Tax transparency
Seizing the initiative
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The trust an organisation builds with its stakeholders is critical. Tax, as a measure of the contribution an organisation makes to the economies in which it operates, is a key dimension in building that trust. The public is calling for a clearer picture of the tax policies of organisations, as well as the amount of tax they pay. The recent debate around 'fair tax' has raised the bar in terms of the expectations of the level of tax information provided by multinational companies. And the public is waiting for a response.

However, many of the organisations we have spoken to are concerned that increased transparency will not deliver greater understanding to stakeholders but will instead create a potentially significant administrative burden and could result in divulgence of commercially sensitive information. Ultimately they are concerned that greater tax transparency may not be the panacea wanted by sections of the fair tax lobby.

What is clear to us is that organisations cannot ignore the call for greater tax transparency and need to consider the role and extent of greater transparency about the taxes they pay as part of stakeholder management if they have not already done so. The direction of travel appears clear and we see the current position as a tipping point. Our view is that, if there is not a step change in the level of voluntary tax transparency reporting, there is a material possibility that mandatory changes will follow. By seizing the initiative now, organisations can help shape a more effective and workable outcome. Groups will, of course, need to form their individual views on any additional voluntary disclosures, but we expect to see more groups choosing to disclose more information with a view to giving stakeholders better quality insights into their tax profile.

In considering additional tax transparency reporting, our recommendation is that groups:

► Recognise that now is the time to review the position with respect to additional reporting
► Review how they measure against their peer group and consider where they want to be
► Decide where is the most appropriate place to communicate (as it may not necessarily be, and in fact probably is not, wholly in the Annual Report and Accounts)
► Design the processes to collate suitable information and supporting data

By seizing the initiative with respect to disclosure, organisations can positively inform and influence the debate. The degree of momentum is now such that failing to at least consider the impact of additional reporting would raise concerns.

This paper frames the questions that Boards should ask in order to prepare for the possibility of substantive tax transparency reporting for the first time or to improve their existing reports by enhancing data collection processes and financial statement and other disclosures.

I hope you find this paper both useful and thought provoking. If you would like to comment on the issues raised, please contact me, one of my colleagues detailed at page 43 or your regular Ernst & Young contact partner.

John Dixon
Managing Partner, Tax UK & Ireland
We feel that a tipping point has been reached, with many organisations now sensing that greater tax transparency reporting will become expected and more routine.
The momentum is building
Public debate is increasingly focused on the tax policies of companies as well as the amount of tax they pay. With the dialogue played out across a number of channels including investors, parliamentary committees, governments and the EU as well as the national press and social media, there is growing pressure on organisations to respond or face reputational damage.

Increased tax transparency is inevitable
In our view, the debate around ‘fair tax’ has raised the bar in terms of the expectations of the level of tax information provided by multinational companies and we expect the response will be a greater degree of disclosure by many organisations. Indeed, the debate is progressing at such a pace that it is difficult to envisage an environment where increased tax transparency in some form or another is not on the near horizon.

Seize the initiative
Groups need to act now to consider their approach to tax transparency. This is not just about being responsive to key stakeholders currently demanding more information. By acting and responding promptly, organisations have the opportunity to shape the debate and to influence the direction of travel toward a more workable and effective long-term solution.

The tax transparency context
A lack of consistent usage means that tax transparency represents different things in different contexts but we see it as the communication of an organisation’s approach to tax planning and compliance as well as the amount of tax it pays in order that stakeholders have confidence that a fair share of tax is being paid. Reporting, both voluntary and mandatory, is therefore a key element of tax transparency – simply complying with the current rules may no longer be enough.

The sphere of influence
Traditional stakeholders such as shareholders, creditors and investment analysts are typically focused on a company’s strategy for growth and profitability. However, a new group of stakeholders are becoming increasingly vocal about the contribution organisations make to the economy and may have a significant impact on the business. This group includes consumers, non-governmental organisations, MPs, international organisations and, of course, the media. It is important that organisations identify critical stakeholders and are able to respond flexibly to their differing needs.

Is it just about corporate profile?
The reputation of an organisation is an important factor in business success but an increased level of tax transparency reporting may also represent a key building block in developing stronger relations with tax authorities and may bring with it a collaborative approach to resolving issues, leading to much earlier decision making and greater certainty.
Country by country tax reporting is now set to become a requirement for EU extractive and banking entities and so, unless business responds with a robust alternative approach, there is the risk of this becoming the default regime with a wider application.

Existing rules

As it stands, the accounting standards that cover current taxes payable simply require disclosure of the amounts payable or recoverable at the balance sheet date. That said, country by country tax reporting is now set to become a requirement for EU extractive and banking entities and so, unless business responds with a robust alternative approach, there is the risk of this becoming the default regime with a wider application.

With limited mandatory disclosure requirements, organisations can take their own approaches beyond the tax figures reported in the annual report and accounts. We researched what the FTSE 100 currently disclose on tax matters and where they currently choose to disclose such information. This showed that only a minority of organisations currently include additional disclosure, such as:

► Supplementary figures in the annual report to support the comments made in relation to tax matters in the past.

► Disclosures to explain the economic contributions made to governments and emerging economies via taxes borne and collected.

► Disclosures of tax policies and strategies, often focusing on maintaining open and transparent relationships with tax authorities such as HMRC.

Degree of disclosure and country by country reporting

In making the decision in terms of what to disclose, the range of information that can fall under the 'tax transparency' banner is broad. One approach is country by country reporting of tax payments, an approach creating concern for some organisations. In its raw form, it is seen by many as complex, burdensome and still not necessarily the panacea to improved transparency. For example, country by country reporting does not directly inform stakeholders about whether an organisation has or has not adopted aggressive tax positions, albeit positions that are within the letter of the tax law.

Still, as a recognised reporting concept, adopted by the Extractive Industry Transparency Initiative, the influence of country by country reporting has begun to extend and it is now supported by the EU and set to become a requirement for banking as well as extractive entities. Country by country reporting has also been proposed at a territory, rather than sector, level by the Australian Treasury.

The floodgates are, however, not yet open. Any further regulatory developments, in the EU at least, will take a number of years. This suggests that the development by organisations of alternative tax transparent reporting approaches such as increased narrative disclosure and more informative rate reconciliations may yet stem the tide on country by country reporting. Alternatively, voluntary adoption of a more refined version of country by country reporting may allow organisations to create a balanced, workable framework that meets the concerns of stakeholders.

