Sustainable Investment | Tax Transparency

Global trends in corporate tax disclosure

Thematic overview

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Overview

As governments are rewriting the international rulebook on corporate taxation, companies' tax practices are coming under increasing scrutiny from investors and other stakeholders. Companies employing aggressive tax practices such as profit shifting could be exposing themselves to growing regulatory and reputational risks, which have the potential to directly impact their profitability.

This paper reviews the global trends in corporate tax disclosure, drawing on a unique dataset covering 1,300 large listed companies across both developed and emerging markets. The analysis provides key insights into the state of corporate tax reporting in three key areas: Policy & Strategy, Governance & Control Mechanisms, and Quantitative Data.

Trends are considered at the global, regional and sector levels, and supplemented by a study of corporate progress on this agenda over the last few years.

Contents

Fiona Reynolds

Chief Executive Officer, PRI

"There is growing investor expectation that companies will adopt and demonstrate a fair and responsible approach to tax issues, particularly as the consequences of the pandemic continue to take form. This PRI-commissioned research, however, provides investors with strong evidence that there is a gnawing gap between the current state and the desired level of corporate tax transparency. Although it is positive to note that more companies are making public commitments on tax in response to investor demand, quantitative disclosure to back up these commitments is still lacking. We recommend that investors use the findings of this research to ramp up engagement with portfolio companies and advocate for robust regulations to secure public country-by-country reporting. Afterall, tax transparency is a critical tool to tackle tax avoidance."

Arne Staal

Group Head of Benchmarks and Indices, LSEG & CEO, FTSE Russell

"As corporation tax and tax transparency come under greater scrutiny from policymakers and investors, clear and consistent data to objectively assess the state of corporate tax disclosures across the globe is crucial. Our analysis of large listed companies in developed and emerging markets provides a useful empirical baseline to understand what type of information they are disclosing publicly and how their reporting practices are evolving. Compared to other sustainability issues like climate change or health and safety, we find that reporting on tax is still less developed and standardized across sectors and markets. This can make it challenging for asset owners and asset managers to factor tax related risks into investment decisions across their portfolios."

Executive summary

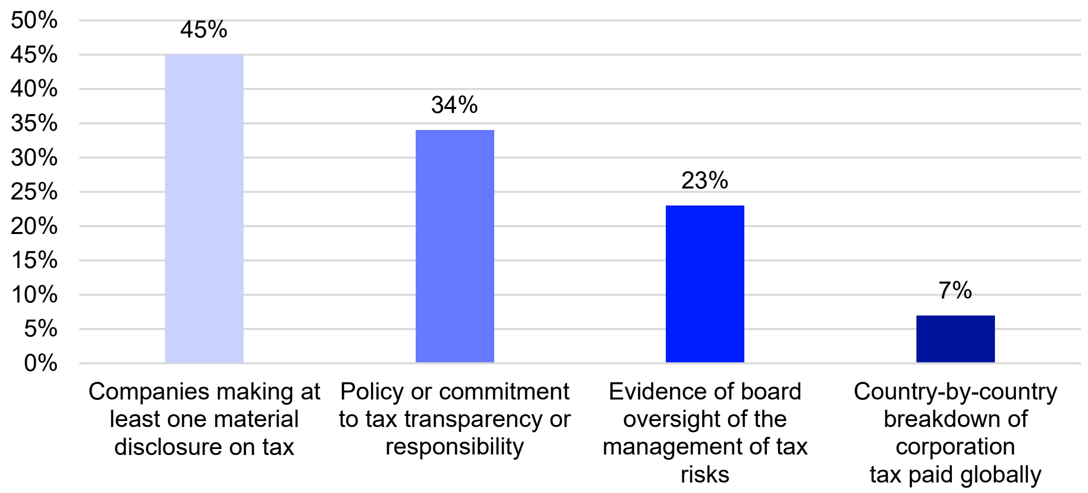
Frameworks to measure tax transparency remain less developed compared to those for other ESG issues, and tax information disclosed by corporates is often incomplete and lacks uniformity. Until the recent launch of the Global Reporting Initiative's (GRI) comprehensive tax reporting standard (*GRI 207:Tax 2019*)[1], tax reporting requirements received limited attention in key sustainability reporting standards, and remain a conspicuous omission in the Sustainability Accounting Standards Board (SASB) framework. This is surprising given that, perhaps more than many other sustainability issues, poor tax practices can have an immediately quantifiable impact on corporate profits.

With corporate taxation and tax transparency currently high on the policy agenda both in the US and Europe, investors too are increasingly focused on the financial, regulatory, and reputational risks associated with poor tax practices. However, disclosure limitations remain a significant roadblock to measuring and managing tax risks across portfolios and factoring them into investment decisions.[2]

Against this backdrop, this paper provides an empirical baseline to assess the tax disclosures of large public companies globally. Drawing on tax reporting from over 1,300 companies, our analysis finds that while some companies are demonstrating enhanced tax practices:

- Commitments and disclosures on tax significantly lag reporting on other sustainability issues, with over half of companies globally making no material disclosures.[3]
- Quantitative data in particular is lacking, with less than 10% disclosing country-by-country breakdowns of taxes paid; vs. 74% for GHG emissions and 63% for worker fatalities.
- Progress has been focused on publishing commitments and policies with only modest improvements in the disclosure of information on tax governance and quantitative data.
- Europe leads in tax transparency and Japan has seen the largest improvements. In the US and especially APAC, practices are less developed and progress is modest.
- The Health Care and Technology sectors, which face specific tax risks because of their business models, are among the most likely to disclose commitments and policies, but are least likely to provide quantitative data.

Figure 1. Proportion of large cap companies globally disclosing their tax practices[3]



[1] In December 2019, the Global Reporting Initiative (GRI) launched *GRI 207:Tax 2019* – a comprehensive reporting standard on public tax disclosures for corporates.

[2] PRI has published guidance for investors on how to engage with investee companies on tax transparency.

[3] 'Material disclosures' on tax are defined as those meeting any of the indicators within the FTSE Russell tax transparency framework – see Figure 4 for further details.

