End Unanimity Voting On Tax*, <https://www.law360.com/tax-authority/articles/1288061>

⁹ EU Commission (July 2020), *Communication from the Commission to the European Parliament and Council – An action plan for fair and simple taxation supporting the recovery strategy*,

https://ec.europa.eu/taxation_customs/sites/taxation/files/2020_tax_package_tax_action_plan_en.pdf

¹⁰ EU Commission (July 2020), *Memo – Questions and Answers on the Tax Package*,

https://ec.europa.eu/taxation_customs/sites/taxation/files/2020_tax_package_memo.pdf

¹¹ Germany's Presidency of the Council of the European Union (July 2020), *Together for Europe's Recovery – Programme for Germany's Presidency of the Council of the European Union*, <https://www.eu2020.de/blob/2360248/e0312c50f910931819ab67f630d15b2f/06-30-pdf-programm-en-data.pdf>

Some of the themes from these recent EU announcements can also be found in a July statement jointly published by *Accountancy Europe and CFE Tax Advisers Europe*¹². Their statements make the case for better tax governance and focus on three key areas: cooperative compliance, tax transparency and investment in tax technology.

Responsible tax is a must-win battle for everyone

Accountancy Europe and CFE Tax Advisers Europe argue that cooperative compliance improves tax morale of taxpayers, which enhances tax compliance better than punitive measures. In addition, they stress that enhanced tax transparency with the tax authorities is a cornerstone of cooperative compliance, and that voluntary public transparency in respect of tax, as an integral part of sustainability policies, can have significant benefits for businesses (particularly consumer-facing business). Finally, they call for investment in tax technology, writing that most tax governance efforts (including cooperative compliance and tax transparency) are greatly facilitated by automation and digitisation of processes.

Indeed, investment in tax technology is necessary both in organisations and in tax administrations. On top of facilitating tax governance and transparency efforts, as well as tax risk management and control frameworks, investment in technology is key to reducing the cost of tax compliance, which, as the EU Commission notes, is particularly high, as a share of taxes paid, for SMEs (~30%) compared to large MNEs (~2%).

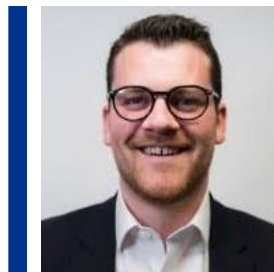
Meanwhile, a recent analysis by Blackrock¹³, the world's largest asset managers, found that the *"majority of ESG-tilted portfolios have outperformed their non-sustainable counterparts during this year's market downturn"*. In an article from July 2020, the Danish financial newspaper Finans14 reported that the COVID-19 crisis seemed to have increased investor interest in ESG investment and funds. Additionally, while the hot topic of ESG was still climate change in early 2020, investors now look at issues such as employee prosperity and accounting practices.

To sum up, it is essential for companies to move forward with their responsible tax agenda, or to bring responsible tax on their agenda if it is not there yet. For an overview of how KPMG can help you on this journey, have a look at our [website](#).

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¹² Accountancy Europe (July 2020), *European tax professionals call for better tax governance*, <https://www.accountancyeurope.eu/tax/european-tax-professionals-call-for-better-tax-governance/>

¹³ Blackrock (May 2020), *Sustainable investing: resilience amid uncertainty*, <https://www.blackrock.com/corporate/literature/investor-education/sustainable-investing-resilience.pdf>

¹⁴ Finans.dk (July 2020), *Interessen for ESG-investeringer stiger markant oven på coronakrisen*, <https://finans.dk/finans2/ECE12257674/interessen-for-esginvesteringer-stiger-markant-oven-paa-coronakrisen/?ctxref=ext>