Navigating tax transparency

KPMG Tax Impact Reporting

May 2021

KPMG Tax Impact Reporting: Our PACT, your impact.

KPMG firms want to help organizations enhance, accelerate, and build a sustainable future that drives growth and profitability.

Through KPMG IMPACT we have empowered KPMG professionals to assist clients in fulfilling their purpose and helping deliver on the UN Sustainable Development Goals and other ESG goals.

We think it's time to bring tax and tax transparency to the fore of this sustainability conversation.

Have you been thinking about being more transparent in your tax reporting?

Why we have:

1. Environmental, Social and Governance (ESG) issues remain near, or at, the top of the agenda in most board rooms in 2021 (page 2).
2. Tax practices and governance are increasingly being evaluated as an ESG measure or as a measure of sustainability (page 3).
3. Tax transparency is often a key metric when demonstrating a responsible attitude towards tax (page 4).

1

KPMG 2021 CEO Outlook Pulse Survey:

Forty-nine percent of CEOs plan to put in place more stringent ESG practices. 89 percent of business leaders are focused on locking in the sustainability and climate change gains their companies have made as a result of the pandemic. When asked what is the greatest threat to organizational growth over the next three years, 14 percent of CEOs cite tax risk (second only to cyber security risk).

The KPMG Survey of Sustainability Reporting 2020:

80% of companies worldwide now report on **sustainability.**

Third-party assurance of sustainability information in corporate reporting is now a **majority business practice worldwide.**

SDGs linked to **economic growth, climate change and responsible consumption** are most frequently prioritized by businesses.

ESG and tax transparency

2

Tax touches all of the United Nations Sustainable Development Goals and has huge potential to impact how communities thrive and prosper.

Reporting on tax is not only about being transparent or about how much tax you pay, it's about the principles applied and the impact your tax footprint makes. It's actively demonstrating the impact your business is making on achieving sustainable and inclusive growth.

- Carbon taxes
- Other environment related taxes
- Health & environmental related taxes (i.e. sugar tax)
- Tax changing consumption behaviour, acting as a "force for good"
- Green incentives (i.e. renewable energy credits)

- Social awareness of tax and "paying your share", heightened by COVID-19
- An open and transparent dialogue between business, tax authorities, NGOs and consumers is key to building trust.
- Social tax credits and social investment tax relief are becoming more widely available for companies pursuing social objectives.

- Sustainability is now a board room governance priority in its own right and tax is high on that agenda.
- Tax is at the heart of governance and accountability within a business.
- How is tax managed and who is accountable?

Drivers of tax transparency

3

While initially the "tax transparency" debate was driven by the financial crisis of 2007/2008 and public perception that large corporations are not paying their "fair share," it has developed into much more than this over the last decade. Various regulatory initiatives — both internationally and domestically — are already in place or gaining support and the debate is additionally impacted by COVID-19 and pressure on governments to justify rescue packages granted.

> With social purpose at the forefront of most businesses today, organizations need to respond to the call for tax transparency in a way that aligns to their corporate values. This is imperative to enhancing and retaining public trust."
>
> **David Linke**
> Global Head of Tax & Legal
> KPMG International

Various regulatory initiatives — designed to enhance trust through transparency — are already in place or gaining support.

Regulations and standards

Mandatory

— CBCR
— EU accounting directive
— CRD IV
— UK tax strategy
— EITI
— National regulations e.g. Australia/Norway

Voluntary

— WEF
— UN PRI
— B-Team
— GRI

Regulatory forces

Market forces

Market forces are demanding companies reflect on their corporate purpose and contribution to society.

Expectations, perception and relationships

— Public
— Investor
— Customer
— Employee
— Government
— International tax community

Socially conscious business

Tax as a driver of

— Environmental, Social and Governance change

Increased tax disclosure

— A way to evidence change already occurring
— Provides strong mandate for better tax governance and practices internally
— As a building block to bigger tax changes

The challenge for businesses:

— Businesses must respond to the increased focus on tax strategies, policies, reporting and risk management in connection with sustainability and responsible investments.
— Investors are increasingly seeking to act more responsibly and having a responsible attitude towards tax and tax transparency is a key metric.