Section 1: Introduction

Complex corporate structures and global supply chains can create an intricate web of cross-border revenue streams and tax liabilities for large multinationals. These can be hard to monitor for tax authorities and provide the opportunity for companies to exploit legal loopholes through aggressive tax planning and opaque reporting. OECD estimates suggest that these tax avoidance practices currently cost governments between US$100-$240 billion in lost tax revenues annually – equivalent to 4-10% of the global corporate income tax base.[4]

Growing regulatory focus on corporate tax practices

Faced by this challenge, governments have been debating measures to address aggressive tax practices and modernize the international tax system. These discussions have also been fueled by a steady trickle of controversies over tax practices at some of the largest multinationals that have sparked widespread public outrage (see Box 1). In 2015, a set of minimum standards were published by the OECD as part of the Base Erosion and Profit Shifting (BEPS) Action Plan, aiming to increase transparency and limit artificial profit shifting to low, or no tax, jurisdictions.[5]

A key element of the BEPS plan was mandatory disclosure to tax authorities—though not to the broader public—of granular country-by-country data on taxes paid by large, multinational companies. This allows governments much greater visibility into which companies may be employing aggressive tax practices. Over 90 countries including the US, EU, Canada, China, and India have already enacted these reporting requirements into legislation.[6]

Building on this, a number of key jurisdictions are now considering further measures which, if implemented, would drive improvements in corporate disclosure levels on tax. In June 2021, EU legislators reached a provisional political agreement on a directive which would mandate public country-by-country disclosure of corporation tax paid for multinationals with turnover of over €750 million.[7] In the US, a similar bill was introduced to the House of Representatives in 2021 that would see companies with annual revenues over $850 million obliged to publicly report country-by-country tax data.[8]

OECD members are also debating a new set of "BEPS 2.0"[9] measures that would require multinationals to pay tax based on where their customers reside, and to implement a minimum corporate tax rate globally.[10] Importantly, in June 2021 G7 nations signaled their intent to collaborate on these plans, agreeing high-level terms for new tax rules that would include a global minimum corporate tax rate of at least 15 percent and see a certain proportion of large multinationals' profits taxed according to where relevant sales occur.[11]

Growing fiscal strain as a result of the COVID-19 pandemic has added urgency to these discussions, with governments looking to corporate taxes as a means to raise public funds. In February 2021, the UK announced that corporation tax would rise from 19% to 25% in 2023; the first UK corporation tax rise since 1974.[12] President Biden has also proposed raising US corporate taxes from 21% to 28% - partly in order to fund a US $2 trillion infrastructure investment programme.[13]

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4 OECD, Inclusive Framework on Base Erosion and Profit Shifting, accessed on 01/07/21.
5 OECD (2015), Explanatory Statement, OECD/G20 Base Erosion and Profit Shifting Project, accessed 03/30/21.
6 OECD, BEPS Action 13, accessed 07/05/21. All members of the BEPS Inclusive Framework have committed to implement country-by-country reporting requirements. These members number 138 as of 01/31/21.
7 Financial Times, "EU seals pact on forcing multinationals to report profits and tax," accessed 03/06/21; The Council of the European Union, 'Public country-by-country reporting by big multinationals', accessed 04/06/21. It is worth noting that these disclosure requirements only apply to taxes paid in EU member states and 19 further states determined by the EU to be 'non-co-operative' tax authorities.
8 This was most recently discussed at a hearing of the Subcommittee on Investor Protection, Entrepreneurship and Capital Markets, on February 25, 2021.
9 OECD, accessed 03/30/21.
10 Financial Times 'OECD drafts principles for $100bn global corporate tax revolution', accessed 01/31/21.
11 BBC, "G7: Rich nations back deal to tax multinationals," accessed 07/06/21. G7, "G7 Finance Ministers agree historic global tax agreement," accessed 07/06/21. Under the proposed rules, large multinationals with at least 10% profit margin would see 20% of any profit above that 10% margin reallocated and subjected to tax in the countries in which they operate.
12 Financial Times, "Rishi Sunak defends increase in UK Corporation Tax," accessed 30/03/21.
13 The Wall Street Journal, "What's in Biden's $2 Trillion Corporate Tax Plan," accessed 04/05/21.

BOX 1. Examples of government action on corporate tax practices

- **Amazon:** In 2017, the EU ruled that tax determinations in Luxembourg in relation to Amazon did not comply with EU state aid rules. The Commission ordered Luxembourg to recover an estimated €250 million plus interest in additional taxes from Amazon for 2006-14.[1]
- **Nissan Motor:** In November 2017, Nissan Motor was accused of failing to declare income from an insurance subsidiary located in Bermuda and reportedly faced a tax bill of ¥5 billion including penalties as a result.[2]
- **Softbank Group Corp:** In April 2018, Softbank was forced to pay additional tax of ¥3.7 billion by the Tokyo Regional Taxation Bureau, including a penalty, after it failed to declare income from a number of subsidiaries.[3]
- **Google:** In September 2019, Google agreed to pay close to €1 billion to French authorities to settle a dispute over its tax affairs. The company was accused of failing to declare parts of its activities in the country and thereby pay appropriate levels of tax.[4]

Sources: 1) The Guardian; 2) Nikkei; 3) Japan Times; 4) Reuters. All sources accessed on 29/03/21.

The corporate tax transparency gap

Perhaps more than many other sustainability factors, poor tax practices can have an immediate, quantifiable impact on corporate earnings; in addition to posing material legal, regulatory, and reputational risks to companies.

Nonetheless, corporate tax disclosure has historically not been a focus of investor engagement and key sustainability reporting standards.[14] Until the recent launch of the Global Reporting Initiative's (GRI) comprehensive tax reporting standard (GRI 207:Tax 2019), tax reporting requirements in the GRI framework were limited and remain a conspicuous omission in the Sustainability Accounting Standards Board (SASB) framework.[15]

Figure 2. Comparing corporate tax reporting to disclosures on other sustainability issues[16]

	Tax Transparency	Climate Change	Health & Safety
Policy or commitment on the issue	34%	87%	98%
Board oversight	23%	52%	41%
Disclosure of key quantitative datapoints	7%	74%	63%

Source: FTSE Russell.

Given the historical lack of focus on tax, progress clearly lags that of other sustainability issues shown in Figure 2. Our analysis shows only a third of large and mid-sized companies globally have commitments or policies on tax transparency in place, compared to more than two thirds for climate and 98% for health and safety. Strikingly, companies are also far less likely to disclose key quantitative information, with less than 10% of corporates publishing country-by-country breakdowns of tax payments.

[14] The major exception has been the extractives sector, where campaigns such as Publish What You Pay and the Extractives Industries Transparency Initiative have long focused on creating greater transparency around taxes and other payments to governments.

[15] See Box 2 for further details on the GRI Tax Standard.

[16] Statistics for tax transparency and climate change are based on a sample of c. 1380 large cap companies in developed and emerging markets as outlined in Section 2. and a subset of c. 730 of these companies for which Health & safety data is available. Quantitative datapoints are defined as country-by-country breakdown of tax paid; Scope 1 and 2 GHG emissions; and current year fatalities for health & safety.

