KPMG ACOR TAX

Tax disclosures and application of GRI 207 in Denmark

Report

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Introduction

The Danish market has become a global leader in corporate sustainability, particularly on the responsible tax agenda and related tax transparency issues. Tax transparency in Denmark has rapidly increased in the past few years, spurred in part by demands from large institutional investors and in part by the new corporate governance recommendations for Danish listed companies, which now require businesses listed on the Copenhagen stock exchange to disclose their board-approved tax policy or strategy.

In this light, we have decided to assess and **benchmark tax reporting against GRI 207** and present this report of initial findings for Denmark, extracted from of a wider review and analysis of tax disclosures across more than 100 traded companies in the Nordic countries (Denmark, Finland, Iceland, Norway, and Sweden).

GRI 207 is one of the main sustainability reporting standards for tax. It sets expectations for both qualitative disclosures (i.e. a company's approach to tax management and tax risk management) and quantitative disclosures (i.e. actual taxes paid on a country-by-country basis, along with contextual data).
While preliminary results from the Nordic-wide analysis show that fewer companies in Denmark formally adhere to the GRI standards for sustainability reporting, we see **that many companies still declare having taken inspiration from GRI 207** to guide their approach to tax disclosures.

We have therefore used a simple method to assess the selected companies' compliance with GRI 207 requirements, regardless of any claims of GRI compliance on their part. This compliance is then expressed as two percentage scores: one for the qualitative part, and one for the quantitative part.

The qualitative part, or management approach, consists of:

Disclosure 207-1
Approach to tax

Disclosure 207-2:
Tax governance, control, and risk management

Disclosure 207-3:
Stakeholder engagement and management of concerns related to tax

The quantitative part, or topic-specific disclosure, consists of:

Disclosure 207-4:
Country-by-country reporting

Assessment & rating methodology

For each of the 13 individual disclosure requirements from GRI 207-1 to GRI 207-3, we gave companies a score of either 0 (not covered), 0.5 (partially covered), or 1 (covered). These 13 scores were then added up and expressed as a percentage.

For the quantitative part, GRI 207-4 provides both disclosure requirements (focusing on corporate income tax paid and contextual information) and disclosure recommendations (considering other types of taxes, collected and paid). We followed the same approach as for the qualitative part, meaning that a company that reported corporate income tax paid in some countries, but not all, would receive 0.5 points for the requirement to provide CIT paid consolidated at the country level for all the jurisdictions in which they are active; not providing any country-by-country breakdown, but instead providing a global or regional footprint resulted in a score of 0.

Then, to compute the score for the qualitative part, we gave twice the weight to the requirements as to the recommendations, so that in the unlikely event that a company fulfils all the recommendations but none of the requirements, the score would be lower than a company fulfilling all the requirements and none of the recommendations.

For most companies, the relevant information could be found in three main documents: their annual report; their sustainability report (sometimes integrated into their annual report); and their public tax policy or strategy. Some companies, however, published additional separate reports for their tax disclosures.

Individual company ratings are not shared here, and results are presented in aggregated and anonymised format. In the full Nordic report, we will also tackle the validity of GRI claims when these are made, and will reflect on some of the issues, omissions, and potential improvements for tax transparency reporting in the Nordic market, in line with GRI 207.

The full report will also consider the direction of travel of tax transparency reporting, as well as how KPMG's Tax Impact Reporting service (supported by our data-driven Tax Footprint Analyzer) can help companies present their approach to tax and tax contributions clearly and efficiently, with a high level of confidence in the quality of data used.

Tax reporting in Denmark

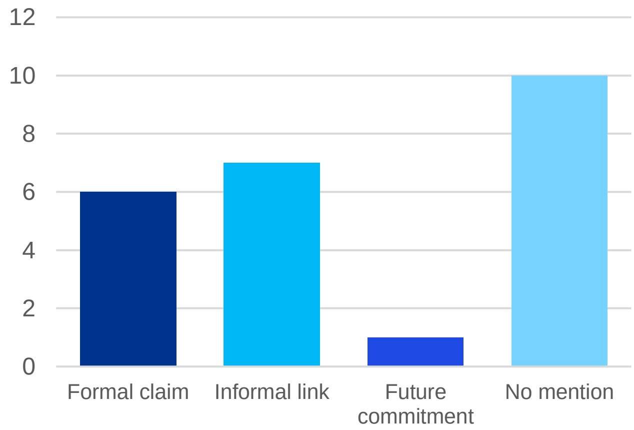
For Denmark, we have looked at the companies that form the OMX Copenhagen 25, the top-tier stock market index for Nasdaq Copenhagen. The full list of companies assessed can be found in the appendix.

