Principles for Responsible Investment

EVALUATING AND ENGAGING ON CORPORATE TAX TRANSPARENCY:

AN INVESTOR GUIDE

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.

PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

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The document is produced by the PRI and does not necessarily represent the views of individual members of the PRI tax engagement group.

BACKGROUND

The PRI has worked with global investors on corporate tax responsibility since 2015. In response to signatory requests, the PRI convened a group of global investors to explore this issue and produce its Engagement guidance on corporate tax responsibility. The investor guidance sets out the business case for engagement on tax, provides background on red flags (which may indicate excessive tax risk in a company's operations) and a framework for investor-company dialogue.

In 2017, the PRI and the investors worked together to supplement the guidance with the Investors' recommendations on corporate income tax disclosure (referred to as "the recommendations" throughout this document). The publication is a set of disclosure recommendations developed by investors to strengthen corporate income tax disclosure[1] across tax policy, governance and risk management areas (see Appendix 1).

While the recommendations are not intended to be prescriptive, companies adhering to the recommendations will provide investors with:

- an overview of the company's policy/approach to tax, including how the firm balances the letter of the law with the intent of the law and societal expectations on tax;
- reassurance that appropriate governance and risk management measures are in place;
- data and examples to ascertain future financial, legal, operational and reputational risks; and
- data and examples to determine if a firm's tax practices reflect its tax policy/framework.

More information is available in the Explanatory notes to the disclosure recommendations.

The recommendations across tax policy, governance and risk management and reporting were compared with corporate tax disclosures in selected sectors in a study commissioned by the PRI (the main findings and trends are highlighted in this report).

The aforementioned publications and the research will inform the PRI collaborative engagement on corporate tax responsibility that is currently underway. The collaborative engagement will facilitate investor dialogue with companies on their approach to tax, governance mechanisms and risk management processes they have in place to implement the tax policy and tax reporting that will support investment decision making. Participants of the collaborative engagement include 35 institutional investors across 11 countries, representing US$2.9 trillion in assets under management. As part of this engagement, investors will engage with portfolio companies to enhance corporate tax transparency in the healthcare and technology sectors[2].

1 While it is acknowledged that companies contribute through the payment of several types of taxes (for instance, industry and employment taxes), this document focuses on corporate income tax disclosure only. Tax throughout this report refers to corporate income tax.

2 The IT and healthcare sectors were selected based on factors including: an assessment of potential exposure to tax risks (particularly with regards to intangible assets); evidence of stakeholder or regulatory scrutiny; and geographical exposure. The 50 companies have been selected based on portfolio exposure and investor interest – not as a result of controversies or other risk indicators.

INTRODUCTION

There is growing interest among responsible investors to understand how companies in their portfolios approach tax-related issues. As multinational companies continue to face increased scrutiny in relation to their tax practices, investors are calling for greater transparency to evaluate companies' exposure to potential earnings, governance, reputational and broader societal and macroeconomic risks.[3]

Where corporate disclosure is poor, investors may engage with companies to encourage improvements in their publication of tax-related qualitative and quantitative information to aid investment decision making.
This report serves as an investor tool for engagements on tax, drawing on key trends and gaps observed in the current status of corporate income tax disclosure practices.
The framework will enable investors to:

- identify areas for further evaluation when assessing corporate data on tax; and
- structure their engagement questions based on observed trends in reporting.

WHY IS CORPORATE TAX TRANSPARENCY IMPORTANT FOR INVESTORS?

Four key arguments for enhanced corporate tax transparency are set out below:

- **The amount of corporate income tax a company pays is material to its profitability**. Investors therefore seek to understand the extent to which future cash flows are based on the performance of the underlying business, and the extent to which they rely on other factors such as access to subsidies and the use of artificial tax structures which may be challenged in the future.
- **Corporate tax avoidance activities may suggest underlying legal, operational, reputational, financial and/or governance risks**. Investors increasingly recognise that companies that pursue aggressive tax minimisation activities may be sending a signal regarding the board's or management team's risk tolerance. High risk tolerance can result in a variety of damaging outcomes for the business. For instance, where boards are focused on short-term tax-related strategies and gains, opportunities linked to genuine economic activity may be overlooked. As such, it is important that investors can access corporate information that provides a well-rounded view of a company's governance of tax-related issues.
- **Investors want reassurance that the tax practices of their portfolio companies can withstand stakeholder scrutiny and potential regulatory changes**. As corporate tax regimes are reconsidered across countries to avoid revenue loss to tax avoidance, multinational companies will face increased pressure to defend their tax-related transactions and/or may see new forms of taxation applied. Corporate reporting that shows how the corporate tax structure and strategy manage and adjust to the regulatory environment will boost investor confidence.
- **Investors recognise that corporate taxes support society's tangible (i.e. infrastructure) and intangible (i.e. education, governance/legal, etc.) needs**. Investors recognise that strong government institutions create a solid foundation for competition, growth and other factors that enable long-term business sustainability at investee companies. Corporate income taxes are an important part of most governments' revenue base, and, as such, help to support this.

3 This will be explored further within PRI's economic inequality programme of activities.

RESEARCH FINDINGS

Scope: The research assessed levels of corporate income tax disclosure at 50 large multinational companies in the healthcare and information technology sectors headquartered in the US (20), Europe (20) and rest of the world (10). For further explanation of why these sectors were selected, see Appendix 2. Documents considered included annual reports and/or 10K statements, sustainability reports, as well as standalone tax reports or statements on tax policy available as of 1 December 2017.

This section of the report highlights the key findings from the desk research commissioned by the PRI. The research evaluated corporate tax disclosures against the items in the recommendations. The table below shows these, grouped by the current level of company disclosure observed in the research (also see Appendix 1 for the list of recommendations).