Investor action on tax transparency

Against this backdrop, investors have begun to pay greater attention to the tax practices of companies in their portfolios, increasingly recognizing sound tax practices as an important sustainability issue. In particular they have focused on encouraging greater transparency on tax payments—a lack of which has hampered efforts to understand corporate tax practices and prevented tax risks from being fully factored into investment decisions.

Some large asset owners have publicly formulated heightened expectations around tax transparency for their portfolio companies. For example, in 2017, Norges Bank Investment Management outlined areas of focus for corporates within its Expectation Document on Tax and Transparency[17], and earlier this year Dutch pension fund ABP followed suit, publishing a set of responsible tax expectations for its investments.[18] Typically, investor expectations on tax focus on corporate practice and disclosure in three main areas:

– Policies and commitments outlining the company's approach to tax strategy

– A description of governance structures and control mechanisms around the delivery of this strategy and the prevention of malpractice.

– Enhanced quantitative disclosure of key tax data—namely around tax paid segmented by location, and associated financial data like revenues and profits—to increase transparency of how tax affairs are managed in practice.

In the context of increasing attention on corporate tax transparency from investors, our analysis is designed to provide investors with a baseline review of current global trends in corporate tax disclosure and to inform their approach to tax transparency going forward. This builds on PRI's existing work with signatories on corporate tax disclosure and practice since 2015.

BOX 2. Global Reporting Initiative (GRI) Tax Standard

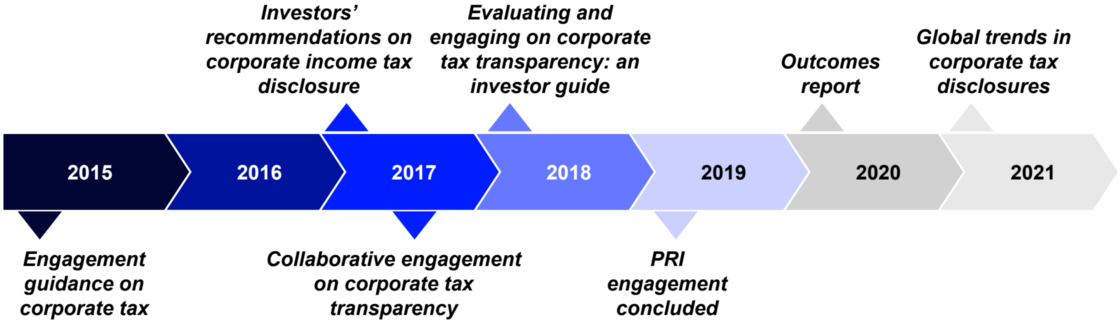
In December 2019, GRI launched the first comprehensive cross-sectoral reporting standard on tax disclosures for corporates with the backing of several high profile investors.

GRI 207:Tax 2019 provides a formal, standardized framework to guide public corporate disclosure of tax information and metrics. Notably, the standard asks companies to publicly report quantitative data on revenues, profits, and tax paid on a country-by-country basis, as well as information on tax strategy, tax governance mechanisms, and approach to stakeholder engagement on tax.

The new standard became effective in 2021 and forms part of GRI's wider set of sustainability standards.

Sources: 1) Financial Times, 'Investment groups want companies to disclose global taxes,', accessed 11/01/21.

Figure 3. A timeline of PRI's work on tax



[17] Norges, Expectation Document on Tax and Transparency, accessed 30/03/21.
[18] ABP, Tax Policy and Principles, accessed 30/03/21.

Section 2: Measuring corporate tax transparency

With minimal regulation and few reporting standards, the extent of public disclosures by corporates on their tax affairs varies significantly across industries and regions. This ranges from providing no meaningful disclosures whatsoever (still the case for over half of the companies we surveyed, see Section 3), to making overly vague commitments to comply with tax legislations, all the way to in-depth explanations of tax practices and governance structures and detailed, country-by-country breakdowns of tax payments. Such information can be found in a variety of documents such as a standalone tax policy or strategy, CSR reports, annual reports, or on the company's website (and in some cases across all three).

This lack of uniformity and consistency in disclosure creates a significant challenge for investors seeking to understand how tax affairs are being managed across their portfolios. Accounting for the heterogeneity of disclosures, FTSE Russell has developed a consistent framework (see Figure 4) to objectively and efficiently assess corporate tax transparency. It evaluates companies on their tax disclosures in three areas of investor focus, namely—*Policy & Strategy, Governance & Control Mechanisms,* and *Quantitative Reporting*. In each of these areas, publicly available information from corporate disclosures or websites are used to evaluate a company's performance against two indicators and provide an assessment of whether the indicator is met.[19]

FTSE Russell's Tax Transparency framework is part of FTSE Russell's proprietary ESG Ratings and Data, and is an input into a range of FTSE Russell Sustainable Investment indexes, including the FTSE4Good Index Series. Investors regularly leverage this data for specific engagement activities; in 2019, for example, the UK-based Church Investors Group used it to vote against the Chairs of Russell 50 and FTSE 350 companies assessed as having poor tax transparency practices.[20]

[19] All companies have the opportunity to review and challenge the information collected on them and highlight additional public information to be considered. Where this feedback is found to be relevant it is incorporated within the dataset.

[20] Financial Times, 'Christian investors to target Exxon, Amazon and Broadcom on tax,' accessed 31/03/21.

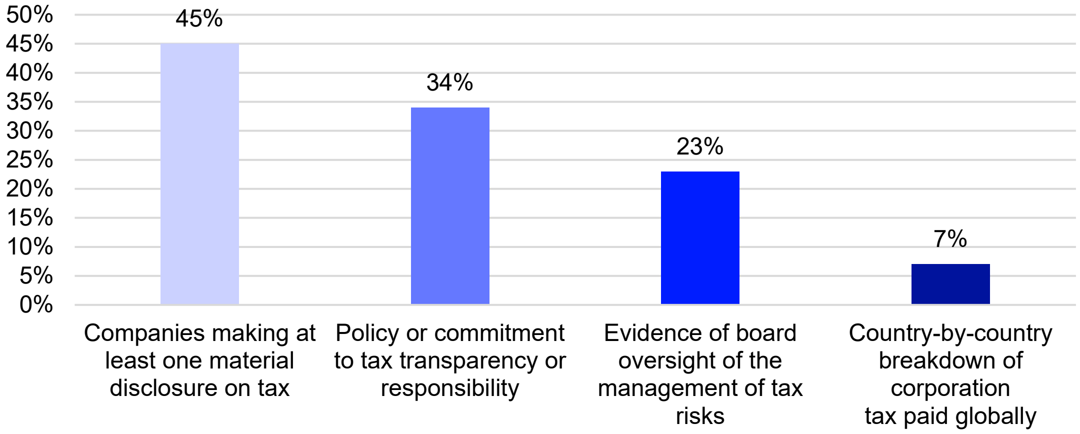
Figure 4. FTSE Russell Tax Transparency framework