What is tax transparency?

Tax transparency will mean different things to different people. Tax transparency standards all have different positions on what is 'transparent'.

Tax transparency can be viewed as a spectrum.

What is deemed 'enough' by the business, the public, investors and governments will change over time.

Likely, "the norm" will move along the spectrum so that more disclosure is necessary.

Minimum Standard: Compliance with the law.

Public statements to meet the 'minimum standard' without supporting detail.

Publish basic tax policy, strategy or general approach to tax.

Publish tax policy or strategy including robust details of tax governance & controls and some degree of voluntary tax paid disclosures.

Publish tax policy or strategy, tax governance and risk management including controls. Discuss controversies, e.g. corporate structuring or incentives and CBCR detail.

Publish tax policy or strategy, tax governance and risk management including controls. Discuss controversies, e.g. corporate structuring or incentives. Disclosure plans for improvement and detail on your total tax footprint on a country by country basis.

KPMG firms think the direction of travel is clear — sooner or later more disclosure will be expected or required.

Recent developments

Voluntary reporting

In September 2020 the World Economic Forum's (WEF) International Business Council (IBC) released its stakeholder capitalism metrics, which define common metrics for sustainable value creation. These include some tax metrics that require publication of reporting the total global tax borne by the company by category of tax.

Mandatory reporting

The EU ministers in the Competitiveness Council (COMPET) agreed on 25 February 2020 that public CbCR should be introduced. The current draft would require MNEs with presence in the EU or any EU non-cooperative jurisdictions with revenue exceeding EUR750 million to disclose public CBCR information. The European Parliament, the Council of the European Union and the European Commission aim to reach agreement on the legislation before 30 June 2021.

Tax transparency journey

Tax transparency is a journey and will be different for everyone depending on industry, prior activity, preferred transparency destination and current progress. KPMG firms can help you wherever you are on this journey.

1. Tax policy design/review

A robust set of tax principles, policies and strategy are the foundation of having responsible tax practices.

- Review of client's existing tax policy through application of KPMG's Tax Policy Checklist or assists clients in developing fit for purpose tax policies.
- Perform a maturity assessment and gap analysis of policies, governance and risk frameworks to be used for following steps.
- Develop detailed Road Map based on client's current state and goals.

2. Tax risk and governance design/review

Having a framework to ensure tax policies are implemented effectively and monitored continuously with key lines of responsibility ensures the ideals become reality. KPMG professionals can help:

- Identify and review tax risks (financial and non-financial) and materiality level and identify key gaps in the control framework.
- Conduct stakeholder assessment related to the identified risks.

3. Tax transparency benchmarking

Benchmarking can come whenever it will be most beneficial to help:

- Compare internal tax policies/strategy across different geographies/ segments of a large group with a view to harmonization/ applying group wide standards.
- Compare refreshed policies against peers and/or best practice disclosures
- Identify if policies, approach to tax and governance are compliant with different transparency standards.

KPMG Tax Control Room

Performance benchmarking against peers, best practice and global standards. See your tax risks dashboard and gap analysis to improve tax risk governance and controls.

4. Tax risk and communication assessment

Understanding what to publish partly comes from understanding what your stakeholders want to know and what you want to disclose. This includes:

- Developing a process for collecting and considering the concerns of stakeholders, including a communication plan related to tax matters.
- Ensuring alignment between the tax policy, tax strategy and the sustainability/ESG strategy.
- Reviewing reputational risks related to tax, including media coverage analysis, stakeholder assessments and media tax due diligence.
- Finding the right focus and balance on what to disclose and highlight.

5. KPMG Tax impact reporting

Once you are some way down the tax transparency journey decisions can be made:

- What to disclose, to who and when.
- As to the best format of disclosure, i.e. in a separate report, on your website etc.
- KPMG specialists can use their knowledge of your business and our tax transparency reporting framework to draft meaningful disclosures about your policies etc. and any improvements made to date.

KPMG Tax footprint analysis

Use a data driven approach to extract your group's tax contribution

= Technology solutions

Introducing KPMG Tax Impact Reporting

Ethos and evolution

KPMG firms believe that being transparent in your tax reporting is not just about how much you pay, it's about the principles applied and the impact your tax footprint makes.

