Tax Policy: a powerful tool to increase transparency or a “tick the box” exercise?

Stora Skattedagen
Stockholm, November 9th, 2016
The approach to tax is changing

- Attitudes & approaches to tax are fundamentally changing – no longer just an expense to be managed
- Expectations of transparency are increasing
- Tax & the issue of paying your fair share is one of the most prominent areas being scrutinized by governments, the general public & to a great extent, the media
- Tax systems have not kept up with changes in business models & practices
The latest developments on tax policy and tax transparency

In her ten-point program against tax avoidance …

… Magdalena Andersson has clearly indicated that tax should be a board level question.

The Ministry of Finance has …

… asked the Swedish Tax Agency to describe the work they are doing to encourage companies and their boards to develop tax policies. The results were published on October 31st.

The Swedish Tax Agency …

… has started to ask questions on tax policies and governance during tax audits.

The UK have introduced legislation on tax policies …

… and Australia is in the process of doing the same. Both legal frameworks are focused on tax risks, governance structures and compliance.

In April, the European Commission presented a draft EU directive …

… on public country-by-country reporting, which is a further development of earlier directives on reporting to tax authorities. The draft is expected to pass the European Parliament.
The STA proposes measures linking tax policies and sustainability

**Linking tax & sustainability**
- **Risk level**, including approach to tax structures and tax planning as well as *suppliers’ approach to tax*
- Potential **board responsibility** and public disclosure

**Focus on voluntary measures**
- **No requirements** proposed, except for state-owned companies
- Clearly indicated that tax policy will not **impact STA’s risk assessment**

**Proposes supporting measures**
- Easier access to *suppliers’ tax information*
- Suggested **models for tax policies**, depending on level of ambition
Most recommendations were expected but questions around “the right tax” arise

“The right tax”

- STA’s goal is that the “right” tax is paid
- Linking tax and sustainability will increase the desire to be “correct”

Requirements on tax advisors

- STA re-iterates previous proposal to introduce reporting requirement for tax advisors
- STA suggests requirement to also cover company developed structures

Increased stakeholder expectations

- The report confirms tax and sustainability link
- Likely that focus on and questions about tax policy and tax transparency will continue to increase
UK and Australia have introduced tax policy requirements

### UK legislation focuses on four key aspects

- **Risk management & governance**
- **Approach to tax planning**
- **Acceptable risk levels**
- **Approach to tax authority**

### Australia focuses on board responsibility for tax governance

- **Tax governance guide**
- **Board responsibility for internal controls**
- **Board guidance on roles and responsibilities**
- **Board understanding of tax risks**
Investors are starting to request increasing transparency on tax strategies.

“A total lack of tax planning is bad for investors and evasion is illegal, but we know companies operate in grey areas. The key thing for investors is to understand where a company sits on this spectrum: how light or dark grey its tax practices are.”

Kate Elliot, Rathbone Brothers PLC

“Lack of transparency on tax seems to be a good proxy for more aggressive practices. Therefore, to ask companies for more transparency about their tax practices is a reasonable first step for engagement.”

Matthias Müller, RobecoSAM

“Tax is an important consideration for universal owners, and yet, the lack of disclosure does not allow for appropriate assessment of risks for investors. We need to promote better governance and disclosure from companies.”

Meryam Omi, Legal & General Investment Management
Questions investors have started to ask

- What drives the gap between your effective tax rate and your weighted average statutory rate based on your geographic sales mix?
- To what extent does your profit after tax rely on your presence in tax havens or incentives and structures that enable very low taxation (e.g. <15%) of profits?
- Is tax formally a part of the risk oversight mandate of the board? How often and for what reason is tax discussed at board/committee level?
- How do you define and manage tax-related risks? What are your top three tax-related risks?
- Have you considered publishing a tax policy/principles to indicate your approach towards taxation?
- How are you preparing for Country by Country Reporting (CbCR)?
Developing tax policies and strategies require looking at tax through different perspectives

<table>
<thead>
<tr>
<th>Governance and Risk</th>
<th>Process and Responsibility</th>
<th>Organization Model</th>
<th>Data and Information</th>
<th>Systems and Technology</th>
<th>People and Capability</th>
<th>Performance Management</th>
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</thead>
<tbody>
<tr>
<td>Governance required to direct the tax function</td>
<td>Key processes required to deliver the tax operating model:</td>
<td>Tax organization structure, including headcount sizing, roles, reporting lines, spans and layers</td>
<td>Governance of data and information ownership and quality</td>
<td>Core financial and other systems that provide the required data and information to deliver tax processes</td>
<td>Required employee profile to deliver tax operating model:</td>
<td>Key performance metrics used to measure, track and reward performance of the tax function (financial, operational and people metrics)</td>
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<tr>
<td>Enabling culture (behaviours/values) required to deliver</td>
<td>– Ownership and governance</td>
<td>End to end sourcing and location strategy, including tax activity delivery model, location of assets and sourcing model</td>
<td>Effectiveness and efficiency of delivery of data and information to the business</td>
<td>Dedicated tax technology that enables tax processes</td>
<td>– Skills, capabilities, development needs and training</td>
<td>Use of information to support decision making</td>
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<tr>
<td>Key tax risks, identified mitigating factors and tax control framework</td>
<td>– Operational responsibility</td>
<td></td>
<td></td>
<td>Infrastructure architecture and support model</td>
<td>– Strategy to retain and engage key talent</td>
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<td>Influencing stakeholders</td>
<td>– Policies</td>
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<td>– Succession planning</td>
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Three perspectives constitute a good starting point for a tax policy:

- Governance and Risk
- Process and Responsibility
- Organisational Model
Study: reporting on tax as a sustainability issue

KPMG’s study on large, listed companies and their practices with regards to reporting on tax and sustainability in Annual and Sustainability Reports

2013
- Companies not reporting on tax as a sustainability issue: 64%
- Companies with limited reporting on tax and sustainability: 23%
- Companies with extensive reporting on tax and sustainability: 13%

69 companies included

2014
- Companies not reporting on tax as a sustainability issue: 61%
- Companies with limited reporting on tax and sustainability: 24%
- Companies with extensive reporting on tax and sustainability: 14%

70 companies included
The share of companies reporting on tax as a sustainability issue increased from 36% in 2013 to 49% in 2015. 14% of companies have a public tax policy.
Where and how should the tax policy be made public?

- Internal or external document?
- Quantitative information beyond legal requirements?
- Short version for external publication?
- Stand-alone or integrated in other document?
- Approach to tax or tax policy?
- Website section, existing report or separate policy document?
Swedish examples of tax transparency

**Approach to tax or tax policy**
available online …

… or as part of other documents such as Code of Conduct or Sustainability Policy

**Quantitative reporting as part of the sustainability reporting** …

… or as part of the narrative to the broader story of societal value creation

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What are the benefits for companies to develop and publish a tax policy?

- Internal agreement on tax risk appetite and external clarity on risk level
- Management of reputational and non-financial risks through transparency
- Internal agreement on governance and escalation processes can help manage tax related risks
- Strengthening and clarifying the position and responsibilities of the Head of Tax
Five key take aways on tax policies

1. The approach to tax is changing & companies need to adapt
2. STA clearly links tax and sustainability
3. Increasing stakeholder requirements on tax policies
4. 14% of the largest Swedish companies have a public policy
5. Tax policies can help mitigate financial and reputational risks
Thank you!

David Perrone
+46 73 327 21 27
david.perrone@kpmg.se

Ida Ljungkvist
+46 76 850 97 83
ida.ljungkvist@kpmg.se
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