	INDICATOR DESCRIPTION	TYPES OF INFORMATION CAPTURED
POLICY & STRATEGY	**A policy, or commitment to:** a. Tax transparency or tax responsibility b. Align tax payments with revenue generating activity, or reduce or refrain from the use of offshore secrecy jurisdictions for the purposes of tax planning	**Specific, published commitments to:** – Tax transparency and/or responsibility – Pay tax where revenue is generated – Refrain from use of areas considered as 'secrecy jurisdictions' for tax planning.
	Tax compliance and fairness: a. Commitment to comply with the tax law in all operating countries b. Commitment to comply with and follow the spirit of the law or engage in tax fairness in all operating countries	**Specific, published commitments to:** – Comply with tax law in all operating countries – Comply with the "spirit of the law" or "tax fairness" requiring the company to use these specific terms
GOVERNANCE & CONTROL MECHANISMS	**Board has oversight of tax policy:** a. Evidence of board oversight of the management of tax risks b. Named position responsible at board level	**Evidence of non-executive oversight of tax policies through disclosure of:** – Terms of Reference for the Board that mention tax policy – Actions taken by the board relating to tax risks – A board agenda including tax-related items – A board committee or committee directly reporting to the board which has oversight for tax policy – A non-executive board member has responsibility or accountability for tax policy – A C-suite executive that is named as responsible for tax policy and reports directly into the board
	Audit Committee responsible for oversight of implementation of the company's corporate tax Policy: a. Audit Committee reports on its oversight activities b. Responsibility for oversight of implementation of tax policy is in Terms of Reference (ToRs)	**Evidence that the Audit Committee has oversight for the implementation of tax policy through disclosure of:** – A statement that Audit Committee covers corporate tax policy or strategy – Terms of Reference or Audit Charters for the Audit Committee that include responsibility for the implementation of tax policy or strategy
QUANTITATIVE REPORTING	**Disclosure of corporation tax paid globally:** a. With at least domestic and international breakdown b. With country by country breakdown	**Published data on corporation tax paid, segmented by geographical location according to the following breakdowns:** – Domestic vs international – US vs non-US – Continent-by-continent – Country-by-country
	External verification of tax data for global operations: a. With limited breakdown (as a minimum domestic and international breakdown) b. With country by country breakdown	**Published data on taxes paid, segmented by geographical location and that information has been externally verified, illustrated by disclosure of:** – Geographical breakdowns of taxes paid accompanied by auditor or assurance statements

Section 3: Assessing the current state of tax reporting

Based on a review of tax transparency practices at 1,380 large companies worldwide[21], our analysis finds that, although some companies are beginning to demonstrate enhanced tax practices, more than half are making no meaningful disclosures across Strategy & Policy, Governance & Control Mechanisms, or Quantitative Reporting. Figure 5 shows that only approximately a third of companies are publishing commitments to responsible tax policies and slightly more than one in five are implementing governance controls around tax strategy. However, less than one in ten are disclosing the quantitative tax data increasingly preferred by governments and investors.

Figure 5. Proportion of large cap companies globally disclosing on tax practices[22]



Source: FTSE Russell.

Policy & strategy

Articulating a policy or commitment to responsible tax practices is often the first step for companies to enhance their tax practices. Tax policies signal how a company is approaching its tax strategy and tax-related risks.

Our analysis reveals that around a third of companies in the sample have put in place policies and commitments covering responsible tax practices. Roughly a quarter of all companies have gone further; committing to align tax payments with revenue generation or to refrain from using tax havens—an important issue for regulators.

A similar proportion of companies within the sample are making public commitments on legal compliance. Just over a third have committed to comply with tax law, although fewer commit explicitly to upholding “tax fairness” or “the spirit of the law” in tax practices across their operations. Commitments to these two concepts indicate where a company pledges not only to uphold the law as written, but to go further—considering the intention of that law and the interests of internal and external stakeholders to ensure they pay a “fair” level of tax.

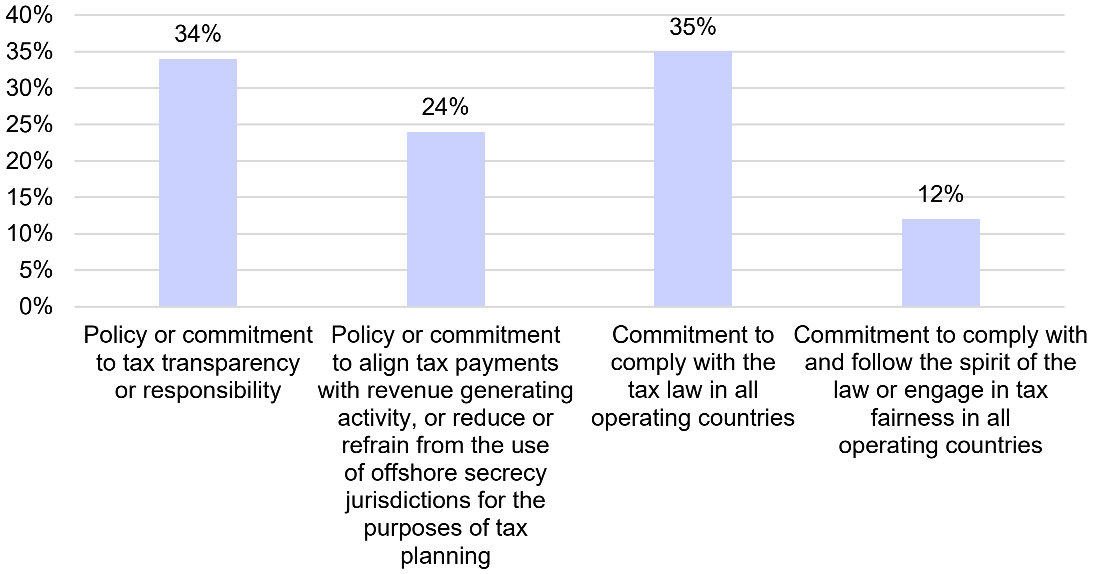
EXAMPLE 1: Commitment to tax transparency or responsibility

“We will act with integrity in all tax matters, disclosing all relevant facts to tax authorities in all countries in which we operate under a policy of full transparency and based on open and honest relationships with those authorities.”

[21] These companies were constituents of the FTSE All World Index in June 2020. For more information on the sample, please see Appendix.

