ESG Tax

How the 3 letters of ESG interact with the 3-letter word TAX

Environmental Taxes and Incentives

As part of the European Green Deal, the European Commission proposed the first set of targets to be met by 2030 under the “Fit for 55 Package” banner, designed to align the EU’s climate, transport, land use, energy and taxation policies with its 2030 milestone target of cutting greenhouse gas emissions by 55%. Some of the most notable regulations reforms include the introduction of a Carbon Border Adjustment Mechanism (CBAM) and a plastics levy, the revision of the EU’s current Emissions Trading System (ETS) and Energy Taxation Directive (ETD), and the establishment of various “Just Transition” funding mechanisms (such as the Social Climate Fund).

Amongst the most urgent for EU companies to align themselves with the CBAM regulation is the adherence to reporting obligations from 1 January 2023. For businesses to achieve a smooth roll-over in the upcoming transition period and minimize the disruption to their business model and costs along the supply chain, all EU entrepreneurs of initial covered products (both those included [i.e. cement, iron and steel, aluminium, fertilizer, electricity and those that may potentially be included (i.e. polymers, organic chemicals, hydrogen, ammonia)] must be ready for these transitional period reporting obligations.

At the same time, businesses will have to improve the quality and availability of their data, prepare for a global supply chain review and assess the implications of CBAM on their business model, set-up and trade flow to stay competitive.

But not everything is bad news. Under the umbrella of the NextGenerationEU, countries are moving forward with financial incentives and tax benefits with ESG concerns. RRPs are clear manifestations of the intention of the EU and the Member-States to help market players transition to the next stage in ESG matters.

How can KPMG Portugal help your company:

ETS/CBAM

We will support you in anticipating and measuring the impact of ETS and CBAM in your business if it is in the targeted sectors, or in any other sector considering the increase in input prices, the broadening of the scope of ETS, the elimination of exemptions and the introduction of CBAM.

Review of supply chain

We will assist you in the review of the supply chain of your business, by measuring the impacts triggered by new environmental taxes and designing alternatives aimed at reducing negative impacts and building a resilient and adapted business model to the new standards.

Transform your business

We will help you in maximizing and capturing tax and financial incentives to transform your business.

Compliance with new taxes

We will help you keep track of all legislative developments in the various jurisdictions you do business and support you in the implementation of processes and procedures necessary to comply with new tax obligations.

Social contribution through taxes

Companies are being more transparent about their tax affairs to demonstrate how their approach to tax is advancing their ESG commitments and to gain public confidence that they pay a 'fair share' of tax.

Tax contribution from companies is commonly narrowly seen as its corporate income tax contribution over the profits of a determined year. However, the tax impacts borne by companies are significantly higher when considering the full range of taxes paid on their daily operations.

In Portugal, as well as in other countries, companies are subject to property taxes, VAT and Sales taxes, stamp duties, custom duties, licensing fees, surtaxes, social security, specific sector contributions, etc., apart from the annual corporate income tax.

All these taxes are not taken into consideration for the purpose of the perception of the "fair share" of tax.

Companies are now more conscious of the need to track these contributions and take them into consideration to fully comprehend the social impact that they hold in the process of generating economic wealth and in the financing of all government initiatives that have a positive impact in the communities.

How can KPMG Portugal help your company:

Tax footprint

We will help you to identify and quantify all taxes, duties, surcharges and contributions that your business bears and collects to help you better communicate your contribute to the community and also to meet the requirements of GRI 207 and the EU CbC Directive.

Tax transparency report

We will assist you with the assessment of the outcome of the relevant tax elements in the ESG rating and design the respective communication plan.

Tax Governance

Recent efforts by the EU (ATADs and DACs), OECD (BEPS), and country-specific initiatives are working to tighten rules around previously ignored aggressive tax planning structures and promote the value of "responsible tax" in the way that companies do business.

These movements predated COVID-19 but gained momentum with COVID-19 due to the increase focus on tax revenues.

Stakeholders, through public disclosure, board pressure and shareholder activism, are tasking C-suites and managers to pursue a responsible tax policy. An increasingly higher number of companies are publishing their tax policies and preparing public annual tax reports outlining how they manage their tax affairs.

How can KPMG Portugal help your company:

Tax Governance Model

We will support you with the design/review of your risk & governance model in respect to tax and help implement the necessary changes to ensure that your business is aligned with the values of "responsible tax" and improve your ESG rating.

Tax Policy

We will assist you in drafting a public Tax Policy aligned with the relevant tax elements in ESG rating.

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