Either way having better quality data and information internally seems to us to be a pressing need.
Challenges

Although the benefits of increased tax transparency reporting can be significant, organisations should be aware of the challenges that may be involved. In particular, the burden associated with collation of comparable data from a number of different business units and reporting formats can be significant.

Organisations need to strike a balance between trying to maintain confidentiality over key competitive information whilst providing sufficient data in their external tax transparency reporting to make it worthwhile. They should also be aware that the very process of reporting the information can create additional pressure on organisations to continuously improve their performance so as to ensure development from one reporting period to the next.

Tax is obviously a complex area so providing sufficient information to ensure stakeholders can easily appreciate the relevance and significance of the information without the report becoming over-detailed can be a difficult undertaking. Also, if the reports are not sufficiently clear, readers may draw mistaken conclusions that are contrary to the intention of the report and to the genuine nature of the information provided.

A valuable tool

Increased transparency is a valuable tool for communicating with a broad range of internal and external stakeholders. Raising internal awareness facilitates more employees being ‘signed up’ to the tax principles and strategies set out in the reporting. Greater external awareness helps organisations maintain their social license to operate.

Governments and reporting standards/advisory groups are discussing potential improvements to tax reporting on an ongoing basis. Increased voluntary reporting on this and other areas now will inevitably help develop the processes and systems required to gather accurate information, and will prevent a rush later on, as and when such reporting becomes mandatory.

What next?

We feel that a tipping point has been reached, with many organisations now sensing that greater tax transparency reporting will become expected and more routine. Whilst mandatory country by country reporting for most may be some way off, we anticipate that short-term pressure for greater transparency will encourage companies to gather information and examine and enhance existing disclosures. Specifically, we may see better explanations to supplement the tax rate reconciliation, clearer statements on the tax policies of organisations, and explanations of tax profiles in key countries.

It is key that organisations recognise that now is the time to decide on their position, not just with respect to additional reporting, but also what they will disclose and where the most appropriate place to disclose it will be.

These actions should be taken now because they put the organisation in a position to engage with its stakeholders effectively and leave it prepared and armed for any questions and challenges it may face.
We see tax transparency as being how an organisation chooses to communicate its approach to tax and how much tax it pays. It is how it seeks to provide clarity on the complex area of tax.
Introduction to tax transparency – what does it mean; why now?

The concept of tax transparency will mean different things for different organisations but, with the debate moving apace, we expect to see more groups choosing to disclose more information with a view to giving stakeholders better quality insights into their corporate tax profile.

Many of the challenges inherent in the current debate around tax are exacerbated by the lack of a commonly understood language. This, among other factors, is giving rise to the call for greater “tax transparency” although even this phrase does not necessarily have a clear meaning.

However, the following reflects current thinking:

► Tax transparency can firstly be viewed as the way an organisation communicates its approach to tax and to the amount of tax it pays.

► It is how organisations provide clarity on the complex area of tax and give stakeholders confidence that a fair share of tax is being paid.

► Tax transparency can also be applied to the way governments disclose the payments they receive in the form of taxes and how tax authorities in different countries co-operate to share information about the same taxpayer.

The pressure to publish historic financial information as a means to influence future behaviour is currently bringing all of these tax transparency issues together in the context firstly of strategy development but then in terms of reporting. This paper focuses on the reporting elements of tax transparency.

Interest in taxes, direct and indirect, borne and collected, has been around for a while. The focus is now firmly on corporate taxes as these represent an organisation’s contribution out of its own profits to the economies in which it operates.

Beyond the formal requirements

At one level, tax transparency could be interpreted as complying with the rules requiring the publication of tax data. However, in an environment where tax is becoming far more of a focus, reliance solely on the data required by law is proving progressively more contentious. Faced with a set of regulatory rules or requirements that are increasingly seen as insufficient by some stakeholders and the media, organisations are seeking clarity on the way ahead.

This is not a completely untrodden path. For some industries, such as the extractive industries, various frameworks have been designed to make tax disclosures more accessible to readers of financial statements. For businesses operating in those industries, tax transparency is already an increasingly familiar phenomenon.

Accounting standard setters and advisory groups have also made various proposals designed to enhance the transparency of tax reporting, such as standardised tax reconciliations.
What it means for the future

As calls for greater tax transparency grow it is clear that change is on the horizon. What remains unclear, however, is the form those changes will take. At one end of the scale, country by country reporting represents a potentially onerous prospect for many organisations.

In a survey conducted by Ernst & Young in February 2013, over two thirds of respondents said they would not be in favour of country by country reporting. Similarly, the response by members of the Hundred Group who chose to answer the same question raised by Stephen McPartland MP in late 2012 was overwhelmingly against country by country reporting.

Country by country reporting is just one of the directions in which the debate could move. By acting now to address current demands — for example, through an expanded tax reconciliation — organisations can help shape a more workable outcome.

Certainly, the increase in the needs of stakeholders and the variety of options available for providing greater transparency means that it is likely that we can expect this position to develop further.

Moving forward

In order to gain a full understanding of tax transparency and the potential impact on your organisation, it is important to be clear as to:

► The context behind current calls for transparency and the potential benefits that come along with it
► Current tax transparency requirements
► What other organisations are currently delivering
► The information that an organisation might choose to disclose
► The challenges associated with increased tax transparency reporting
► How you can get the most value out of tax transparency reporting
► What you should do next

The remainder of this report covers each of these points in more detail.
Timeline

July 2010
The European Parliament requests that the European Commission consider the area of Transparency and Accounting.

September 2010

December 2011
The Council of the European Union initiate discussions on the proposals for EU Directives on Transparency and Accounting.

June 2012

September 2012

November 2012 – January 2013

January 2013

February 2013
OECD issues its report ‘Base Erosion and Profit Shifting’, which highlights the complex and urgent policy debate ahead and the intent to consult with business.

March 2013

April 2013

2002

Extractive Industries Transparency Initiative formed.

Stephen McPartland MP, as part of a campaign led by Christian Aid wrote to the members of the Hundred Group asking both for support for country by country reporting as well as insights into attitudes to tax.

President Obama signs Dodd-Frank Wall Street Reform and Consumer Protection Act.

EFRAG releases the discussion paper 'Improving the Financial Reporting of Income Tax'.

European parliament votes on proposals to amend EU Directives on Transparency and Accounting and issues proposed rule which is to be debated by the tripartite group of EU Parliament, Commission and Council of 27 Member States.

UK Public Accounts Committee require large US multinationals, Big 4 Heads of Tax/Tax Policy to discuss their tax positions and practices.