[22] ‘Material disclosures’ on tax are defined as those meeting any of the indicators within the FTSE Russell tax transparency framework—see Figure 4 for further details.

Figure 6. Proportion of companies with responsible tax policies or commitments



Source: FTSE Russell.

Governance & control mechanisms

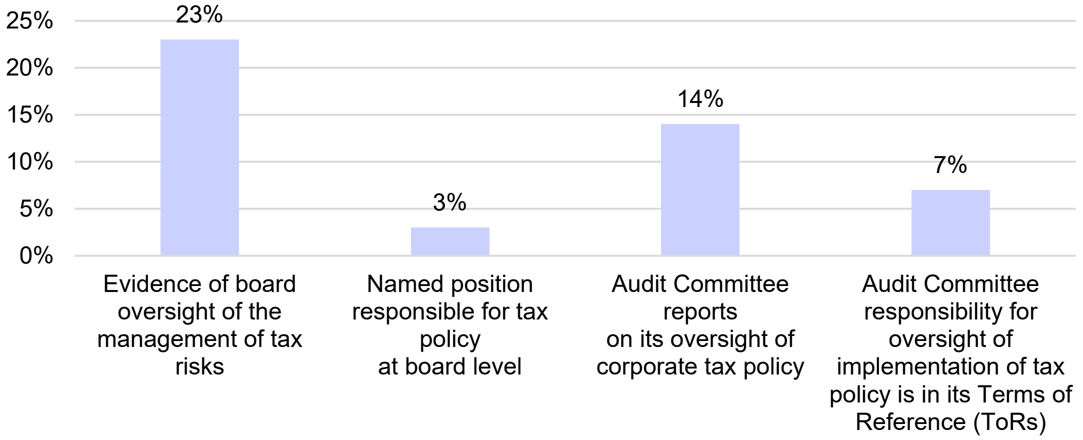
Robust governance and control mechanisms are critical to ensure that tax policies and strategies are implemented appropriately and that risks are managed effectively. Given the reputational, regulatory and financial risks associated with poor tax practices, investors typically expect that the issue is managed at board level with oversight from the Audit Committee, where financial expertise most relevant to tax matters is usually concentrated.

Our research however shows that only 7% of companies explicitly assign responsibility to oversee tax practices to the audit committee through its Terms of Reference, and, in practice, around 14% of corporate audit committees demonstrate oversight of tax policy in their reporting. A slightly greater proportion of companies (23%) have board level oversight of tax strategy and risk, but very few actually specify an individual board member who is responsible for tax policy.

EXAMPLE 2: Evidence of board oversight of the management of tax risks

"We have a robust risk management and governance framework. We have strong governance to adhere to our tax principles and manage tax risk in line with our tax risk management framework. Our approach to tax is overseen by our Board of Directors."

Figure 7. Proportion of companies with governance and control mechanisms covering their tax policy



Source: FTSE Russell.

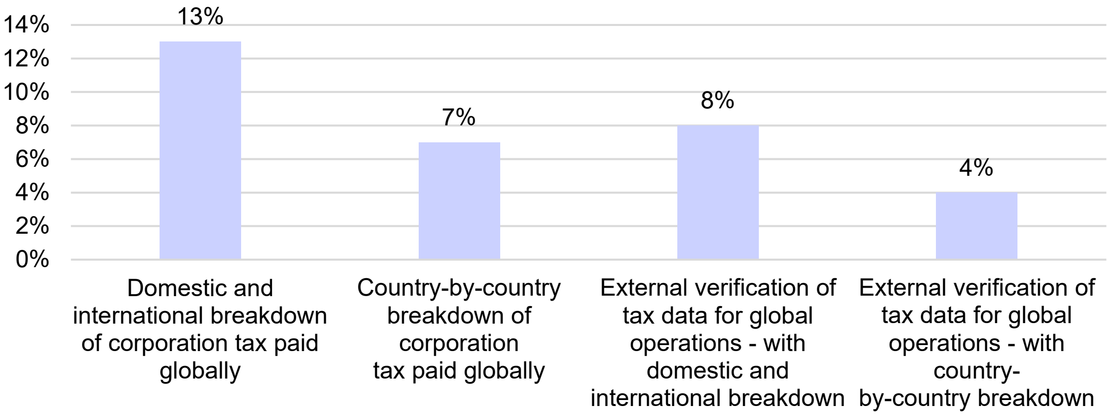
Quantitative reporting

Granular, quantitative tax data provides a powerful signal of genuine commitment to transparent tax practices and indicates how commitments translate into actual corporate tax practices. While such information can be complex to interpret, it provides a useful starting point for investors and other stakeholders to determine whether tax paid is indeed aligned with revenue generation or whether the company may be engaging in profit shifting and other aggressive tax planning practices.

Although enhanced reporting at a country-by-country level remains largely voluntary, a small proportion (7%) of companies already disclose this information publicly. Limited disclosure here may reflect the practical difficulties of disclosing at such a detailed level, as well as reluctance stemming from commercial sensitivities and concerns about scrutiny from external stakeholders (e.g. investors, regulators, NGOs, Media).[23]

A greater share of companies (around 13%) disclose domestic and international breakdowns of tax paid—an altogether less demanding undertaking for companies. Where quantitative data is disclosed, more than half of disclosures are verified by a third-party.

Figure 8. Proportion of companies with quantitative reporting of tax data



Source: FTSE Russell.

[23] For further details on the main concerns of companies regarding the publication of country-by-country tax data, please see PRI's paper "Advancing Tax Transparency: Outcomes from the PRI Collaborative Engagement 2017-2019".