Table: Overview of current tax disclosure practices

	<10% OF COMPANIES	10-25% OF COMPANIES	OVER 25% OF COMPANIES
Policy	▪ Address broader economic impacts in their tax policy and outline alignment with business and sustainability strategy ▪ Discuss advocacy and lobbying ▪ Indicate membership in trade associations active on tax policy ▪ Have a policy signed by a board-level representative ▪ Reference impact on overall profitability in their tax policy ▪ Discuss stakeholders' trust, values or explain if engagement has impacted policy ▪ Commit to transparent tax-related reporting ▪ Describe relationship with other stakeholders including assessing perceptions regarding the spirit of tax laws	▪ Describe relationships with tax authorities ▪ State risk appetite ▪ State link between where profit is booked and commercial activity ▪ Provide overview of general tax structures and strategies	▪ Publish a tax policy
Governance and risk management	▪ Provide evidence that the board discusses ramifications on reputation ▪ Provide information on whistleblowing channels ▪ Reference third-party standards and guidelines ▪ Provide examples of acceptable and unacceptable practices, and how tax havens are used, if applicable ▪ Indicate that tax policy and strategy are reviewed at least annually	▪ Provide a statement on tax governance and risk oversight ▪ Disclose mechanisms to maintain compliance with the firm's tax policy ▪ Describe the process to interpret the law and deal with ambiguity ▪ Provide information on training and guidance	▪ Provide a narrative on major tax risks
Performance	▪ Disclose new tax strategies being employed leading to increases in UTBs ▪ Disclose intra-company debt balances, name countries where intercompany debt is held and disclose average interest rate paid on intercompany debt ▪ Publish country-level tax reporting ▪ Explain key tax strategies employed in relation to ETR and use global weighted average in ETR reconciliation ▪ Provide commentary on the likelihood of non-renewal of incentives ▪ Highlight investment requirements of each incentive	▪ Potential regulatory changes related to tax strategies ▪ Information on the expiration date of tax incentives	▪ ETR reconciliation ▪ Statement on UTBs ▪ List of subsidiaries ▪ Current disputes with tax authorities ▪ Information on financially material tax incentives

COMMONLY REPORTED ITEMS WERE DRIVEN BY REGULATORY REQUIREMENTS AND ACCOUNTING STANDARDS

Corporate income tax-related information published by companies appeared to be largely focused on meeting regulatory requirements rather than stakeholder demand. This driver was reflected in the type of information and the level of detail published by companies.

To illustrate, corporate reporting on the below factors were more frequently observed (also see previous table). The increased disclosure on these items can be attributed to the following regulatory/reporting frameworks:

- **Tax policy:** UK Finance Act and the Australian Government's voluntary tax transparency code (see box ahead).
- **Narrative on major tax risks:** Item 1A - "Risk Factors" – in Form 10K[4] requires information about the most significant risks that apply to the company or to its securities. In practice, this section focuses on the risks themselves, not how the company addresses those risks.
- **List of subsidiaries:** Companies that file 10K reports in the US are also required to disclose a list of the company's subsidiaries in line with Item 15 – "Exhibits and financial statement schedules". The s409 of the Companies Act 2006 requires UK companies to list all subsidiaries in their annual report.[5]
- **Disputes with tax authorities:** Companies that file 10K reports are required to report information about significant pending lawsuits or other legal proceedings, other than ordinary litigation.
- **Statement on uncertain tax benefits (UTBs):** US companies must recognise and estimate the UTB[6] in their financial statements in line with the US Generally Acceptable Accounting Principles (GAAP).[7]
- **Tax reconciliation and tax incentives:** A tax reconciliation explains the relationship between the tax expense and the accounting profit in corporate statutory accounts. The GAAP and International Accounting Standard (IAS) 12 require reconciliation using an applicable tax rate(s) as a benchmark.

It is worth noting, however, that the quality of information that was provided in response to some of the regulatory requirements varied. In some cases, disclosures were less informative:

- some tax policies applied to a single jurisdiction as opposed to the entire organisation[8];
- some companies provided only a numerical effective tax rate (ETR) reconciliation which was not self-explanatory and needed additional narrative to clarify and explain the underlying details;
- generic statements around major tax risks reported by some companies were not particularly revealing;
- in certain cases, disclosure around disputes did not specify which tax years were open or under audit and in which countries, or the anticipated impact of the disputes; and
- some companies disclosed only their principal subsidiaries as opposed to more comprehensive disclosure of all subsidiaries and their business nature.

4 See https://www.sec.gov/fast-answers/answersreada10khtm.html. A form 10-K is an annual report required by the US Securities and Exchange Commission (SEC) that gives a comprehensive summary of a company's financial performance.

5 https://www.gov.uk/government/news/change-to-the-way-in-which-a-company-provides-information-about-related-undertakings.

6 Also known as uncertain tax positions, UTBs are positions that management believes are less than 50% likely to be upheld by a tax authority.

7 "IAS 12 does not specifically address accounting for tax uncertainties. The recognition and measurement provisions of IAS 37 are relevant because an uncertain tax position may give rise to a liability of uncertain timing and amount" See https://www.iasplus.com/en-us/standards/ifrs-usgaap/income-taxes.

8 Note: the UK Finance Act requires companies that meet the threshold to publish a UK tax strategy only.

DISCREPANCIES EXIST BETWEEN CURRENT CORPORATE DISCLOSURE AND INVESTOR EXPECTATIONS

Overall, the research points to limited disclosure compared to the recommendations. There was little or no corporate reporting in areas which are not covered by regulation despite growing investor and stakeholder interest in these areas. Observations include:

- **Lack of evidence in corporate disclosure that tax policies are intrinsically linked to the overall strategic objectives of the organisation, including sustainability considerations.** Corporate tax policies did not include a narrative around how companies consider the broader economic impacts of taxes paid in the countries where they are operating, or explain the link between their tax policy and business strategy or sustainability commitments.
- **Few concrete examples provided of how companies may appraise tax transactions in line with their risk appetite.** While companies referred to their risk appetite in their tax disclosure, they rarely provided examples to support their views of acceptable and unacceptable tax practices.
- **Insufficient explanation and granular data to test corporate commitments around avoiding profit shifting.** Although some companies made statements about aligning their taxes paid with the substance of their commercial activity, few companies provided an overview of general tax structures and strategies to substantiate this. For example, companies generally provided no explanation regarding why they operate in low tax jurisdictions where business operations may not be apparent. None of the companies reviewed published country-level data on key indicators of economic activity such as revenue, profits, employee numbers and taxes paid. None of the companies provided any information on intra-company debt balances, let alone information on average interest paid or where the debt was held. A very low number of companies used the weighted average statutory rate for their tax reconciliation.[9]
- **Weak evidence that companies are actively addressing reputational risks emerging from tax issues.** While a reasonable number of companies referred to their relationships with tax authorities in their tax policies, none referred to their relationships with stakeholders or dialogue that had influenced their tax policies. There was no indication that company boards were actively discussing the ramifications of their tax approaches on reputation and brand.
- **Poor disclosure on tax advocacy and lobbying and whistleblowing.** None of the companies described tax advocacy and lobbying activities, or reported on membership in trade associations that are active on tax policy. Moreover, the companies reviewed did not refer to channels for confidential or anonymous internal reporting on breaches of tax policy.