EFRAG releases its feedback statement on 'Improving the Financial Reporting of Income Tax' discussion paper.

Australian government instructs the Treasury to analyse whether greater reporting of taxes paid by multinationals in every country is desirable.

The European Parliament agrees proposals that will require banking entities to report profit before tax and payments to and from governments to be reported annually to the European Commission as part of a range of proposals that form part of the EU's Capital Requirements Directive IV.

EU finalises drafting of Accounting Directive to require reporting of payments to governments by EU extractive and logging entities.

The UK government announces proposals to require potential suppliers under Government contracts to confirm they have not been involved in certain tax avoidance arrangements.

HM Government issues its response to the Public Accounts Committee report and recommendations on HMRC's performance, in particular in respect of the UK taxation borne by multinationals.

Australian Assistant Treasury releases a Treasury discussion paper proposing disclosure by the Australian Taxation Office of the total income, taxable income and income tax payable of large corporate entities with total income of A$100mn or more with a proposed start date of 2013/14.
The demand for increased transparency
It is important for organisations to be aware of who their key stakeholders are in respect of tax transparency and respond to their needs accordingly.
Why is increased transparency being asked for and by whom?

Why should additional disclosure be considered? In short, there is perceived to be a gap between the requirements of the regulators and the expectation of the business stakeholder base. This gap could well be divisive and a lack of tax transparency may give rise to misleading conclusions, making a difficult situation worse.

The stakeholders

Being able to identify the key stakeholders is fundamental to understanding how best to engage and communicate around tax transparency. Here we consider the stakeholders already evident in this debate and their perspectives.

Traditionally most users of consolidated financial statements have been:

► Shareholders
► Creditors
► Analysts

These stakeholders are focused on a company’s strategy for growth and profitability in order to judge the sustainability of dividends and interest payments. These are signs that some analysts are encouraging investors to ask more questions in relation to effective tax rates.

However, there remain other stakeholders who are much less likely to be readers of detailed consolidated financial statements. They include:

► Consumers
► Non-governmental organisations (NGOs)
► Members of Parliament
► International organisations
► Government officials
► Media

For this group of stakeholders, the focus is much more around a company’s contribution to the economy and whether the behaviours of the company conform to ideals of what is good or acceptable. The views of each of these stakeholders are discussed further below.
Consumers and NGOs
In a sign that the policies of transparency in financial reporting adopted by the regulators are working, activists are now becoming increasingly adept at interpreting a set of financial statements. For example, the Christian Aid ‘Tax Justice Advocacy Toolkit’ includes an entire chapter on researching tax, and determining the tax contribution of an organisation.

Since corporate taxes are raised at a country level (and often at an individual legal entity level), the tax consequences of internal transactions within a group are invisible to a reader of the consolidated financial statements. So, for example, the consolidated cash flow statement will only reveal taxes paid by the group as a whole.

This has led to a campaign by a number of NGOs for the disclosure of information via country by country tax reporting. The response to this has been led by the extractive industries with the voluntary disclosure requirements of the EITI, which strongly supports and encourages voluntary country by country tax reporting, as well as the Dodd-Frank Act1 in the US which requires extractive companies subject to SEC rules to report annually on their tax payments to federal and foreign governments on a country by country basis.

In November 2012, Stephen McPartland MP, as part of a campaign led by tax justice campaigners, wrote to the members of the Hundred Group asking both for support for country by country reporting as well as support for greater corporate tax transparency. Within five months a significant majority of the group had responded, overwhelmingly coming out against an international standard on country by country reporting. The concerns noted were mainly around:

► the cost involved compared to the additional transparency country by country reporting
► issues associated with commercial sensitivity, and
► the sense that the proposal was contrary to the objective of keeping financial statements clear and readable.

Bringing transparency to a notoriously complex area such as tax is a challenge that many Boards are now grappling with. Keeping communications clear, concise and relevant is the key objective as well as the desire to feel prepared to respond to appropriate stakeholder enquiry.

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1 Dodd-Frank Wall Street Reform and Consumer Act, Section 13(q) to the Securities Exchange Act as adopted by the SEC in August 2012.
Parliamentarians and other members of Government

Lack of tax transparency is now linked in the public’s mind with ‘aggressive’ tax planning, building from the adverse publicity surrounding recent Public Accounts Committee hearings with multinationals and the Big 4 firms here in the UK.

In March 2013, the House of Lords select committee on Economic Affairs launched an inquiry exploring whether a new approach is required in respect of the taxation of corporates in the modern global economy, and, as part of the questions posed, asked whether there a need for greater transparency by multinational companies in declaring taxes paid in different countries.

In April 2013, the Australian Assistant Treasurer released a Treasury discussion paper on greater public disclosure of taxes paid by large businesses, proposing disclosure by the Australian Taxation Office of the total income, taxable income and income tax payable of large corporate entities with total income of A$100mn or more. Reporting of income tax would start in relation to the income year 2013/14.

Engaging with parliamentarians and using a common lexicon to explain the real position of taxation would help to reduce the misunderstandings and build up more of a shared agenda. The first step to this could well be tax transparency.

International organisations

The Organisation for Economic Cooperation and Development (OECD) notes in its report, ‘Addressing Base Erosion and Profit Shifting’ (BEPS) issued in February 2013 that:

“The ETR significantly impacts EPS and therefore has a direct impact on shareholder value.”

The OECD goes on to state:

“The comparison between an MNE’s ETR and that of its direct competitors often generates questions and therefore increased pressure on the MNE’s tax department.”

An initial action plan to tackle tax avoidance is being developed in time for the Committee on Fiscal Affairs to agree it at its next meeting in June 2013 and the OECD is likely to be looking at all the tools available to governments. While tax information is already shared with tax authorities, the OECD may look for further public disclosure to reinforce their actions.
Media
Focus on tax issues by the media is currently increasing on an almost daily basis. During the first week of April this year, articles on tax avoidance appeared in the national press of, amongst others, Egypt, India, New Zealand, Pakistan, South Korea, Spain, Taiwan, the UK and the US. The media in many of the same countries covered tax havens as did newspapers in Australia, Belgium, France, Germany, Malaysia and the Netherlands. Organisations can no longer assume that tax will remain a private issue.

Why might more reporting be appropriate?
Few organisations can have gone through the current financial crisis without observing or experiencing increased scrutiny from tax authorities seeking to ensure their respective treasury receives appropriate tax revenues. As such they will be understandably cautious about providing opportunities to increase that scrutiny.

