

PUBLIC TAX REPORTING

Learning by Doing and Through Dialogue

The B Team [Principles on Responsible Tax](#) are a framework for leadership on responsible tax. Launched in February 2018, the Principles have been endorsed by a growing number of multinational companies committed to advancing good tax governance, management and transparency. Through this framework, The B Team—alongside the companies who have signed up to the Principles—are working to grow responsible tax practice into a well understood and widely practiced business norm.

Principle 7 of The B Team Responsible Tax Principles commits endorsing companies to the principle of tax transparency. In order to build trust, support understanding and enable clearer public conversation about tax, the Principles are clear that public reporting on tax is vital.

Principle 7 states:

“We provide regular information to our stakeholders, including investors, policy makers, employees, civil society and the general public, about our approach to tax and taxes paid.”

This includes publishing:

“Annual information that explains overall effective tax rate and information on taxes at a country level, together with information on economic activity.”

Principle 7 reflects the desire of companies to provide more substantive, meaningful information to stakeholders about taxes paid. The B Team Principles on Responsible Tax do not, however, specify how country-level information should be reported. This lack of specification was intentional, recognising that practice in this area is still emerging. When it comes to reporting country-level information about tax, there are various elements to consider. These include:

- **Data points:** Which taxes should be reported—corporate income taxes or other taxes also? Should companies report on taxes collected? Should other fees and payments to government be reported? And is there a need for other contextual data?
- **Units:** On what geographic basis should companies report on tax? Regional, country-by-country or even at project level—the latter being most relevant in the extractive industries.
- **Explanation and context:** What additional material is provided to understand the data? This might include contextual information, narrative, explanatory notes or case studies.

The companies that have committed to The B Team Responsible Tax Principles share a common goal: to make tax reporting meaningful. The companies involved have adopted different approaches to reporting, however. This is informed in part by differing statutory requirements across different sectors. But it also reflects the fact that since no two companies are the same, no two approaches to responsible tax necessarily look the same—different companies report for different reasons, to different stakeholders and in different ways. Best practice in this area is still emerging and there is no ‘one-size-fits-all’ approach that is appropriate to all companies nor is there a generally accepted gold standard for tax reporting.

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It is vital to learn from these different company experiences. If the aim of reporting is to strengthen accountability and predictability, what works and what doesn't? Which strategies have proven effective at engaging stakeholders and answering their questions? What data is being used and for what purposes?

To help contribute to the debate, The B Team has undertaken a short review of current practice in the field of tax reporting, in consultation with companies that are members of our Responsible Tax Working Group. In addition to desk research and reviewing published reports, we also conducted interviews with a range of participating companies including Allianz, Anglo American, BHP, Maersk, Prudential, Repsol, Rio Tinto, Shell, Unilever and Vodafone. The experience of all companies involved was unsurprisingly different, but common themes did emerge, which we outline below.

EIGHT LESSONS LEARNED

The B Team has identified eight key lessons from this review of corporate tax reporting. These lessons apply to most or many of the companies whose tax reporting is at the top of the pack.

1. REPORTING ON TAX HAS BENEFITS

It is clear that a thoughtful, adaptive and learning approach is critical to advancing this area of corporate responsibility. Companies investing in greater transparency have observed the following concrete benefits of doing so, amongst others:

- It enables constructive dialogue with NGOs, media and other stakeholders.
- It interests a growing number of investors who are increasingly focused on corporate approaches to tax, including from both ethical and value perspectives as potential material tax exposures could adversely impact the value/profitability of a company.
- It facilitates efficient communication, saving time and effort in responding to queries.
- It provides proof of company commitment with regulators and politicians, building credibility for policy engagement.
- It helps to inform the development of voluntary and statutory norms via the testing of reporting frameworks.
- It assists with creating a positive overall reputation or brand which can be particularly important in those countries where customers or operations are located.
- It complements reporting on the broader economic contribution that companies make, including investments made, employment created and payments to local suppliers and governments.

2. NARRATIVE CAN BE AS IMPORTANT AS DATA

Data is part of the solution, but raw data are very often difficult to interpret and can lead to more questions than answers or even to misinterpretations. For this reason, many companies voluntarily publishing tax information tend to

EIGHT KEY LESSONS:

1. **Reporting on tax has benefits**
2. **Narrative can be as important as data**
3. **Effective reporting answers the questions people are asking**
4. **The case for reporting in the extractive industry is particularly strong**
5. **Tax data should remain accessible year-over-year**
6. **Concerns about cost, complication and usefulness need to be reconciled**
7. **Simple ratios of 'misalignment' may mislead**
8. **Engagement with information users can—and should—drive learning**

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back this data up with significant amounts of narrative explanation, which helps to make the data accessible and digestible to a broader range of stakeholders.

As one respondent stated, “my advice to people from other companies starting on this journey: you need narrative to explain the data. It’s your insurance against criticism and misunderstanding. The aim is to support the reader to trust that decision-making is ethical and fair and lawful.”