9 See explanatory notes to the recommendations for a discussion on how this information is relevant for investors.

In addition to the international and national accounting standards that companies are subject to, three sets of regulations appeared to be particularly important in driving patterns of enhanced tax transparency in the companies reviewed:

The UK Finance Act (2016) requires all UK companies with a UK turnover of more than £200 million and/or a balance sheet total of over £2 billion, and UK companies that are part of multinational groups with annual global consolidated turnover of more than €750 million, to publish a tax strategy setting out the company's approach to risk management and governance arrangements. These companies are also required to set out their attitude towards tax planning, level of risk the company is prepared to accept, and approach towards dealings with HMRC. This disclosure requirement means that any large multinational doing some degree of business in the UK is required to publish a tax strategy covering its UK operations. This information is required with respect to UK taxes, although companies may choose to report on global operations.

The Australian Government's Voluntary Tax Transparency Code (TTC) is a voluntary code which encourages large businesses to publish statements on their approaches to tax strategy and governance. The TTC was developed by the Board of Taxation and endorsed by the Government in the federal budget 2016–17. The Australian Government facilitates the centralised hosting of published reports.

US regulations for public companies set out the specific form and content for annual reports and financial statements. Regulation S-X requires the use of US GAAP for financial reporting. It also sets out the form of the statutory annual 10K report. Both areas cover aspects of the treatment of tax and reporting of tax risks.

TRENDS IN CORPORATE TAX DISCLOSURE

This section highlights key trends in the PRI-commissioned study on tax disclosures in policy, governance and risk management and reporting areas.

POLICY

- **Almost 30% of companies had published a tax policy** (either global or for the UK) as of 1 December 2017 and, since the study, others have published UK tax strategies to adhere to regulations. Most of these policies included statements on complying with all relevant tax requirements, filing obligations and dealing with tax authorities openly and transparently.
- **About 20% of companies published more comprehensive tax policies and strategy documents:** These applied to the entire organisation as opposed to a single jurisdiction and addressed responsibilities to shareholders and society. They also explained how their taxes paid align with the generation of economic value and discussed training and compliance programmes, as well as tax risks and treatment of uncertainty. However, very few companies linked their tax policies with broader economic impacts or discussed how their approach to tax aligns with their sustainability and business strategies.
- **Around 25% of companies provided a meaningful narrative on tax risks:** Detailed disclosures on this indicator discussed key risks in the context of business operations, providing concrete examples of potential impact. However, only a couple of companies gave examples of what they deemed to be acceptable or unacceptable tax practices. Overall, while the rate of reporting on this indicator was particularly high among companies that need to comply with SEC reporting requirements in the US, some disclosures were fairly high level and referred to economic and political changes resulting in potential adverse impacts on finances.
- **Just over 15% of companies described how their tax structures and strategies align taxes paid with economic value generated:** Some companies explained where they operated and how this corresponded to where they paid taxes. However, they did not provide detailed country-level reporting to further support this.
- **Around 25% of companies (mainly those bound by the UK Finance Act) reported on their relationship with tax authorities:** These companies noted their commitment to transparent and constructive dialogue and timely correspondence, in some cases including procedures to resolve uncertainty in legal interpretation.
- **None of the companies disclosed in detail their lobbying and advocacy activities on tax, or the channels they used to influence public policy:** Investors are interested in policy positions, the amount spent on activities relating to tax lobbying and advocacy and how companies identify and manage any misalignment between their tax policy and trade association positions.

GOVERNANCE AND RISK MANAGEMENT

- **Over 20% of the companies stated that the board is responsible for tax governance:** Over 10% of companies outlined the mechanisms in place to implement their tax policy. Although several companies provided narrative around their compliance with tax laws, only two companies committed to complying with the spirit of law.
- **Around 10% of companies referred to staff training to manage tax positions appropriately or to meet regulatory requirements:** However, they did not elaborate on the content of the training or indicate that all relevant staff are trained on the links between tax strategy and the company's business strategy.
- **None of the companies explicitly referred to their whistleblowing procedures relating to their tax policy.**

REPORTING

- **Nearly 50% of companies clarified why their ETR increased or decreased from previous years:** These companies reported on how the ETR is affected by operations in jurisdictions with lower tax rates. All companies reconciled their ETR with the benchmark comparison rate (usually the statutory rate where they are headquartered) as part of their financial accounts, given that it is a statutory requirement. However, under 5% of companies used the weighted average statutory rate in the reconciliation, which would allow companies to more meaningfully explain their reconciliation without needing to reference the variability in tax rates across operations.
- **None of the companies described tax strategies that may be contributing to changes in UTBs:** However, some companies commented on the expected direction of movement in these balances in future years and discussed the potential impact on the ETR. A growing UTB balance may signal a higher tax risk tolerance.
- **Around 5% of companies provided some level of information on debt arrangements with subsidiaries:** Even among companies that reported quantitatively on their intra-company debts, very little context was provided regarding these transactions, including information on the countries where debt is held and the average interest rate paid by the firm's subsidiaries on that debt. Recent tax reform in the US impacts interest expense tax deductibility and makes the disclosure of this information even more pertinent.
- **Over 35% of companies (particularly those covered by SEC reporting requirements) reported on tax incentives:** Among them, some companies provided general statements on using tax incentives as per the legislator's intention and economic substance. Over 15% of companies provided more detail such as access to specific incentives in their countries of operation[10].
- **None of the companies surveyed published a public country-by-country report:** Around 50% of companies provided a regional breakdown. Among them, the companies that are required to file 10K reports differentiated between foreign and domestic taxes paid, in line with SEC requirements[11]. All companies published a list of their subsidiaries, although some only named their principal subsidiaries.
- **Over 70% of companies reported on disputes with tax authorities.** Among those, about 25% of corporate disclosures were relatively general while others disclosed specific disputes and provided information on which tax years are open or under audit in which countries, and the anticipated impact on UTBs due to settlements with tax authorities.

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10 See https://www.pwc.com/gx/en/tax/pdf/pwc-global-r-and-d-brochure-april-2017.pdf for a comparison of R&D credits and incentives by country as of April 2017.

11 Regulation S-X, Rule 4-08(h) requires companies to report separately on domestic and foreign income and taxes (where foreign income or taxes amount to more than 5% of the total). In addition, IAS 12 states, "for an entity operating in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction".

APPROACH TO DIALOGUE AND NEXT STEPS

This section provides guidance on how investors can approach engagement as well as key considerations during the process. See Appendix 4 for some examples of good practice.

TAX POLICY

For investors looking to engage on tax transparency, a starting point could be to check for a **publicly available tax policy.** Where companies are yet to publish a policy, investors could:

- query if there are any barriers to publishing tax principles and existing tax governance and control processes;
- communicate to portfolio companies about what kind of information is relevant and useful in a tax policy (refer to the relevant tax authority guidance[12]); and
- refer to good practice examples of tax policies from peer companies.