However, while tax authorities are clamping down on what they perceive to be non-compliance in the form of aggressive planning, they are also keen to encourage enhanced relationships with companies built on mutual trust. Transparency is the building block for such a relationship and brings with it the benefit of significantly reduced tax authority audits, a collaborative approach to resolving issues leading to much earlier decision making and greater certainty.

By considering information on each tax paid in every country in which the group operates, and by understanding its effective tax rate country by country, an organisation stands to benefit from increased insights into risk and exposures in both direct and indirect tax areas.

An organisation that invests in preparing a narrative explanation of its tax profile deepens its understanding of the links between its profits and payments to governments. This greater understanding is a benefit whether or not the organisation is at a stage where it feels ready to disclose such information publicly.

The exercise of reporting gives a good overview of the cost of control in delivering compliance obligations globally and presents opportunities for operational efficiencies.

Another benefit, which some Boards will find compelling in the current environment, is that reporting may help them improve and enhance their governance across all taxes and understand the respective roles that tax, finance and operational teams play in managing cash, data and information that flows into payments made directly to tax authorities.
What is currently required?

The next step when considering greater tax transparency is to understand the current requirements and how they are likely to develop. In going beyond what is required, it is clearly sensible to review the direction in which the formal requirements are moving, so that if there are significant changes, they are easy to adopt and ensure compliance.

**Limited existing rules?**

In respect of current taxes payable, the accounting standards that cover income taxes simply require disclosure of the amounts payable or recoverable at the balance sheet date. There is no guidance in IFRS on the reporting of uncertain tax positions, a matter that the IASB sought to address in its attempt to align IFRS with US GAAP. This latter, by contrast, requires greater detail about the risk an entity faces in respect of unrecognised tax benefits that are subject to uncertainty with tax authorities.\(^1\) There are no specific requirements either with respect to taxes that are not taxes on profit, such as indirect taxes.

It is interesting to contrast the approach taken with tax to that taken with financial instruments. Unlike tax, specific disclosures are required in respect of risk associated with financial instruments\(^2\). An entity must disclose the nature and extent of risks arising from financial instruments to which the entity is exposed. It must also disclose how it manages and quantifies its exposure to such risks.

There is no such equivalent in respect of tax risk, despite the fact that many multinational groups are managing a significant portfolio of risks in connection with both direct and indirect taxes in many different countries. Increasingly, these tax risks arise in emerging markets where the relationships that groups have with the local tax authorities are less developed.

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\(^1\) ASC 740-10-25 of the US GAAP accounting standard codification.

\(^2\) IFRS 7.
Limited appetite for change?

The European Financial Reporting Advisory Group (EFRAG) issued a discussion paper in 2012 which sought to explore whether users of financial statements would prefer additional disclosures related to income taxes. In the responses received, EFRAG notes that:

‘Most respondents disagreed with the proposal to disclose information about an entity’s tax strategies on the basis that it would be onerous to prepare, especially for multinational groups, and also because it was based on forward-looking information and was likely to involve a high degree of judgement’.

Nor did respondents warm to the idea of disclosing more in connection with uncertain tax positions:

“Most respondents did not support the proposal to disclose information about uncertain tax positions of an entity as this type of information was considered ‘sensitive’ in nature and it was not always straightforward to demonstrate the existence of ‘uncertain’ obligations arising from tax positions as these could depend on how tax legislation was interpreted.”

In the light of the responses, EFRAG and the Financial Reporting Council (FRC) have indicated that they do not plan to take the initiative any further and have effectively handed it back to the standard-setting body, the International Accounting Standards Board (IASB). In its project plan, reporting on income taxes is not scheduled to be considered in any detail in the near future. The obvious conclusion is that the standard-setters are not going to provide a disclosure framework for corporate taxes in the short or even medium-term.

Extractive industries and financial services

Country by country tax reporting is becoming the expected norm in the extractive industry and so provides some basis from which to design a regime for wider application. The regulated financial services firms are anticipating similar measures as part of the Basel III discussions. The EU proposals, part of the EU’s Capital Requirements Directive IV for the banking sector, would require profit before tax as well as payments to and from governments to be reported annually to the European Commission and possibly then made public.

In making voluntary additional disclosures, organisations create their own formats and approaches beyond the tax figures reported in the annual report and accounts.
What is currently being delivered?

As the debate around tax information progresses, organisations are increasingly considering the steps they should be taking in response. Indeed, many have already responded on a voluntary basis.

In aggregate, there are very few mandatory requirements for organisations in respect of tax transparency. In making voluntary additional disclosures, organisations therefore create their own formats and approaches beyond the tax figures reported in the annual report and accounts.1

We researched what the FTSE 100 currently disclose on tax matters and where they currently choose to disclose such information. Our research showed that some of the additional disclosures made by organisations so far include:

► Supplementary figures in the annual report to support the comments made in relation to tax matters in the past.
► Disclosures to explain the economic contributions made to governments and emerging economies via taxes borne and collected.
► Disclosures of tax policies and strategies, often focusing on maintaining open and transparent relationships with tax authorities such as HMRC. These disclosures often illustrate how the group chooses to engage in the debate on how it behaves and the principles followed in setting their tax strategy.

Several groups include fairly general narrative discussion of tax in their annual report and accounts, with discussion of tax strategy and compliance; the socio-economic benefit the group brings through paying taxes; and how the group manages tax risk as part of the corporate governance protocols.

A select few groups have prepared separate reports outside the annual report and accounts, often with detailed information both on total taxes paid and on tax strategy.

The location of the information varies, from the financial statements to separate reports such as the following:

► Sustainability reports
► Citizenship reports
► Responsible business reports
► Total tax contribution reports
► Socio-economic contribution reports
► Tax policy documents
► Tax risk management/framework documents

These reports are available from groups’ websites, and in some cases the information is subject to an external assurance review. These reports often focus not just on taxes borne, but include discussion of taxes collected by groups on behalf of governments (e.g., VAT).

1 The data in this report is based on the latest publicly available annual reports and documents for the FTSE 100 group constituents as at 1 March 2013.
Responding to the demand
Tax transparency information includes both historic financial data and tax governance information.
What information could an organisation disclose?

In making the decision in terms of what to disclose, the range of information that falls under the ‘tax transparency’ banner is broad, but falls under two main categories.

► Historic financial data and associated explanations above and beyond what is required by accounting standards in the financial statements, and

► Tax governance information which informs readers about the group’s appetite for, and governance of, risk as well as its approach to tax in the context of its stated values.