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Some companies see advantages in full country-by-country reporting—not least the fact that it demonstrates that they have ‘nothing to hide.’ Such comprehensive disclosure is also the primary policy goal of many international civil society organisations. But it is unlikely—in itself—to be a panacea; complex tax information needs to be supplemented with a narrative that communicates the story behind the data.

3. EFFECTIVE REPORTING ANSWERS THE QUESTIONS PEOPLE ARE ASKING

Key questions often posed by stakeholders include:

- Whether companies operate in ‘tax havens,’ and if so, why?
- What tax incentives they use?
- How their overall effective tax rate compares with industry peers or other benchmarks?

Effective tax reporting will go beyond the provision of raw data and seek to answer these key questions. However, companies also have to respond to mandatory standards. Consistent reporting requirements focused on meaningful tax information could help to strengthen reporting practice (and comparability between companies), but they must be guided by user needs.

4. THE CASE FOR REPORTING IN THE EXTRACTIVE INDUSTRIES IS PARTICULARLY STRONG

Reporting on payments to governments in the natural resource industries is driven by a slightly different set of concerns and pressures. There is a particularly strong case for country-level reporting because of the significance of payments to government by extractives companies in resource-rich countries—and the need to demonstrate economic contribution. By reporting payments to government, companies can help to secure their ‘social licence to operate.’ Transparency also helps protect companies and their investors from demands for illicit payments.

As a result of these factors, statutory reporting requirements for country-by-country reporting in the extractives sector now apply in the EU, Norway and Canada, and NGOs in resource-rich countries have utilised this information as a means of assurance—for example to determine whether payments reported by companies tally up with payments reported as received by governments.

5. TAX DATA SHOULD REMAIN ACCESSIBLE YEAR-OVER-YEAR

Companies are still experimenting with different approaches to tax reporting so their approach can differ year-over-year. But it is important for this data to remain accessible after year end, archived along with other corporate reporting. This archiving allows stakeholders to better understand trends over time, which is crucial to gaining a full understanding of corporate tax behaviour particularly since one-off transactions can skew figures in a single year. Further good practice is to proactively include year-over-year comparisons and explanations in the report. As approaches to tax reporting mature and become stabilised, such comparisons (and historic records) will help to provide assurance to stakeholders.

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6. CONCERNS ABOUT COST, COMPLICATION AND USEFULNESS NEED TO BE RECONCILED

Companies committing to The B Team Responsible Tax Principles are all committed to transparency, but compiling, checking and publishing tax information on a globally consistent basis is not straightforward, entailing a significant investment. Producing different types of data for different uses (and to meet different regulatory and voluntary standards) results in cost but also complexity, which can detract from the usefulness and comprehensibility of data. It can also introduce discrepancies, thus increasing the need for detailed explanations and reconciliation. For example, while many civil society stakeholders say they are most interested in cash taxes paid, these figures do not relate to profits or revenues in the year in which they are reported. Other differences between mandatory reporting standards include their treatment of withholding taxes and joint ventures. Therefore in the pursuit of meaningful tax reporting, such considerations need to be reconciled with that of transparency, in order for companies to report effectively, efficiently and in a consistent manner and to ensure that complexities do not lead to misinterpretation or misunderstanding.

7. SIMPLE RATIOS OF 'MISALIGNMENT' MAY MISLEAD

A key expectation of some NGOs campaigning for disclosure of country-by-country reports is that it will allow tax abuse to be identified through calculation of ratios such as profits to revenues, profits to employee numbers or taxes to profits. In certain circumstances these ratios may provide insights, but in practice there can be legitimate reasons for differences in these ratios. Indeed this has been recognised by the NGO Global Witness, which in the recently published *Finding the Missing Millions* (a handbook for activists focused on the use of data) notes that data should not be used (on its own) as the basis for public allegations of company wrongdoing: "it is important to recognise that this is just the start of the process. Further inquiry will be needed. Care should be taken to ensure that convincing evidence supports any claims of revenue loss." The OECD issues a similar warning to revenue authorities using country-by-country reports for risk assessment.

8. ENGAGEMENT WITH INFORMATION USERS CAN—AND SHOULD—DRIVE LEARNING

Whilst there is an increasingly clear business case for tax reporting, there is not—as yet—a one-size-fits-all approach. Different companies report to different stakeholders with different priorities, and as such many are still experimenting with their tax reporting strategies. As businesses seek to deliver *meaningful* tax reporting, there is a clear case for a broad and constructive conversation involving NGOs, investors and others. These conversations need to explore the meaning of tax reports in practice and involve further experimentation, testing, evaluation and learning.

ABOUT THE B TEAM

The B Team is a catalyst for bold dialogue, inspiring courageous leadership and brave business action toward a fairer, greener and more human economy. The B Team's global collective of business and civil society leaders are working together to build a principled and purpose-driven private sector and demonstrate that, with courageous leadership, business becomes a force for good.

For further information on The B Team Responsible Tax Principles, please contact Ewan Livingston, Cause Strategist, The B Team, at el@bteam.org.