AREA OF DISCLOSURE	INVESTOR CONSIDERATIONS IN CONDUCTING DESK RESEARCH PRIOR TO ENGAGEMENT	TRENDS IN CURRENT DISCLOSURE	QUESTIONS THAT CAN BE RAISED IN ENGAGEMENT DIALOGUE
Policy coverage, level of detail provided, commitments and communication	▪ Is the policy global, and is there evidence that it is understood and adhered to at local levels? ▪ Has the policy been signed off by a board member? ▪ Is the policy comprehensive? Does it provide a holistic overview of the company's approach to tax? ▪ Are the tax principles in line with corporate values and strategic considerations of the business, including in relation to sustainability commitments? Is this communicated clearly in the company's tax policy?	▪ Not all companies publish a tax policy. Where policies are produced primarily to meet regulatory requirements, the policy may apply to a single jurisdiction. ▪ A small number of companies explicitly state that the policy is signed off by a board member. ▪ Poor disclosure on linking tax policy with business and sustainability strategies.	▪ Has the company considered publishing a tax policy? ▪ What is the organisational and board view on the approach to tax? How is this approach linked to business and sustainability strategies?

12 For example: https://www.gov.uk/guidance/large-businesses-publish-your-tax-strategy

TAX GOVERNANCE AND TAX RISK MANAGEMENT

Appropriate **tax governance** can ensure that companies comply with tax laws, as well as have processes in place to adhere to the principles and commitments in their own tax strategy. Companies may be relatively open about discussing internal control mechanisms. Specifically, investors could ask about:

- board oversight for tax issues
- engagement with stakeholders and potential reputational issues related to tax
- staff training to increase awareness of the tax strategy
- processes to flag tax practices that may be in breach of the policy – through whistleblowing mechanisms, for example

By requesting information on **tax planning and tax risk management**, investors may gain insights on the company's approach beyond what can be gleaned from the tax policy. Questions may focus on:

- the process for defining and managing tax risks;
- key tax-related risks for the current year (particularly those emerging from tax authority audits of country-by-country reporting and new developments relating to taxing digital companies and intellectual property);
- examples of the types of tax practices that are not considered acceptable;
- the process for dealing with ambiguity in the interpretation of tax laws;
- whether the company has a large and growing UTB balance, a large gap between the ETR and the statutory tax rate, and/or transfer pricing controversies, as these could be indicative of an aggressive tax planning approach.

13 Item 1A - "Risk factors" includes information about the most significant risks that apply to the company or to its securities. Companies generally list the risk factors in order of their importance. In practice, this section focuses on the risks themselves, not how the company addresses those risks. Some risks may be true for the entire economy, some may apply only to the company's industry or geographic region, and some may be unique to the company.

AREA OF DISCLOSURE	INVESTOR CONSIDERATIONS IN CONDUCTING DESK RESEARCH PRIOR TO ENGAGEMENT	TRENDS IN CURRENT DISCLOSURE	QUESTIONS THAT CAN BE RAISED IN ENGAGEMENT DIALOGUE
Board-level and delegated responsibility, mechanisms to ensure adherence to the tax policy	▪ Is it clear from public disclosure that the board has ultimate responsibility for tax issues? ▪ Is there any indication in company disclosures that tax issues are periodically discussed at the board level? Are reputational issues arising from tax on the board's radar? ▪ How does the company ensure compliance with tax laws? How does it ensure compliance with its own tax strategy? ▪ How often are relevant staff trained on tax issues and their link to the broader corporate strategy? ▪ What is the procedure for staff to flag breaches of tax policy or other concerns relating to tax transactions?	▪ Companies that have published a UK tax strategy generally include some information on tax governance. Few companies refer to the spirit of laws and wider stakeholder perceptions on tax. ▪ A small proportion of companies discuss training; however, companies do not tend to publish any information on whistleblowing mechanisms that facilitate the reporting of concerns related to tax practices.	▪ Is tax formally a part of the risk oversight mandate of the board? How often and for what reason is risk discussed at the board or board committee level?
Attitude to tax planning and management of tax risks	▪ Does the company state its tax risk appetite? ▪ Are tax risks described in detail? ▪ Are there any examples of acceptable and unacceptable tax practices in corporate disclosure? ▪ Is there any indication that the company has adopted an aggressive approach in its tax planning (such as a persistent and high level of uncertain tax positions, controversies relating to transfer pricing, a persistently high tax gap or excessive use of low tax jurisdictions)? ▪ Have there been any recent material changes to corporate tax arrangements? ▪ To what extent do profits rely on having a presence in tax havens or tax incentives? ▪ What do the uncertain tax positions indicate about the tax risk appetite? (Also consider if the trend is affected by tax structures or strategies.)	▪ Information on tax risk appetite tends to be published in UK tax strategies and not so much among companies operating in other jurisdictions. ▪ While key tax risks are published by US companies under "1A risk factors"[13] in 10K reports, a number of disclosures appear to use boilerplate language.	▪ How do you define and manage tax-related risks? ▪ Could you provide an example of a transaction that was not in line with the board-agreed risk profile for the company and was thus rejected?

TAX REPORTING

It is important that investors can test corporate commitments on tax against practices. Granular quantitative data on tax can enable risks and opportunities to be identified, allowing investors to have early conversations when there are discrepancies between what the company says it is doing and what the company is actually doing.

- for instance, granular country-level data on the scale of activity (revenue, profits, tangible assets and employee numbers) can help investors understand if a company indeed commits to operating in tax havens only where there are commercial reasons for doing so. If the company has recorded a large profit in a low tax jurisdiction where it has derived relatively low revenues and has low employee numbers, investors may raise further questions to clarify the reasons for such an outcome.
- it is encouraging to see that, in response to greater stakeholder demand, a handful of companies have started publishing detailed reports on taxes paid[14]. However, enhanced voluntary tax reporting is at an early stage. Many companies are also reluctant to disclose more data than what is currently being made available for reasons such as commercial sensitivity, administrative concerns, potential misinterpretations of data and media or NGO scrutiny.

It is important that investors explain why requests for additional information are being made and how disclosing it can facilitate investment decision making. Through the engagement process, investors may also identify the barriers companies face in disclosing certain types of data and subsequently agree on what is feasible to disclose. For instance, investors could:

- through ongoing dialogue, identify how prepared companies are for country-by-country reporting. Country-by-country reporting is interpreted differently in the public debate (see Appendix 3 for further discussion). However, the investor ask is simple – it is a request for data on business operations and economic substance that contextualises the information on tax that a company reports. This information can take the form of a country-level breakdown of revenue, employee numbers, profits before tax, tangible assets and taxes paid, which is reconciled with financial statements.
- ask for corporate tax reconciliation that more clearly and meaningfully explains the difference between what a company has paid in taxes and what it is required to pay by statute. Reconciliation provided by companies, although in accordance with accounting requirements, is often lacking in detail, making it difficult for investors to understand the consequences of factors such as research and development credits and other tax advantages.
- discuss with companies the importance of disclosing intra-company debt balances i.e. to help investors understand whether companies are relying on excessive interest deductions to lower their tax rates. It is expected, however, that companies are likely to be concerned about the impact of such disclosures (which they are not required to make by statute or accounting standards) on their access to external credit. With that said, greater transparency in this regard will reassure investors that companies are well placed to respond to tax developments relating to interest deductibility.