One is backward looking, the other a statement of future intent. The former is intended to shape the latter.

**Historical financial data**

The starting point is the inclusion in financial statements of historic financial data relating to corporate tax that complies with accounting standards and is expressed using clear, concise and relevant language (see Appendix B). This may then progress to include supplementary narrative, above and beyond the requirements of accounting standards, to assist readers of the financial statements to better understand the numbers reported. Of particular interest is the clarity of the rate reconciliation between standard and effective rates of tax.

Typically this may, to a greater or lesser extent, include:

► Summaries of historic data on taxes borne and collected by period by type of tax, both direct and indirect that would not be otherwise available

► Country by country reporting of taxes paid that would not otherwise be available

The tax reconciliation forms a primary source of information for stakeholders to understand the relationship between the group’s profits and the tax charge. The majority of FTSE 100 groups broadly follow the main categories proposed by EFRAG for standardised tax reconciliation (see page 28). However, significant differences exist in the level of detail disclosed in the tax reconciliation between FTSE 100 groups.

The ‘overseas rate differential’ or ‘income not taxable’ lines of a tax rate reconciliation are also of particular interest. At first glance, information included in the tax rate reconciliation may suggest that one of the areas mentioned in the BEPS report is being exploited by a group. However, a simple explanation may be available, and groups should consider whether it is appropriate to include additional narrative on this.

More generally, groups will often have an effective tax rate lower than the UK statutory rate. This may prompt concerns that tax avoidance strategies are being employed, even where this is not the case. Including further clarity on this, for example in an explanatory note in the annual report, may avoid questions from stakeholders.
Uncertain tax positions

The OECD cites the US GAAP approach to uncertain tax positions (UTPs), originally known as FIN 48, which requires measurement of the UTP. It also requires a reserve in full for the benefit of any tax planning which, if disclosed to the tax authorities, would, in the words of FIN 48, ‘be more likely than not to be not accepted’. Disclosure is also required.

The OECD considers that if there were greater disclosure, planning would not have such an immediate ETR benefit. Following a discussion of the IAS 12 Exposure Draft, it notes: “To the extent financial accounting rules may increasingly require similar forms of disclosure, this means that adopting an aggressive tax position is unlikely to have a positive impact on the ETR and the profits available for distribution that can be reported in the published accounts of the corporation in the near term. As a result the aggressive tax position does not enhance shareholder value immediately and does increase risk, including the reputational risk, if the tax planning becomes public, for example because the issue is the subject of litigation.”

The OECD suggests FIN 48-style disclosures may deter aggressive tax planning, but is that the case? Disclosure is not the same as measurement and so the perceived delay in EPS impact is hard to support.

Post FIN 48 studies suggest that FIN 48 in itself neither influences share prices nor behaviours. Experience suggests that many FIN 48 filers measure UTPs at around the same levels as IFRS reporters.

Tax governance information

Examples of tax governance disclosures include:

- Tax policy or tax principles
- A statement of compliance with tax regulatory requirements on the timely filing of tax returns and tax payments
- A statement setting out the group’s approach to cooperation with and disclosure to tax authorities

Increasingly, groups are choosing to engage publicly with the bodies that influence tax policy and corporate disclosures, such as regulators, politicians, tax authorities and standard-setters. As taxes are often subject to discussions or even litigation with tax authorities, there is an understandable sensitivity around what appears in the public domain particularly in relation to disputed matters.

However, there are increasing demands from many stakeholders for groups to sign up to a ‘code of conduct’ regarding tax. Whilst this may mean different things to different stakeholders, a clear articulation of the tax policy of an organisation; how this translates to planning undertaken; the relationship an organisation has with tax authorities etc., may soon become an expectation. A clear and well communicated code of conduct could be used to add value to an organisation’s overall strategy, emphasising a clear link between tax and an organisation’s broader corporate social responsibility CSR agenda.

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What is country by country reporting?

Country by country reporting is the umbrella term used for reporting that requires disclosure of payments to and/or subsidies received from individual governments.

Four examples of country by country reporting proposals and frameworks are: the EU proposals in respect of the financial sector; the Extractive Industries Transparency Initiative; the Dodd-Frank Act, and the draft EU Accounting Directive.

Under EU proposals, from 1 January 2015 European Banks and other Systematically Important Financial Institutions will be required to disclose, on a country by country basis, to the European Commission:

► Pre tax profit or loss
► Taxes on profit or loss
► Public subsidies received

The following are required to be reported under the Extractive Industries Transparency Initiative (EITI) by those adopting the EITI standard:

► Payments made to national and local governments, including profit taxes.
► Disclosure by governments of payments they receive from companies.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (‘Dodd-Frank Act’) requires all companies subject to SEC rules engaged in the commercial development of oil, natural gas or minerals to annually disclose, for fiscal years ending after 30 September 2013:

► Payments made to federal and foreign governments, including taxes based on corporate income, production and profits.
► The disclosures are to be made by type of payment, by project, and by government, for all payments that equal or exceed $100,000 individually or in aggregate.

The draft EU Accounting and Transparency Directive (‘the draft EU Accounting Directive’) contains proposals for those engaged in the extractive industry and those involved in the logging of primary forests, requiring them to disclose payments made to governments, including taxes on profits. The proposals also include the possibility of extending the scope to cover other sectors, such as construction and telecommunications.

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Emerging market practice in tax reconciliation reporting

Organisations who find the prospect of country by country reporting daunting but who nonetheless want to increase the transparency of their tax reporting, may find that an expanded tax reconciliation would be a workable compromise.

A review of the latest annual report and accounts for each member of the FTSE 100 highlights that there is no standard practice for how a tax reconciliation is set out. EFRAG proposes a standardised reconciliation, and we have compared the tax reconciliation of each of the FTSE 100 to these proposed standard headings.

The review shows that the majority of FTSE 100 companies broadly follow the main EFRAG headings, but fewer companies provide the further detailed breakdown suggested (e.g., breaking down income that is exempt from taxation into categories such as non-taxable dividends).

In some cases, the main headings in EFRAG’s proposed reconciliation were merged, a common example being the combination of ‘Income that is exempt from taxation’ and ‘Non-deductible expenses’ into one line, which potentially reduces the transparency in respect of these items.

We consider that to provide the minimum level of transparency required by stakeholders, groups should include separate lines in the tax reconciliation for ‘Income that is exempt from taxation’ and ‘Non-deductible expenses’ rather than combining these two items.