Among other things, we found that despite a relatively low number of companies reporting in accordance with GRI 207, compliance with the qualitative disclosure requirements was quite high. This is in part due to the fact that all but one company had made their tax policy public at the time of writing.

General remarks

First, we wished to see how many companies make a formal claim with regards to their use of GRI standards for their sustainability reporting, and how many draw inspiration from GRI 207 for their tax reporting. It turns out that of the 24 companies we assessed, 13 companies mention GRI, including six that make a formal claim of using GRI standards (five claim to report in accordance with GRI, one claims to report with reference to GRI). The other seven companies that mention GRI explain that they used GRI 207 to inform, guide, inspire, base, or otherwise influence their tax transparency reporting, i.e. a more informal connection. Finally, one company committed to using GRI 207 for their next reporting cycle.

Commitment to GRI



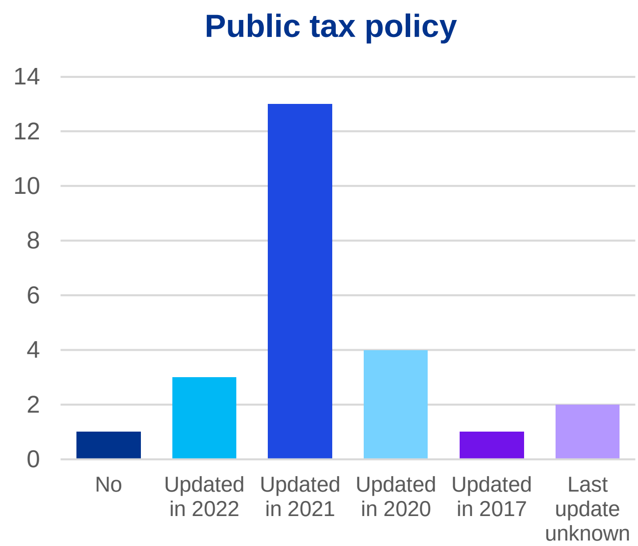
Qualitative disclosure – Management approach

The management approach disclosures, GRI 207-1 to GRI 207-3, cover disclosure requirements around companies' approach to tax governance, publication of a tax policy, approach to regulatory compliance, approach to tax risk management, stakeholder engagement, and management of concerns related to tax.

Using our scoring methodology, we ended up with scores ranging from **8% to 85%** for these **management approach** disclosures, with an average score of 56%. Additionally, 16 out of 24 companies scored **at least 50%.**

Qualitative disclosure – compliance scores	
Lowest score	8%
Highest score	85%
Average score	56%
Average 207-1	3.5/4
Average 207-2	2.5/6
Average 207-3	1.2/3

Looking at the specific requirements, a first key finding in Denmark- one that, as we shall see in the full report, differentiates it from other Nordic countries -was that **all but one** of the companies we assessed had made their **tax policy publicly available**. And while the majority had last updated their policy in 2021 or 2022, four last updated it in 2020, two did not provide a date, and one was dated 2017.



Overall, GRI 207-1 (Approach to tax) is the section best covered, with **23 companies scoring at least 3 out of 4**. For GRI 207-2 (tax governance, control & risk management), only eight companies score at least 3 out of 6, with only a **few companies scoring points on a description of how the approach to tax is embedded within the organisation**, and a description of the assurance process for disclosures on tax (and a reference to the assurance report, statement, or opinion).

Finally, on GRI 207-3 (Stakeholder engagement and management of concerns related to tax), while the vast majority (21) at least partly describe their approach to engagement with tax authorities, **only 11 discuss their public policy advocacy, and only three mention their processes for collecting and considering the views and concerns of stakeholders.**

Quantitative disclosure: topic-specific disclosure

From a high-level perspective, the country-by-country disclosure requirements in **GRI 207-4 are relatively similar to the OECD CBC reports** that multinationals have been filing with tax authorities for some years already; it is not limited to information on actual corporate income tax paid, but also requires companies to disclose contextual information on a jurisdiction basis, e.g.: number of employees; revenues from intra-group transactions; revenues from third-party sales; profit/loss before tax; etc.

One **significant difference** between GRI 207 and the upcoming EU Directive is that GRI 207 requires country-by-country data to be disclosed **for all jurisdictions** where an MNE is active. On the other hand, the EU Directive will allow companies to **aggregate the data for non-EU countries** in a "Rest of the World" section, apart for jurisdictions that are on the EU's list of non-cooperative jurisdictions ("black or grey list").

Another point to note with regards to our assessment is that GRI 207-4 requires companies to disclose all the tax jurisdictions where entities included in their audited consolidated financial statements are resident for tax purposes; the name of all resident entities; and the primary activities of the company in each jurisdiction.