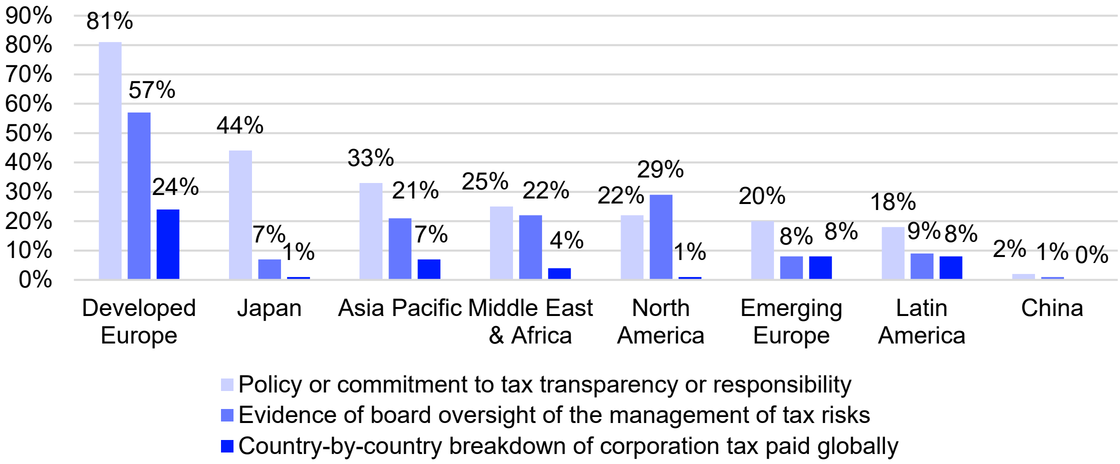
Section 4: Regional & sectoral trends

Europe continues to lead on tax disclosure

There is significant regional variation in corporate tax practices. Companies in Developed Europe have by far the most comprehensive disclosures across tax policy, governance, and quantitative reporting. Over 80% of corporates in the region have a commitment to tax transparency or responsibility, while 57% demonstrate evidence of board oversight of tax policy, and just less than a quarter disclose country-by-country data.

Progress on tax transparency in the region has been accelerated by the 2016 UK Finance Act, which required UK companies to disclose their tax strategy in relation to UK taxation.[24] Under this legislation, international companies with sub-groups in the UK are also required to report this information.

Figure 9. Proportion of companies reporting on key tax issues by region

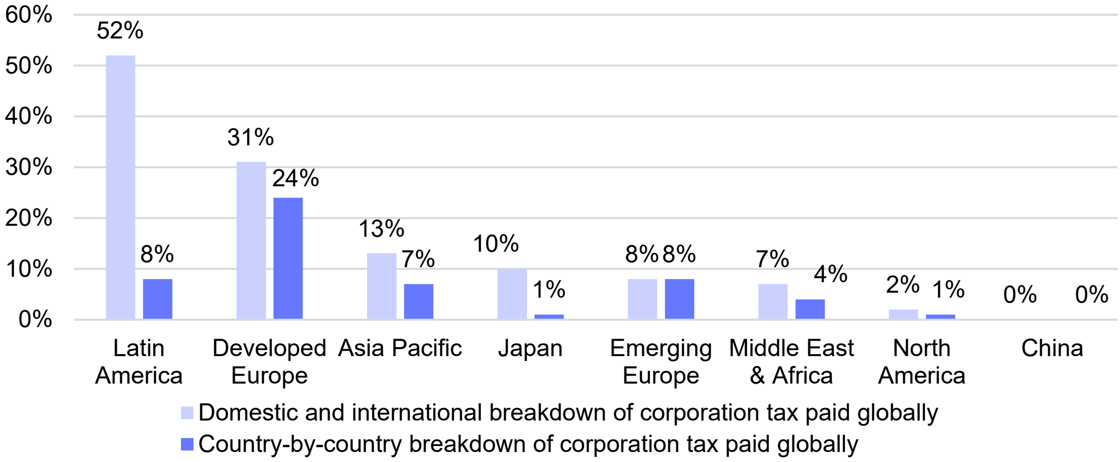


Source: FTSE Russell.

The picture for some regions is more nuanced. Japan has comparatively strong disclosure of tax policies, with 44% of companies publishing a policy or commitment to tax transparency. However, less than 10% of Japanese companies explicitly make tax a board level issue. By contrast, North American companies trend in the opposite direction, demonstrating relatively developed governance mechanisms, but are less likely to publish policies or make public commitments on tax transparency. Very few North American and Japanese companies disclose country-by-country figures for corporation tax—about 1% respectively.

[24] Companies are required to publish this strategy if they have a turnover of over £200 million or a balance sheet over $2 billion. There also required to disclose if they qualify for the OECD's Country-by-Country reporting framework, i.e. those with a global turnover of over 750 million euros. See here for further details.

Figure 10. Proportion of companies disclosing geographical breakdowns of corporation tax paid



Source: FTSE Russell.

When looking at this quantitative information in detail, what stands out are the divergent regional approaches to reporting tax data and the lack of standardization in format. This poses significant barriers to understanding and comparing quantitative data points across a global portfolio. In the US, for instance, companies tend to disclose US vs non-US income tax provisions rather than cash taxes paid. In Finland, companies appear to disclose information on "taxes borne", and in Brazil they often record "income and social contribution taxes."

Health Care and Technology lag peers on quantitative disclosures

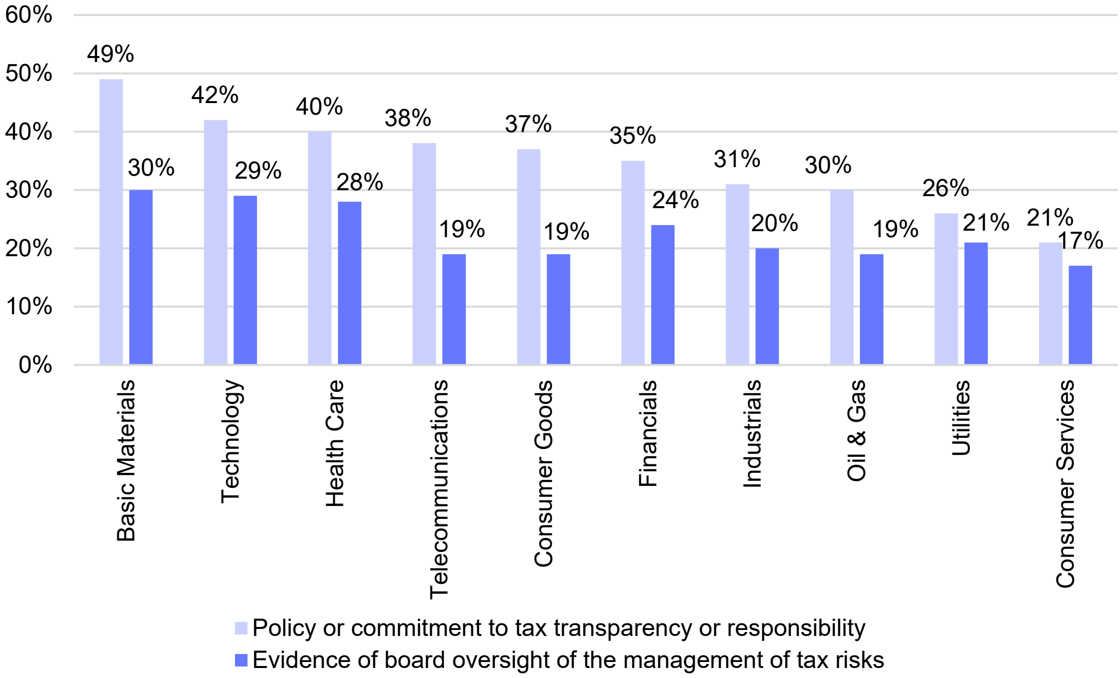
Some sectors are exposed to specific tax risks driven by the nature of their business models. Health Care and Technology sectors have historically faced greater tax scrutiny as their reliance on Intellectual Property assets and exposure to digitalization could be exploited for aggressive tax planning.[25]

In our study, we find that Health Care and Technology companies are now amongst the most likely to disclose formal policies and present board accountability on tax—perhaps as a reaction to increased stakeholder focus on their tax affairs. At the same time, however, companies in these sectors are among the least likely to provide quantitative, country-by-country data for taxes. Only 1% of Health Care and 3% of Technology companies disclose country-by-country breakdowns.