<table>
<thead>
<tr>
<th>EFRAG proposed tax reconciliation categories</th>
<th>Number of FTSE 100 using this category</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income that is exempt from taxation</td>
<td>53</td>
<td>Figure includes reconciling items for incentives such as R&amp;D credits</td>
</tr>
<tr>
<td>– further breakdown of this</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Non-deductible expenses</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>– further breakdown of this</td>
<td>22</td>
<td>29 groups included just one line combining tax exempt income and non-deductible expenses</td>
</tr>
<tr>
<td>Adjustment of tax from prior years</td>
<td>83</td>
<td></td>
</tr>
<tr>
<td>Effect of tax losses</td>
<td>62</td>
<td>Such as losses not recognised for deferred tax</td>
</tr>
<tr>
<td>Effect of foreign tax rates</td>
<td>76</td>
<td>Figure includes items for supplemental taxes such as PRT</td>
</tr>
<tr>
<td>– weighted average used for reconciliation so no overseas rates reconciling item</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Effect of change in income tax rate</td>
<td>58</td>
<td>Often relates to UK corporation tax rate changes</td>
</tr>
<tr>
<td>‘Other’</td>
<td>36</td>
<td>In many cases the amounts included in ‘Other are small’ – items in this category should be kept to a minimum to enhance Transparency</td>
</tr>
</tbody>
</table>
Companies should be aware of the challenges that may be involved in tax transparency reporting.
What are the challenges of increased tax transparency?

Although the benefits of increased tax transparency reporting can be great, organisations should be aware of the challenges that may be involved.

► A significant challenge can often be the collation of comparable data from a number of different business units and reporting formats. This is particularly the case for a global group where different systems are used across the world.

► There is also the risk that stakeholders will compare data with that of other companies where the information provided appears comparable, even where this may not, in fact, be the case.

► Organisations need to ensure that if they provide information to a wide range of stakeholders, they do not release inconsistent information through different channels.

► It is also important that tax transparency reporting strikes the right balance between positive and negative information. While reporting negative results could cause reputational damage, companies would be expected to portray their tax practices in full so, if negative items were excluded and subsequently became public, the reputation of the company would be damaged. For this reason, it is important that companies ensure they are comfortable with the principles of tax transparency before committing to this course of action. Organisations should also be sure they have sufficient oversight over their global tax risks and practices to ensure that negative items do not come to light unexpectedly.

► The very process of reporting the information can create additional pressure on organisations to continuously improve their performance. Stakeholders are likely to measure the information from one reporting period to the next and may draw negative conclusions about the organisation if the improvement is not measurably demonstrated.

► Additionally, choosing what key performance indicators should be included in the report may be difficult. In particular, a company needs to strike a balance between trying to maintain confidentiality over key competitive information whilst providing sufficient data in their external tax transparency reporting to make it worthwhile.

► A further challenge is keeping the tax transparency reports concise and readable. Tax is a complex area and providing sufficient information to ensure stakeholders can easily follow the information without the report becoming over-detailed can be a difficult undertaking. Also, if the reports are not sufficiently clear, readers may draw conclusions contrary to the intention of the report and to the genuine nature of the information provided.

► An organisation’s own disclosures will, to a certain extent, be influenced by what others disclose. Comparing disclosures will create opportunities to improve and refine an organisation’s approach. Equally, challenges may arise where an organisation chooses to disclose less.

► If choosing to report taxes in each country, an organisation would need to consider whether additional explanations would be needed, combined with the amounts paid, to adequately inform the stakeholders. For example, where specific government incentives have reduced tax payable in the short term, simply disclosing tax paid would not necessarily increase transparency.

As already indicated, increased transparency is a constantly evolving debate. What companies choose to do now will change as time goes on. However, given the intensity of the debate, organisations may well be forced to find a way to overcome the risks and challenges outlined here in order to provide their stakeholders with the information they require.
Tax transparency reports can be a valuable tool for communicating with both internal and external audiences.
How can organisations get the most value out of increased tax transparency?

Once a decision has been made to prepare more detailed tax transparency reports, they can be a valuable tool for communicating with both internal and external audiences. Organisations can use them to raise awareness internally, with the benefit of ensuring all employees are ‘signed up’ to the tax principles and strategies set out in the reporting. Reports are also an excellent way of reaching a wide range of external stakeholders such as customers, suppliers, investors, business partners (current or future), news media, NGOs, academic researchers and community organisations.

Tax transparency reports can help companies accomplish goals related to meeting the specific key performance indicators included therein. As the information is now being collated and disclosed, this makes it easier to manage.

In addition, organisations need to maintain their social licence to operate. If they fail to maintain good relations with communities, they may find that customer migration, legal challenges, and other economic implications quickly increase their cost of doing business. The most socially engaged companies could use tax transparency reporting to ensure wider dissemination of good tax practices, total tax and economic contributions to communities, and a better public image – all of which help to lower costs and improve operational efficiency.

Governments and reporting standards/advisory groups are discussing potential improvements to tax reporting on an ongoing basis. This is likely to continue in light of recent high profile scrutiny of tax and tax transparency. Increased voluntary reporting on this and other areas now will inevitably help develop the processes and systems required to gather accurate information, and will prevent a rush later on, as and when such reporting becomes mandatory.

Organisations should consider the potential value of additional voluntary disclosures as a way of managing the discussion with key stakeholders. Part of this process will involve identifying the key stakeholders in respect of tax, and ensuring that any additional tax transparency reporting addresses the interests and concerns of these parties. It is unlikely to be possible specifically to address the interests of every stakeholder, but by identifying those with the most influence on the business and economic success of the organisation, tax transparency reporting can be used to enhance the business and increase shareholder value.

Some groups go so far as categorising additional tax disclosure information by stakeholder, for example setting out the tax payments to governments, suppliers, capital investors, and so on.
Where could transparency information be placed?

As indicated above, many groups have already made tax transparency information available in a number of ways. The first place likely to be considered is the annual report and accounts—either in the financial statements and related disclosure notes, or in the management summary or corporate governance sections. However, a number of groups choose to include their comments outside the financial statements, for example in CSR, sustainability, strategy or risk reports.

With respect to increased disclosures made in the financial statements, two points are worth considering:

► Arguably, current accounting standards are extremely light on disclosure requirements and changes to the standard covering income taxes are likely to be many years away.

► The growing initiatives around streamlining the content of financial statements so that they present crisper and more relevant information\(^1\) set against the need for increased tax transparency creates a tension about where an entity should report such information.