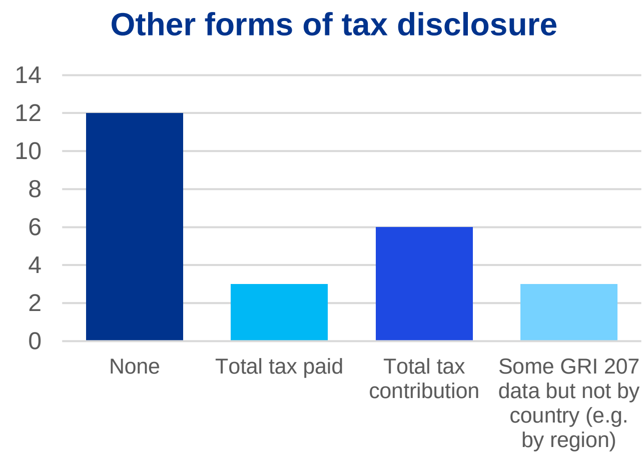
A company that covers the first two of these requirements, or all three requirements, will already score 13% and 20%, respectively. A company fulfilling all 12 disclosure requirements of GRI 207-4 would score 80% - the remaining 20% representing the six additional recommendations.

Taking that into account, we see that for the 24 companies we assessed, scores for the quantitative disclosure range from 13% to 62%, with an average of 27%. Additionally, **13 companies score 20% or lower**.

One important finding is that, despite making a formal GRI claim, one company provides no reason for omitting some of the GRI 207-4 requirements (as GRI standard would require), and three companies omit most or all of GRI 207-4 requirements without providing a reason.

We also note that one company had committed to publishing a more detailed tax report later in Q1 2022, that should include more detailed CBC data. At the time of writing, however, that report has not yet been published.

While not adding to their score (as it is not a GRI requirement), **12 of the companies provided other forms of tax disclosure**, whether in addition or instead of the country-by-country data expected from GRI 207. These disclosures vary from, at its simplest, a figure for total taxes paid at the global level (not limited to Corporate Income Tax), to visualisations of companies' total tax contributions, sometimes split by region, type of tax, and taxes borne vs. collected. The figure below shows what other forms of tax disclosures we found.



Preliminary conclusions

While an increasing number of companies are **improving their qualitative reporting**, mostly by making their tax policy public, **the qualitative reporting varies in style and coverage.** We note as well that five companies published a separate tax report in addition to their annual and sustainability reports.

Few companies are already reporting in line with GRI 207-4, and while some claim to report in accordance with GRI, their tax reporting most often did not meet the GRI 207 requirements.

We do expect this to change over the next couple reporting cycles as companies prepare for the EU public CbCR directive and as **investors increase the pressure** on companies to disclosure their tax data on a **country-by-country** basis.

As GRI 207 currently remains a commonly used **sustainability reporting standard for tax**, we also anticipate that investors will continue to push for using GRI 207, as it calls for useful contextual information and, if used consistently, allows for easier analysis and **comparison**.

It remains challenging, however, for companies to efficiently collect all the necessary data across all the jurisdictions in which they are active. But there should be no question that **tax is a material topic** for sustainability reporting.

Appendix
List of companies assessed

Company name	Sector	Website
Ambu	Healthcare	https://www.ambu.com/
AP Møller-Mærsk	Industrials	https://www.maersk.com/
Bavarian Nordic	Healthcare	https://www.bavarian-nordic.com/
Carlsberg	Consumer	https://www.carlsberggroup.com/
Chr. Hansen Holding	Basic materials	https://www.chr-hansen.com/en/
Coloplast	Healthcare	https://www.coloplast.com/
Danske Bank	Financial services	https://danskebank.com/
Demant	Healthcare	https://www.demant.com/
DSV	Industrials	https://www.dsv.com/
FLSmidth & Co	Industrials	https://www.flsmidth.com/
Genmab	Healthcare	https://www.genmab.com/
GN Store Nord	Healthcare	https://www.gn.com/
ISS	Industrials	https://www.issworld.com/
Jyske Bank	Financial services	https://www.jyskebank.dk/
Lundbeck	Healthcare	https://www.lundbeck.com/global
Netcompany Group	Technology	https://www.netcompany.com/
Novo Nordisk	Healthcare	https://www.novonordisk.com/
Novozymes	Basic materials	https://www.novozymes.com/en
Pandora	Consumer	https://www.pandoragroup.com/
Rockwool	Industrials	http://www.rockwoolgroup.com/
Royal Unibrew	Consumer	https://www.royalunibrew.com/
Tryg	Financial services	https://www.tryg.com/en
Vestas Wind Systems	Industrials	https://www.vestas.com/en
Ørsted	Utilities	https://orsted.com/

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