14 For example, see Vodafone's taxes paid report.

AREA OF DISCLOSURE	INVESTOR CONSIDERATIONS IN CONDUCTING DESK RESEARCH PRIOR TO ENGAGEMENT	TRENDS IN CURRENT DISCLOSURE	QUESTIONS THAT CAN BE RAISED IN ENGAGEMENT DIALOGUE
Disclosure on link between taxes paid and commercial substance	■ Does the company provide an overview of general corporate structure and strategies that explains its approach to tax? ■ Where anomalies exist, does the company explain them by referring to transfer pricing and approach to and use of tax havens, for example? ■ Are there any sector-specific risks that the company is likely to be exposed to? ■ Does the company provide qualitative and quantitative data that might support its commitment to avoiding artificial corporate structures? This may include providing commentary on the tax gap or other areas that need clarification in the country-by-country report.	■ While some companies provide a high-level statement on linking taxes paid with economic substance, disclosure of qualitative or quantitative data that support these commitments is generally poor. Only a few companies explain their presence in low tax jurisdictions/tax havens. ■ Companies tend to use the home country statutory tax rate in their tax reconciliation. When the weighted average statutory rate is used, the reconciliation is much more meaningful as it eliminates the difference caused by companies paying different tax rates in different countries of operations. Less than 5% of companies reviewed used the weighted average statutory rate in their reconciliation. ■ Country-by-country reports are very rare.	■ What drives the gap between your weighted average statutory rate and the ETR? ■ Would you consider publishing information on revenue, profits before tax, tangible assets, employee numbers and taxes paid at the country level? Given that this data is now gathered for tax authorities to use in their risk assessment, what are the challenges in making this information available to investors?

SUMMARY

Policy: A clear majority of companies in the research set are yet to publish a tax policy that applies to the entire organisation. Investors could encourage the formalisation of tax principles and their publication. Investors could also encourage companies to more clearly outline links between tax management and corporate strategy and sustainability commitments.

Governance and risk management: Although a relatively large number of companies publish information on tax risks, corporate reporting could be more detailed and organisation-focused on this subject. Investors could raise questions about the process used to define and manage tax-related risks as a starting point and follow up with specific questions on what is already reported in the companies' financial statements.

Reporting: Investors could request more meaningful data that substantiates companies' commitments to avoiding aggressive tax planning. As a starting point, this information could include detailed reporting on revenue, employee numbers, tangible assets, profits before tax and corporate income taxes paid at the country level. It is also important that investors clarify expectations and discuss the practical challenges of gathering the data requested.

Please note that this is a generic template that can be tailored to specific sectors, companies, regions or engagement styles.

APPENDIX 1: INVESTORS' RECOMMENDATIONS

POLICY

Disclosure of a tax policy signed by a board-level representative outlining the company's approach to taxation and how this approach is aligned with its business and sustainability strategy.

A comprehensive tax policy would:

- outline the organisation and board view on corporate income tax, referring to its impact on the overall profitability of the company, as well as its broader economic impacts;
- discuss how the company's tax policy protects stakeholders' trust, enhances the company's license to operate and aligns with its corporate values/code of conduct;
- state the company's risk appetite in relation to tax activities, including examples of acceptable and unacceptable practices and a narrative on major tax risks;
- provide an overview of the firm's general tax structure and strategies, including the link between where profits are booked and the factors that indicate genuine commercial activity in those locations (e.g. how transfer prices are set within the group and how tax havens are used, if applicable);
- describe the company's current relationships with tax authorities and other stakeholders (i.e. consumers and civil society organisations) and explain if engagement with stakeholders has impacted the tax policy;
- describe the process to interpret the law and deal with ambiguity;
- discuss advocacy and lobbying activities on tax including membership in trade associations active on tax policy;
- include any reference to third-party standards and guidelines covering tax-related issues;
- commit to ongoing and transparent tax-related reporting.

GOVERNANCE AND RISK MANAGEMENT

Information on tax governance and management of the tax policy and related risks.

Good disclosure would provide evidence that:

- tax governance is part of the risk oversight mandate of the board, including the setting of clear responsibilities and mechanisms to maintain compliance with the firm's tax policy;
- the board discusses the ramifications of the company's approach to tax on its brand and reputation, including assessing potential stakeholders' perceptions regarding the "spirit" of tax laws;
- the tax policy and strategy are reviewed at least annually by the full board, in addition to any board committees tasked with assessing risk;
- the company provides regular training and guidance for all relevant staff (including those not directly involved in the execution of the tax strategy) on the links between tax and overall corporate strategy;
- the company provides whistleblowing channels to report tax-related activities or decisions that are not aligned with the company's tax strategy.

PERFORMANCE

Transparency on tax strategies, tax-related risks and country-by-country activities.

Detailed reporting would provide an overview of:

- the primary drivers of the gap between the effective tax rate and the weighted average statutory rate based on the firm's geographic sales mix, with particular emphasis on the key tax strategies employed (including the role, if any, of intellectual property and transfer pricing) and potential regulatory changes related to those strategies;
- the new tax strategies being employed by the company that are leading to increases in the company's unrecognised tax benefit balances;
- the firm's intra-company debt balances, including the countries where the debt is held and the average interest rate paid by the firm's subsidiaries on that debt;
- the most financially-material tax incentives (e.g. tax holidays) provided by various jurisdictions, including information on the expiration date of each incentive, the investment requirements of each incentive, and commentary regarding the likelihood that such incentives will not be renewed;
- country-by-country reporting details, including a list of all subsidiaries and their business nature (as required by the appropriate OECD-BEPS templates);
- current disputes with tax authorities.

APPENDIX 2: SELECTION OF HEALTHCARE AND TECHNOLOGY COMPANIES

The companies that were selected for the research were chosen because of sector-related tax risks as detailed below. Other considerations included:

- identifying companies which have a large market capitalisation (those that investors will likely have large holdings in);
- choosing a mix between leaders and laggards in corporate tax transparency to identify best practices and facilitate progress within the industry at large; and
- identifying companies that are more most likely to benefit from the recommended changes.