This is leading a number of entities to consider alternative placement for more detailed or comprehensive tax transparency disclosures. As the annual report and accounts often form the primary source of tax information for stakeholders, further transparency could be achieved by signposting any relevant external documents in a narrative note in the annual report.

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In the meantime, however, organisations have a number of options for the placement of disclosure information. These include a range of elements of the annual report that maintain or increase transparency. However, in the light of a number of initiatives to remove clutter from annual reports it is becoming increasingly clear that the annual report may not be the most appropriate place to communicate all of this information so other options are summarised below:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Where this might be met</th>
<th>Other considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meet accounting standard requirements</td>
<td>Annual Report</td>
<td>No increased transparency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mandatory</td>
</tr>
<tr>
<td>Additional narrative to explain effective tax rate</td>
<td>Annual Report</td>
<td>Increases transparency about link between profits and tax expense but not increase in transparency on taxes paid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Combination of mandatory plus additional voluntary disclosures</td>
</tr>
<tr>
<td>Additional narrative to explain tax liabilities</td>
<td>Annual Report</td>
<td>Increases transparency over risk profile and whether an organisation engages in disputes with tax authorities that may have adverse commercial consequences such as loss of government contracts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Combination of mandatory plus additional voluntary disclosures</td>
</tr>
</tbody>
</table>

For the objectives below, streamlining of the Annual Report may make this a less viable place to host information. It may be necessary to include a reference in the Annual Report and host elsewhere.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Where this might be met</th>
<th>Other considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publication of tax strategy and tax risk governance framework</td>
<td>Website, CSR, Risk, Strategy reports</td>
<td>Opportunity to explain behavioural shifts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Some additional administrative burden</td>
</tr>
<tr>
<td>Total taxes borne and suffered</td>
<td>Website, CSR, Risk, Strategy reports</td>
<td>Voluntary, already established practice, may not be incremental transparency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Additional administrative burden and may require assurance procedures</td>
</tr>
<tr>
<td>Country by country reporting</td>
<td>Website, CSR, Risk, Strategy reports</td>
<td>Voluntary, although may become mandatory for EU banking, extractive and logging of primary forests sectors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Additional administrative burden and may require assurance procedures</td>
</tr>
</tbody>
</table>
Conclusions and recommendations
Who the key stakeholders are is fundamental to understanding how best to engage and communicate around tax transparency.
We feel that a tipping point has been reached with many organisations now sensing that greater tax transparency reporting will become expected and more routine, although mandatory country by country reporting of taxes paid is not widely seen as the only way ahead. As we move forward in the expectation of some form of mandatory reporting arising from the proposals from the European Parliament, we may see better explanations to supplement the tax rate reconciliation or explanations of the tax profile in key countries.

We anticipate that short-term pressure for greater transparency will encourage companies to gather information and examine and enhance existing disclosures. Indeed, a number of companies are already preparing explanations of their tax profile ahead of events such as Annual General Meetings at which the annual report and accounts are submitted for shareholder approval.

As such, it is key that organisations recognise that now is the time to decide on their position, not just with respect to additional reporting, but also what they will disclose and where the most appropriate place to disclose it will be.

These actions should be taken now because they put the organisation in a position to engage with its stakeholders effectively and leave it prepared and armed for any questions and challenges it may face.

**An initial response to tax transparency reporting**

Given the current environment, we anticipate that, in the short-term the call for more transparency will gather momentum. The summary below outlines the initial steps an organisation should consider in order to ensure that existing disclosures are optimum:

- **Define:** agree on what tax transparency reporting means and what the objectives of voluntary disclosures would be. Do this in the context of a more extensive and structured approach to managing your tax profile (see table below).

- **Examine:** what format should any voluntary disclosures follow?

- **Collect:** consider the benefits of collating the following in order to have all relevant information available if needed:
  - Capture of all taxes, direct and indirect, borne and collected, country by country and be able to measure by tax and by country
  - Capture of all tax risk, direct and indirect, by exposure and risk weighting, country by country to assess focus of attention
  - Financial statements – primary statements and footnotes – review ETR and rate reconciliation for transparency
  - Financial statements – reflect tax content in
    - Management summary
    - Corporate Governance

- **Analyse**
  - Who are the relevant stakeholders – what are their needs and expectations relative to the organisation's?
  - Are there additional disclosures that would be helpful to them?
  - What sources of data are available?
  - Consider where voluntary disclosures in respect of tax risk, governance and transparency could be captured in a format most appropriate to the group – examples are CSR report, Strategy and Tax paid.

- **Publish**
  - Brief corporate communications team
  - Develop ‘Questions and Answers’ on the organisation’s tax profile
The medium-term response to tax transparency reporting

Once the organisation is able to secure its short-term position, in the medium-term it can begin to assess its response to possible mandatory reporting and the development of its attitude to the pressure areas described by the OECD such as transfer pricing, supply chain management and intragroup financing arrangements.

We anticipate that companies will develop their approach to tax transparency reporting and tax planning in parallel and, at this stage, the development of a tax strategy and code of conduct that can be embedded in an organisation will come more to the fore.

It is thus important to have real clarity in terms of that tax strategy and ensure that it is embedded in the organisation. The specific transparencies required to best explain the strategy to stakeholders should be agreed and performance against them subsequently measured. These steps can be summarised as follows:

► Integrate the tax strategy into the business – making sure that the organisation’s tax strategy is fully embedded in the business is a challenge for multinational groups operating around the globe. Assessing engagement across business, finance and tax functions therefore requires raising awareness based on strong communication throughout the organisation.

► Align the tax strategy with the core business strategy including management incentives and communications to ensure a consistent application of the tax strategy across the group.

► Ensure that the business benefits from the clarity of the tax strategy and that the objectives of transparency are understood, articulated and captured throughout the organisation.

► Align tax transparency expectations, process and systems throughout the business.

► Measure performance against key objectives.

What governance systems and processes are needed?

An initial assessment of an organisation’s ability to form a complete and accurate picture of its tax contribution, analysed by all the taxes it both pays and collects in every country in which it operates, will lead many Boards to the conclusion that they need to explore their data gathering ability sooner rather than later. The organisation may not currently intend to publish a raw country by country analysis but may feel it would find the data useful in this format, at least internally, at this stage.
Tone from the top

Once companies have decided what information to report, they must put governance, systems and processes in place to gather and report that information completely and accurately. One challenge is that tax transparency information comes from a wide range of business functions, and geographies. In addition, where companies are looking to focus on taxes collected as well as borne, this information will, in many cases, be difficult to collate and calculate.