The evolution of your approach to tax is inevitably linked to the external tax environment, both as an influencer and as a taxpayer with the requirement to comply.

The essence of KPMG Tax Impact Reporting

01

Tax Impact Reporting is a KPMG IMPACT offering to assist you in **understanding and progressing tax transparency.**

02

Increased transparency about a group's approach to tax can **inspire confidence and support from investors, customers and regulators.**

03

KPMG professionals access expertise from across the global organization to help groups produce a report or other communications to **inform stakeholder about their group's approach to tax.**

04

KPMG firms use a **data driven approach to accurately compile information on their group's tax footprint** and present it in an accessible format.

05

KPMG **subject matter specialists can help groups comply with tax transparency standards** and stay informed of any applicable changes.

The architecture: Our PACT, your impact

What does KPMG Tax Impact Reporting look like?

Our tax transparency PACT

A report prepared with KPMG professionals can:

- Utilize the KPMG Tax Transparency Framework to provide structure and content
- Bridge the expectation gap
- Help understand and explain group's broader tax contribution
- Lead on visible action in the responsible tax and social arena
- Address voluntary and mandatory reporting requirements
- Have a flexible look and feel, whether you prefer text, tables, infographics or any other way you want to display your data.

Purpose — P

Tell the readers about your business and why you've chosen to be more transparent about your tax activities.

It can help to set the tone for the rest of the report and outline what main elements are included or omitted and why.

Approach — A

The group's approach to tax. This may include: your tax principles, policies and strategy and how you monitor and evidence compliance with these through governance and risk management. It may include details of tax incentives, low tax jurisdictions and other key attributes.

The approach should give context to your tax contribution data which will follow.

Contribution — C

Working together, KPMG firms and clients can use a data driven approach to collect, validate and present your global tax contribution data.

This can include all types of tax, from all jurisdictions presented how ever you wish and, if appropriate, reconciled to public accounts or CBCR data.

Tax analysis — T

With greater visibility over your tax data meaningful analysis can take place.

This can be against any internal targets or external metrics.

KPMG firms can also provide testing and assurance over your tax controls and tax contribution data.

Technology solutions

The KPMG Tax Control Room is an innovative cloud based solution that is designed to provide new insights in the management of tax.

It allows the identification of specific actions that enhance the management of tax risks, head of tax reporting, tax function performance and tax governance and controls.

Tax Control Room gathers insights through a range of questionnaires that are then automatically analyzed by the tool for benchmarking, identifying gaps and suggested actions.

Tax Control Room is used in combination with workshops, desktop reviews and other advisory input.