Common profit shifting concerns in the technology and healthcare sectors include:

TRANSFER OF INTANGIBLE ASSETS

Pharmaceutical and technology companies tend to rely on intellectual property (IP) assets and related revenues. Companies in these sectors may be exposed to transfer pricing risks when assets are transferred to subsidiaries in low tax jurisdictions below the arm's length price, without reference to the actual functions of the subsidiaries and with the primary purpose of tax minimisation. The abuse of transfer pricing rules is more likely given that IP is difficult to value due to a lack of reference prices in the market and companies having a better sense of the long-term value of the assets than tax authorities do.

TAXABLE PRESENCE

Traditionally, physical presence has been a factor used to evaluate whether a company has resident status in that country and needs to pay taxes. However, with changing business models that are based on automation, companies may pay less tax in countries where they have no requirement for a taxable presence despite generating income. In addition, companies may adopt structures that fragment their functions for tax purposes – such as by using trading structures or by ensuring that each of the entity's operations is below the permanent establishment (PE) threshold or qualifies for PE exceptions. This has been a clear area of concern for regulatory authorities around the world and has even resulted in unilateral measures in several jurisdictions to strengthen tax regimes[15]. The OECD has also undertaken further work to address the tax challenges of the digital economy[16].

DEDUCTIONS

One of the common ways to reduce taxes in a jurisdiction where a taxable presence is established is to claim deductions on intra-group transactions, such as through lending between subsidiaries in high and low tax jurisdictions, payments between subsidiaries such as royalties, and service fees[17].

ADDITIONAL CONSIDERATIONS[18]

- The companies in these sectors have also been known to have the highest tax gap relative to other sectors[19]. Although it is possible that the tax gap is a result of factors unrelated to profit shifting, a large and persistent tax gap may be indicative of aggressive tax planning and warrant further consideration from investors.
- Pharmaceutical and technology companies have been exposed to government enquiries and subject to media scrutiny. Although they may not be indicative of wrongdoing per se, they may point to reputational risk. Companies' response to allegations may also be a good proxy for the board's risk tolerance on tax.
- Companies in these sectors often have poor tax disclosure. Although this is slowly changing with the rollout of regulations in certain jurisdictions, corporate tax transparency in these sectors is of interest to investors given the potential risks outlined above.

15 For example, see https://www.ft.com/content/4f7aed86-989f-11e7-a652-cde3f882dd7b; https://www.smh.com.au/business/the-economy/australia-now-officially-has-a-google-tax-diverted-profits-tax-laws-pass-parliament-20170328-gv83va.html; https://uk.reuters.com/article/uk-eu-tax-digital/eu-plans-new-tax-for-tech-giants-up-to-5-percent-of-gross-revenues-idUKKCN1GA25X

16 http://www.oecd.org/tax/beps/brief-on-the-tax-challenges-arising-from-digitalisation-interim-report-2018.pdf

17 Refer to https://read.oecd-ilibrary.org/taxation/addressing-the-tax-challenges-of-the-digital-economy-action-1-2015-final-report_9789264241046-en#page82

18 https://www.unpri.org/download?ac=4536

19 https://www.msci.com/documents/10199/93765fb6-7685-4a04-b124-d71d4f6195a2

APPENDIX 3: COUNTRY-BY-COUNTRY REPORTING

The below provides a brief summary of existing frameworks for country-by-country reporting (CBCR).

OECD BASE EROSION AND PROFIT SHIFTING (BEPS) ACTION 13

As per Action 13 of the BEPS Action Plan, multinational companies with revenues over €750 million are required to file detailed reports with tax authorities on some of the key elements of their financial returns in each of the jurisdictions where they operate. This includes revenue, profits before tax, income tax paid and accrued, number of employees, stated capital, accumulated earnings and tangible assets. The names and the business nature of constituent entities of the group are also made available.

Key points to note:

- Countries that are members of the BEPS Inclusive Framework (more than 110 jurisdictions globally) have committed to implementing CBCR requirements.
- These CBCR reports are intended as a risk management tool for tax authorities, which means information will only be shared with tax authorities and not made publicly available.
- The information provided via the OECD BEPS template is not required to be reconciled with financial statements[20].

SHOULD INVESTORS ASK FOR INFORMATION IN THE BEPS TEMPLATE TO BE MADE PUBLICLY AVAILABLE?

The data provided to tax authorities in the BEPS template is relevant for investment decision making. However, there are concerns that corporate data which has been collated in an aggregated format may be easily misinterpreted. As there is no requirement to reconcile data in the template with financial statements, some figures may appear inflated. In addition, information gathered is expected to be voluminous and, therefore, practically challenging to sift through. Investors would benefit from engaging with companies on the type of information that is most interesting to them and discussing the best format to disclose these items.

OTHER SECTOR-FOCUSED REGULATIONS/FRAMEWORKS ON CBCR

In addition to the OECD BEPS framework, companies in certain sectors are already required to publish granular data[21]:

CAPITAL REQUIREMENTS DIRECTIVE (CRD) IV

In line with the CRD IV requirements, credit institutions and investment firms are required to report publicly on a country-by-country basis including on activities, turnover, employees, profits, corporate taxes and public subsidies received.

EU ACCOUNTING DIRECTIVE: CHAPTER 10

Large companies involved in the exploration, prospecting, development and extraction of minerals or oil and gas, or the logging of primary forests, are required to report on: taxes levied on income, production or profits; dividends, royalties, license fees and rental fees; production entitlements, signature, discovery and production bonuses; and payments for infrastructure improvements.

DODD FRANK ACT, SECTION 1504 (PROPOSED REPEAL)

Companies that are involved in the development of oil, natural resources or minerals are required to file Form SD with the SEC annually. Information to be disclosed includes: taxes levied on income; royalties; entry and rental fees; production entitlements; bonuses; dividends; payments for infrastructure improvements; and payments in kind.

EXTRACTIVES INDUSTRIES TRANSPARENCY INITIATIVE (VOLUNTARY)

When countries sign up to the EITI initiative, governments must report on revenues from the extractive industry, and extractive companies involved in the exploration and production of oil, natural gas and minerals must disclose payments to governments. Corporate disclosure includes profit, taxes, production entitlement, dividends, bonuses, license fees and other significant payments.

20 https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-country-by-country-reporting-cbcr-emerging-themes-g20-oecd-and-uk.pdf

21 https://home.kpmg.com/content/dam/kpmg/pdf/2016/07/cbcr-kpmg-cbcr-overview-and-comparison-of-initiatives-15042016.pdf

Tax reporting requirement by legal instrument[22].