Where tax transparency reporting is not mandatory, a strong ‘tone from the top’ is required to ensure that appropriate time and resources are committed to reporting accurate data. A strong corporate governance structure with clear reporting lines will help to establish the backing required from senior management.

Choice of information

Once the governance mechanisms are in place, groups must determine what information they want to collect, and then determine how they will identify, collect, store and analyse the information. Groups should consider the need for, and benefit of, obtaining an external audit for any additional disclosures. See Appendix A for further consideration of the audit requirements of tax transparency information.

In general, automated systems tend to be more accurate, because automation lowers the likelihood of manual error. For large multinational organisations in particular, the use of web-based technologies as a replacement for manual spreadsheet-based processes is likely to lead to a more efficient, and more visible, method of data-gathering and reporting.

Whilst it may be easy to convince stakeholders of the virtues of transparency, the practicalities of putting it into practice may be more of a challenge. The task for large business is to pro-actively manage their messages and seek to demonstrate, in a practical way, the value their business brings to the economy and to society. As we know, defining ‘fair tax’ is difficult, but a first step is to be able to demonstrate greater transparency in the tax you pay.

Gathering data to help enable stakeholders to appreciate tax contribution on a country by country basis is not an exercise which can be undertaken lightly but demands a thoughtful and structured approach to make it successful.
Managing your tax profile: a structured approach

1. Identify and secure stakeholders
   - Identify and seek support from your internal stakeholders.
   - Enable a shared understanding of:
     - The environment
     - The stakeholders
     - Social media
     - Impact on business

2. Initial susceptibility assessment
   - Carry out an initial susceptibility assessment to consider:
     - Environmental factors
     - Existing tax structures
     - Industry susceptibility
     - Your history
     - Benchmarking to others
     - Whether factors are controllable or not

3. Consider impact
   - What could the impact on your organisation be in terms of:
     - Brand
     - Media reputation
     - Stakeholders, including investors
     - Tax authorities
     - Share price

Managing your tax profile: a structured approach

4. Assess your readiness
   - Consider:
     - How pro-active you need or want to be
     - How will your response affect your approach to tax planning?
     - Do you have a strong Corporate Responsibility story to tell?
     - Is doing nothing an option?

5. Example responses
   - Respond:
     - Refresh tax policy and governance
     - Review external reporting of tax
     - Gather relevant data
     - Focus on global risk management
     - Review tax risk control frameworks

6. Monitor and sustain
   - Continuously monitor:
     - Changes in the environment, including press commentary and stakeholder interest
     - Changes in susceptibility and potential impact
     - Monitor your readiness
     - Communicate and consult
## Further information

**If you would like to discuss any of the policy issues raised here, please contact one of the following:**

<table>
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<tr>
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<th>Email</th>
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</thead>
<tbody>
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<td>020 7951 1149</td>
</tr>
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</table>

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<thead>
<tr>
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<th>Email</th>
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</tr>
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</tr>
</tbody>
</table>
Appendices
The audit requirements of tax transparency disclosures will vary depending on where the information is disclosed.

► **Back half**
If the additional information is included in the ‘back half’ of a company or group’s annual report and accounts (for example in the tax note to the accounts), this will be subject to the usual substantive external audit assurance procedures:

- Material figures included in any such disclosures must be audited and signed off by the group’s external auditors.

- Any additional disclosure wording, for example around behaviours, would need to be approved by the external auditors, based on their knowledge of the group.

This process may lead to additional work or challenges for an external auditor to get sufficient comfort over information or wording to be included, so any proposed disclosures should be discussed with external auditors in advance of the traditional audit period.

► **Front half**
Information included in the ‘front half’ of the accounts would be subject to review by the external auditors, but not to a full substantive audit. For example any figures included in this disclosure that are also included in the ‘back half’ of the accounts would be checked to ensure they are consistent. Additional figures, for example disclosure of total taxes paid by country, would not be subject to a full substantive audit unless also included in the ‘back half’.

► **Additional reports**
A number of groups have chosen to make additional tax transparency disclosures in separate reports outside their annual report and accounts, often in the group’s Sustainability Report. There are generally comparatively few requirements for third-party assurance of these separate reports.

As tax transparency reporting receives increasing stakeholder focus, it is likely that companies will come under pressure to move towards a certain level of assurance on these separate reports, potentially comparable to what is applied to financial statements.

The draft EU Accounting Directive proposals recommend a review after a few years to determine whether an audit would be appropriate. They do, however, make it very clear that Boards need to ensure that the reporting of payments made to governments has been prepared with due care and attention and to the best of the writer’s knowledge and belief.

Transparency reporting is being more closely monitored than ever before. NGOs and the media read them to assess the tax position and strategy of companies, and increasingly the public are being encouraged to undertake their own research into the tax practices of large corporate groups, and to share their findings with tax justice groups such as the Christian Aid and the Tax Justice Network. As this trend continues, stakeholders may well come to expect that the information has been validated by a third party.

Companies will begin to, and indeed have already begun to, seek third party assurance of their tax transparency reporting not only because of external pressure, but also to show the company’s commitment to addressing issues such as inequality and poverty in developing countries that are commonly linked to tax strategies and payments.

Having reports audited also helps to verify data used to set tax strategy goals (e.g., timely tax return filings, total tax contribution as a proportion of a developing country’s total economic input). If the data is disclosed and audited, this facilitates the management of the information and, therefore, helps companies set and reach designated targets.
Appendix B

Current IAS 12 disclosure requirements

The disclosure requirements of IAS 12 in respect of income taxes payable are few. The following disclosures relating to current income taxes are required.

► The total consolidated current taxes payable to or recoverable tax authorities.
► The total current tax expense for the period
► A reconciliation to explain the relationship between the total tax expense, which includes deferred taxes, and the tax, at standard rate, on the reported profits for the period. Total tax expense expressed as a percentage of reported profits is known as the effective tax rate (ETR).

Current taxes payable includes amounts based on tax returns that have been submitted to tax authorities as well as an estimate for the current period.

IAS 12 offers no guidance on how to deal with estimates, stating only that current taxes are to be measured using the tax rates and tax laws prevailing at the balance sheet date.

By contrast US GAAP disclosure requirements are greater in respect of uncertain tax positions

The Exposure Draft issued by the IASB would have considerably increased disclosure of uncertain tax positions but was abandoned. The EFRAG initiative found little appetite to explore this aspect of disclosure further.
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