By contrast, 14% of Basic Materials, Oil & Gas, and Utilities companies respectively do disclose this information. Tax disclosure levels in extractives industries—where initiatives such as Publish What You Pay and the Extractives Industries Transparency Initiative (EITI) have long focused on transparency around payments to governments—are on average significantly higher.

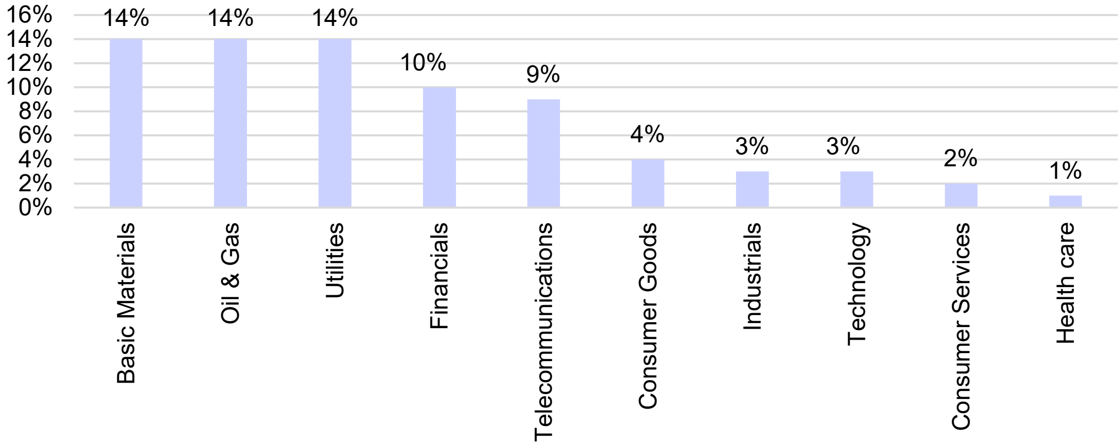
[25] For further details see UNPRI, "Evaluating and Engaging on Corporate Tax Transparency: An Investor Guide," 2018.

Figure 11. Proportion of companies reporting on key tax issues by sector



Source: FTSE Russell.

Figure 12. Disclosure of country-by-country breakdown of tax paid globally data



Source: FTSE Russell.

Section 5: Evaluating progress in tax reporting

Our analysis over time shows companies are increasingly aware of tax transparency issues, with a 20 percentage point increase in companies publishing policies over the reference period. More companies are also publicly committing to tax transparency and evidencing board oversight of tax risks.

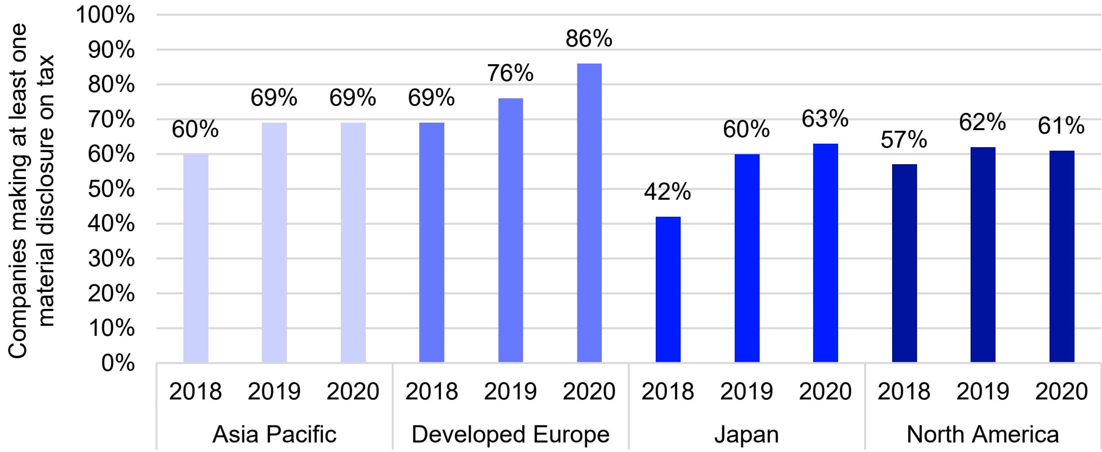
At the same time, the number of companies providing global breakdowns of taxes paid is relatively static, as is the number with specific oversight of tax policy implementation by the audit committee. Overall, this suggests that companies are increasingly aware and disclosing information relating to tax transparency, but that there is room for further progress, particularly on quantitative data.

This section utilizes a dataset of 316 large cap, multinational companies from developed markets over three years of data (see Appendix). Relative to that of the previous sections, this more concentrated sample's distribution skews towards larger companies from markets where improved practices would be expected (e.g. in higher averages in this section which should be noted in drawing comparisons with the broader sample).

More companies taking action

The proportion of companies making material disclosures[26] around tax transparency has increased over the reference period from 59% to 72%—suggesting that corporates acknowledge demands from investors and other stakeholders to increase transparency around their tax affairs. Figure 13 breaks this trend down further, highlighting strong progress in the Japanese and European markets—both exhibiting a further 20 percent of companies disclosing on the subject in 2020 compared to 2018. This contrasts with slower improvements in Asia and relatively flat progress in North America.

Figure 13. More companies making at least one material tax disclosure[27]



Source: FTSE Russell.

[26] Material disclosures' on tax are defined as those meeting any of the indicators within the FTSE Russell tax transparency framework – see Figure 4 for further details.