		ACTION 13 BEPS COUNTRY-BY-COUNTRY REPORTING	PUBLIC COUNTRY-BY-COUNTRY REPORTING (EU PROPOSAL)	CAPITAL REQUIREMENTS DIRECTIVE IV	THE EU ACCOUNTING DIRECTIVE: CHAPTER 10	THE DODD FRANK ACT: SECTION 1504
Basic information	Entity name	✓		✓		
	Activities	✓	✓	✓		
	Geographical location/tax jurisdiction	✓		✓	✓	✓
	Project name				✓	✓
	Receiving government				✓	✓
Financial data	Revenue	✓	✓	✓		
	Profit or loss before tax	✓	✓	✓		
	Tangible assets other than cash or cash equivalents	✓				
	Stated capital	✓				
	Accumulated earnings	✓	✓			
Tax data	Income taxes paid	✓	✓	✓	✓	✓
	Income tax charge		✓			
Other data	Public subsidies received			✓		
	Dividends				✓	✓
	Royalties				✓	✓
	License fees, rental fees and entry fees				✓	✓
	Signature, discovery and production bonuses				✓	✓
	Production entitlements				✓	✓
	Payments for infrastructure improvements				✓	✓
People data	Number of employees	✓	✓	✓		

22 https://home.kpmg.com/content/dam/kpmg/pdf/2016/07/cbcr-kpmg-cbcr-overview-and-comparison-of-initiatives-15042016.pdf, p 18

APPENDIX 4: EXAMPLES OF DISCLOSURE IN THE HEALTHCARE AND IT SECTORS

TAX POLICY (ORGANISATIONAL AND BOARD VIEW ON CORPORATE INCOME TAX):

GSK: "We have a responsibility to our shareholders to be financially efficient and deliver a sustainable tax rate. As part of this approach, we look to align our investment strategies to those countries where we already have substantial economic activity, and where government policies promote tax regimes which are attractive to business investment, transparent in their intent and available to all relevant tax payers, such as the UK Patent Box[23]."

Novo Nordisk: "In line with our Triple Bottom Line approach as well as the Novo Nordisk Way, our finance policy includes the intention of 'pursuing a competitive tax level in a responsible way'. 'Competitive tax level' implies achieving a tax level around the peer group average. 'Responsible way' implies doing business in a way that meets expectations for a good corporate citizen. This means paying taxes where profits are earned in accordance with international transfer pricing rules. It means having a balanced tax risk profile and not engaging in tax-avoidance activities, as well as keeping tax levels stable and predictable[24]."

Coloplast: "Coloplast sees taxes as an important part of the business as respecting local tax laws and regulations are important to Coloplast's reputation and brand. In addition, taxes contribute to the economic value generation in the countries where Coloplast operate. In Coloplast, taxes are paid where business activities generate value in accordance with internationally accepted standards. Coloplast does not allow commercial needs to override compliance with applicable laws, nor base commercial activities on tax avoidance schemes. All transactions and tax structures must therefore have a business purpose or commercial rationale as a prerequisite, and Coloplast will not engage in tax planning schemes and structures, which Coloplast does not wish to divulge to the tax authorities. Within these principles, Coloplast will pursue tax opportunities if they arise and will proactively obtain knowledge in order to have a competitive effective tax rate and avoid double taxation[25]."

TAX GOVERNANCE

GSK: "Our Audit and Risk Committee, and the Board, are responsible for approving our tax policies and risk management. The tax affairs of the Group are managed on a global basis through a co-ordinated team of tax professionals, led by the Global Head of Tax, who work closely with the business. Significant decisions are submitted for consideration to the Tax Governance Board, which meets quarterly and comprises senior personnel from across GSK's Finance Group[26]."

Novo Nordisk: "All employees in the global tax organisation are aligned on how to deal with taxes in Novo Nordisk and to comply with our objective of 'pursuing a competitive tax level in a responsible way'. Employees working with tax must henceforth sign the Novo Nordisk 'Corporate Tax Code of Conduct" which specifies five habits of responsible conduct[27]."

Sage: "The ultimate responsibility for Sage's tax strategy and compliance rests with the Group Board who ensure that the appropriate framework is in place to oversee the identification and management of tax risk. The Chief Financial Officer ('CFO') is the Board member with executive responsibility for tax matters. Day-to-day management of tax affairs is delegated to the Group Tax Director who has a team of appropriately qualified individuals. The Group CFO is appraised regularly of all significant tax developments and participates in all material tax related decisions[28]."

23 https://www.gsk.com/media/2983/our-approach-to-tax.pdf

24 http://www.novonordisk.co.uk/content/dam/Denmark/HQ/investors/irmaterial/20160110_Novo%20Nordisk%20Tax%20approach.pdf

25 Coloplast, 2015-16 CSR report, p13: https://www.coloplast.com/Documents/CSR/Reports/CR%20Report%202015_16.pdf

26 https://www.gsk.com/media/2983/our-approach-to-tax.pdf

27 http://www.novonordisk.co.uk/content/dam/Denmark/HQ/investors/irmaterial/20160110_Novo%20Nordisk%20Tax%20approach.pdf

28 http://www.sage.com/company/about-sage/corporate-governance/our-tax-strategy.

TAX PLANNING AND TAX RISK MANAGEMENT

Johnson & Johnson: "We have a low tolerance for tax risk and reject planning opportunities that are not in line with our values or are inconsistent with our reputation. Where uncertainty exists and when appropriate, we seek clarification from external advisors and/or governmental authorities[29]."

GSK: "We are not prescriptive on the level of tax risk we are prepared to accept. However, we do not take speculative tax positions where the advice received does not support our position, or those that bring material tax risk. Where there is material uncertainty on the tax treatment of a transaction, external advice is sought before any position is taken. External advisors are also required to adhere to our Code of Conduct[30]."

ASML: "ASML strives to report and pay taxes in accordance with all relevant tax laws and regulations. We will comply with the letter and spirit of these laws and regulations, meaning that we are committed to complying not only with the detail of the relevant laws, but also their intent[31]."

TAXES PAID LINKED TO COMMERCIAL ACTIVITY

Sonic: "Sonic Healthcare does not enter into transactions or structures without commercial substance. The only countries in which Sonic has subsidiaries are those in which we have a substantial operating business presence, in the form of clinical laboratories1. These active businesses contribute to the economic growth and healthcare of their country of operation. Sonic has active laboratory operations in Switzerland and Ireland, two countries with relatively low corporate tax rates; however Sonic does not operate any international shared service or financing functions or structures in those countries[32]."

GSK: Tax reconciliation using home country statutory tax rate (see table ahead)[33].

Intuiti: "The Company has a tax holiday in effect for its business operations in Switzerland which will continue until the end of year 2017 to the extent certain terms and conditions continue to be met. This tax holiday provides for a lower rate of taxation in Switzerland based on various thresholds of investment and employment in such jurisdiction. As of December 31, 2016, the Company remained in compliance with the terms of the holiday. At the end of the tax holiday, Swiss taxable income may be taxed at a higher rate depending on the applicable federal and cantonal rules. Tax benefit from the Swiss tax holiday for the year ended December 31, 2016, was approximately $10.0 million, or $0.25 per diluted share[34]."