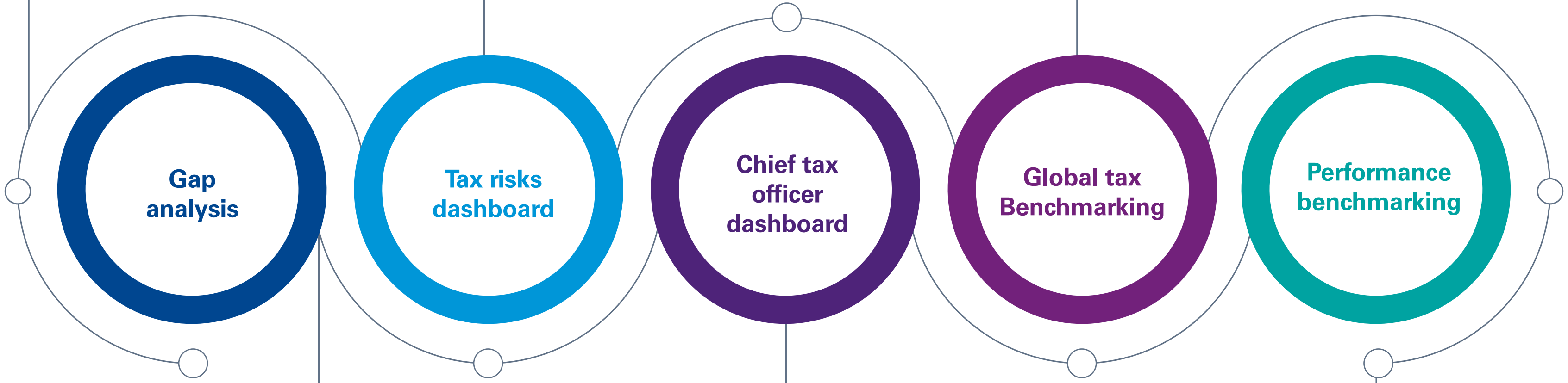
● = **Enhanced features**

KPMG Tax Control Room features

Actions not just gaps
Tax Control room generates actionable measures and insights, tailored to meet different needs to improve tax governance

● **Know your tax risks**
Visual representation of key performance indicators of the organizations tax function against peers

● **Know where you sit globally**
Insights to allow organizations to review the structure, sourcing and focus of the tax function against global benchmarks



● **ATO review ready**
Now featuring additional GST, superannuation and fund management specific questions

● **Tax function KPIs on a page**
Visual representation of key performance indicators of your tax function benchmarked against peers

Mature your tax function
Proven model to compare your tax function and governance performance against peers and best practice

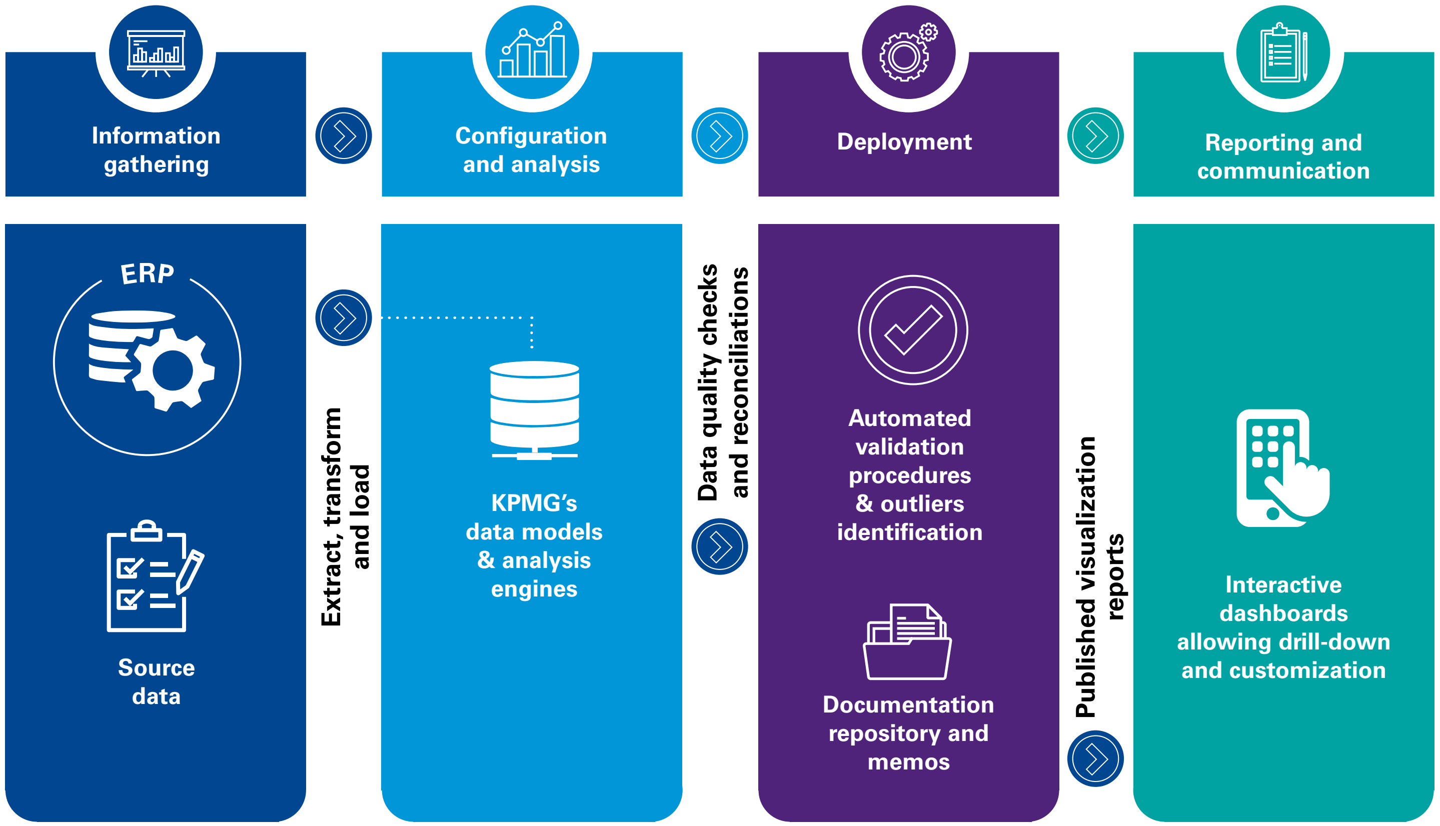
Technology solutions

The KPMG Tax Footprint Analyzer is a data extraction tool that can extract each taxes paid amount from every group company to show your group's global tax footprint.

It uses our automated data extraction tools, accessing data from the underlying ERP tables and other sources.

The solutions perform data integrity checks and perform data analysis routines to support the validation process.

All results are presented in a dynamic, interactive visualization dashboards that allows users to drill down to a deepest level of detail and further visualization customization.



Client ERP system + tax modules + other data sources

KPMG professionals customize client data to the KPMG Tax Impact Reporting data model and perform validation and documentation procedures

Final results are published by the engaged KPMG firm in sharable BI reports

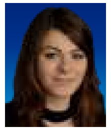
= Technology

Contacts

Global Program Leads

Loek Helderman
Global Tax Lead for KPMG IMPACT
KPMG International
helderman.loek@kpmg.com

Vinod Kalloe
Head of International Tax Policy
KPMG in the Netherlands
kalloe.vinod@kpmg.com



Becky Knight
KPMG Tax Impact Reporting SME and Global Co-ordinator
KPMG International
becky.knight@kpmg.co.uk

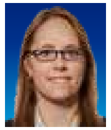
David Linke
Global Head of Tax & Legal
KPMG International
david.linke@kpmg.co.uk
https://uk.linkedin.com/in/dlinke

Christopher Morgan
Global Head of Tax Policy
KPMG International
christopher.morgan@kpmg.co.uk

Brett Weaver
Tax Lead for KPMG IMPACT in the US
KPMG in the US
baweaver@kpmg.com

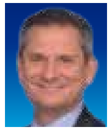
Matthew Whipp
KPMG Tax Impact Reporting lead
KPMG in the UK
matthew.whipp@kpmg.co.uk

Regional Program Leads



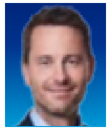
Anne Marie Anselmi
Director
KPMG in Switzerland
annemarieanselmi@kpmg.com

Martins Arogie
Partner
KPMG in Nigeria
martins.arogie@ng.kpmg.com

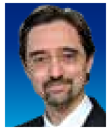


Phillip Beswick
Director
KPMG Australia
pbeswick@kpmg.com.au
*Key contact for KPMG Tax Control Room

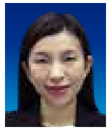
Manal Corwin
Partner
KPMG in the US
mcorwin@kpmg.com



Søren Dalby
Partner
KPMG in Denmark
soren.dalby@kpmg.com
*Key contact for KPMG Tax Footprint Analyzer



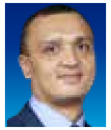
Gianni De Robertis
Partner
KPMG in Italy
gianniderobertis@kpmg.it



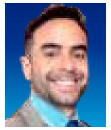
Pauline Koh
Partner
KPMG in Singapore
paulinekoh@kpmg.com.sg

Ivor Morris
Partner
KPMG in Hong Kong (SAR), China
ivor.morris@kpmg.com

Manoj Pardasani
Partner
KPMG in India
mpardasani@bsraffiliates.com



Muzaffar Salaev
Director
KPMG in UAE
soren.dalby@kpmg.com



Luis Wolf
Director
KPMG in Brazil
luiswolf@kpmg.com.br

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