Align: "In order to receive the benefit of these incentives, we must hire specified numbers of employees and maintain certain minimum levels of fixed asset investment in Costa Rica. If we do not fulfill these conditions for any reason, our incentive could lapse, and our income in Costa Rica would be subject to taxation at higher rates, which could have a negative impact on our operating results[35]."

29 https://www.jnj.com/about-jnj/company-statements/tax-policy-statement
30 https://www.gsk.com/media/2983/our-approach-to-tax.pdf
31 ASML, 2016 Integrated report, p 47.
32 http://investors.sonichealthcare.com/corporate-governance/?page=policy-and-charters
33 GSK, 2016 Annual report, p 178.
34 Intuiti, 2016 Annual report, p86.
35 Align, 2016 Annual report, p 28.

Table: Reconciliation of taxation on group profits

	2016 £M	2016 %	2015 £M	2015 %	2014 £M	2014 %
Profit before tax	1,939		10,526		2,968	
UK statutory rate of taxation	388	20.0	2,131	20.25	638	21.5
Differences in overseas taxation rates	593	30.6	1,035	9.8	406	13.7
Benefit of intellectual property incentives	(321)	(16.5)	(286)	(2.7)	(323)	(10.9)
R&D credits	(93)	(4.8)	(38)	(0.4)	(72)	(2.4)
Remeasurement of non-taxable put option liabilities	340	17.5	17	0.2	–	–
Losses not recognised/ (previously unrecognised losses)	(15)	(0.8)	31	0.3	(205)	(6.9)
Permanent differences on disposals and acquisitions	(21)	(1.1)	(248)	(2.4)	23	0.8
Other permanent differences	97	5.0	58	0.6	268	9.0
Re-assessments of prior year estimates in respect of current and deferred taxes	(116)	(6.0)	(578)	(5.5)	(617)	(20.8)
Tax on unremitted earnings	25	1.3	32	0.3	19	0.6
Tax charge/tax rate	877	45.2	2,154	20.5	137	4.6

GLOSSARY

TERM	DEFINITION
Base Erosion and Profit Shifting (BEPS)	Tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid.
Country-by-country reporting (CBCR)	Part of the OECD's BEPS project, country-by-country reporting requires MNEs with a turnover over €750 million or equivalent in a country to file with the tax authorities a report on the operations in different jurisdictions; employees, revenue, profit, paid income tax, accumulated earnings and tangible assets. The information is not publicly available but is for tax authorities to share between each other to ensure that the entity is paying the right levels of tax in each jurisdiction.
Effective tax rate (ETR)	The average rate at which an enterprise is taxed on pre-tax profits. ETR=actual tax liability/total taxable income.
Intellectual property (IP)	Intangible assets that are protected by copyright, patent, registered design or trade mark etc. Owners of the IP receive royalty payments when other entities or individuals use the asset. A common tax optimisation strategy is to transfer ownership of IP rights to an offshore IP holding company in a low tax jurisdiction to reduce tax burdens on royalty payments.
Intra-company debt balances	Companies often finance the operations and capital expenditures of their foreign affiliates through intra-company loans. Companies can do this to better manage cash flows, restore liquidity and enjoy other benefits.
Multinational companies	Company or group of companies with business establishments in two or more countries.
Permanent establishment (PE)	Term used in double taxation agreements to refer to a situation where a non-resident enterprise has sufficient activity to create a taxable presence in that country. An enterprise in one country will not be liable to the income tax of the other country unless it has a "permanent establishment" through which it conducts business in that other country. Each country has criteria for what it deems is PE but in general terms it is considered as having a stable and ongoing presence in a foreign country as opposed to sporadic or isolated business efforts.
Regulation S-X	Sets out the form and content of and requirements for financial statements filed with the US Securities and Exchange Commission.

TERM	DEFINITION
“Spirit of the law”	A company should aim to comply not only with the letter of the relevant laws but also the intention behind the laws. In complying with the spirit of the law, entities are encouraged to take into account not only the intention of parliament, but the interest of internal and external stakeholders.
Tax avoidance	The arrangement of an enterprise's affairs in a way that is intended to reduce its tax liability through legal methods (although often in contradiction with the intent of the law it purports to follow).
Tax base	The assessed value of a set of assets, investments or income streams that is subject to taxation.
Tax evasion	Illegal arrangements where the liability to tax is hidden or ignored. This implies that the enterprise pays less tax than it is legally obligated to pay by hiding income or information from tax authorities.
Tax gap	The difference between a company’s ETR and the weighted average statutory rate. Although there may be non-tax related reasons for this gap, large and persistent tax gaps are often the result of profit shifting and tax optimisation.
Tax haven	While there is no set definition, the OECD has described it as a country which imposes low or no tax, and is used by corporations to avoid tax which otherwise would be payable in a high-tax country. The European Union defines it as a jurisdiction which makes it possible to escape taxation; has low or zero taxation; facilitates fictitious residence (with no bearing on reality); and tax secrecy. The first EU list of tax havens were agreed by the EU Member States in December 2017[36]).
Tax holiday	A government incentive programme that offers a tax reduction or elimination to businesses. Tax holidays are often used to reduce sales taxes by local governments, but they are also commonly used by governments in developing countries to help stimulate foreign investment.

36 https://ec.europa.eu/taxation_customs/tax-common-eu-list_en

TERM	DEFINITION
Tax incentives	Tax incentives are several government measures intended to encourage individuals and businesses to spend or save money by reducing the amount of tax that they have to pay. These might be offered in the form of deductions, exclusions or exemptions from a tax liability, offered as an enticement to engage in a specified activity (such as investment in capital goods) for a certain period.
Tax planning	Also known as tax optimisation, it encompasses any arrangements with the attempt to minimise tax liability. Aggressive tax planning involves the excessive use of opportunities in the tax system (e.g. mismatches in the tax system, use of artificial tax structures etc.) to reduce the corporate tax burden.
Tax reconciliation	Usually provided as part of statutory accounts and explains the relationship between the tax expense and accounting profit.
Transfer pricing	The setting of the price for goods, services or intangible property sold between controlled (or related) legal entities within an enterprise. Abusive transfer pricing occurs when income and expenses are improperly allocated for the purpose of reducing taxable income.
Unrecognised tax benefit (UTB)	Also known as uncertain tax positions, a UTB is a liability for income tax-related positions that may be challenged on audit and ultimately rejected in whole or in part.
Weighted average statutory rate	The weighted average of tax rates that companies are legally required to pay, calculated on the basis of the geographical mix of their revenue.

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org