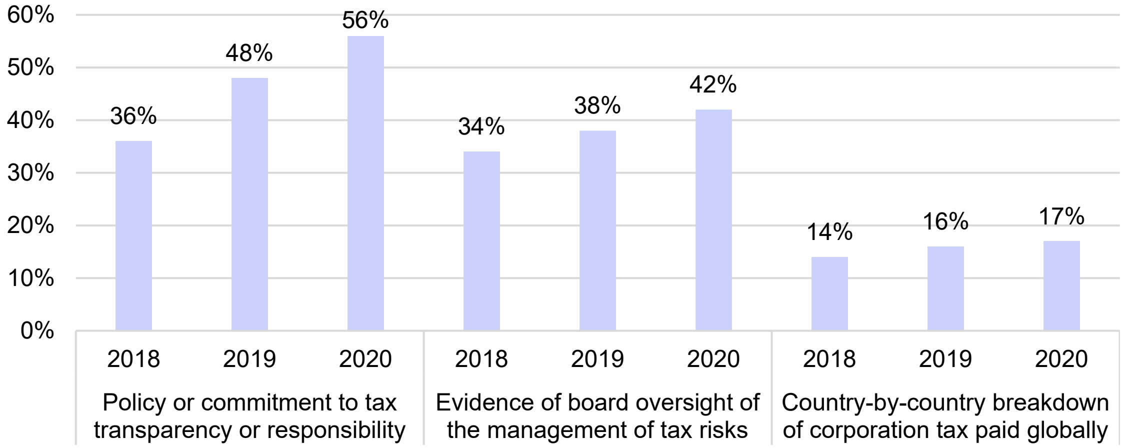
[27] China, Middle East & Africa, and Latin America are not included in this chart due to low sample size.

Enhancements within commitments rather than oversight or quantitative reporting

Perhaps the most straightforward action for a company to take is the publication of a policy or commitment to improve transparency within its tax affairs. Figure 14 shows that this area has seen the greatest increase over the assessment period—with 56% of corporates disclosing a policy in 2020 compared to 36% in 2018.

At the same time, Figure 14 also highlights that progress on documented board oversight of tax risks has been much slower, rising only around eight percentage points within the sample across the reference period. Similarly, we saw only a two percentage point increase in board audit committees that are assigned explicit oversight of tax practices.

Figure 14: Growth in public commitments around tax

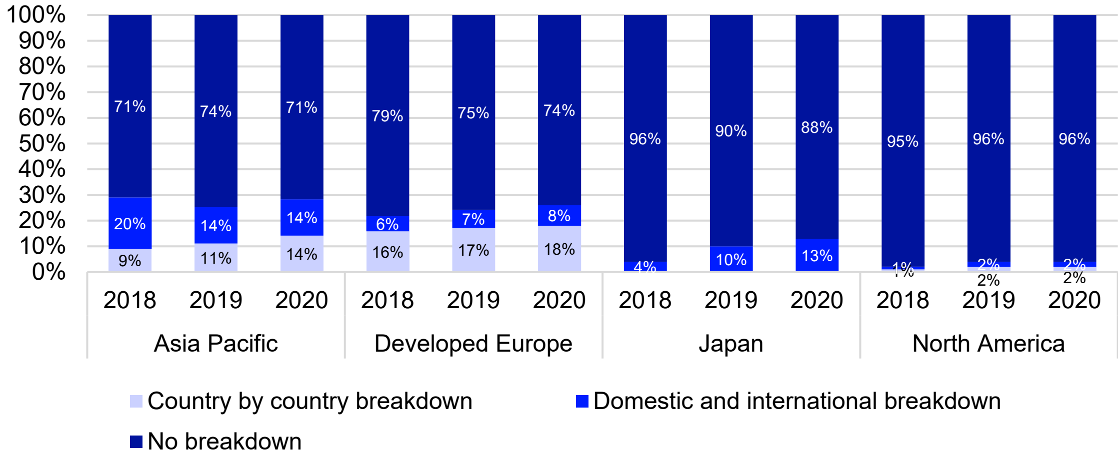


Source: FTSE Russell.

Finally, in Figure 14 we contrast progress on detailed country-by-country reporting with the other indicators and see much lower change in the proportion of companies giving a detailed breakdown. This data is one of the key elements of quantitative and objective reporting with which investors can analyze the implementation of policies and oversight on tax. Without, this it can be difficult to verify the claims that companies make with respect to increased transparency.

In total we see about three percentage points change in the proportion of companies providing data on taxes paid (this includes a small number of companies that have stopped providing this data, generally following a merger). Figure 15 shows Developed Europe and Asia Pacific driving this change, with a small increase in country-by-country reporting on taxes paid, while significant growth has also occurred in Japanese disclosure of limited tax breakdowns.

Figure 15: Detailed breakdowns on tax paid have remained rare



Source: FTSE Russell.

Section 6: Appendix

Tax transparency data

Figure 16. Sample size for current data by industry and region

	Basic Materials	Consumer Goods	Consumer Services	Financials	Health Care	Industrials	Oil & Gas	Technology	Telecommuni-cations	Utilities	Grand Total
Asia Pacific	30	63	36	109	20	57	21	29	20	17	**402**
China	12	20	21	51	9	34	9	15	3	11	**185**
Developed Europe	13	33	13	51	22	40	11	11	8	13	**215**
Emerging Europe	6		1	6			9		2	1	**25**
Japan	12	37	22	23	16	38	3	16	6	5	**178**
Latin America	7	8	12	18		5	5		3	8	**66**
Middle East & Africa	10	2	4	35	1	3	2	2	6	2	**67**
North America	9	23	34	52	29	37	17	29	5	11	**246**
Grand total	**99**	**186**	**143**	**345**	**97**	**214**	**77**	**102**	**53**	**68**	**1384**

Figure 17. Sample size for historical data by industry and region

	Basic Materials	Consumer Goods	Consumer Services	Financials	Health Care	Industrials	Oil & Gas	Technology	Telecommuni-cations	Utilities	Grand Total
Asia Pacific	2	7	3	5	6	10		1		1	**35**
Developed Europe	12	26	8	15	19	26	4	8	3	1	**122**
Japan	3	15	1	1	10	14		4			**48**
Middle East & Africa	1				1			1			**3**
North America	6	14	8	15	20	18	5	22			**108**
Grand total	24	62	20	36	56	68	9	36	3	2	**316**

Figure 18. Sample size for current data by country

Region	Country	Current data: No. of companies	Historical data: No. of companies
Asia Pacific	India	83	
	Australia	64	16
	Hong Kong	55	9
	Korea	48	6
	Taiwan	46	
	Thailand	27	
	Malaysia	26	
	Philippines	16	
	Indonesia	16	
	Singapore	16	3
	New Zealand	5	1

Region	Country	Current data: No. of companies	Historical data: No. of companies
China	China	185	
Developed Europe	France	40	20
	United Kingdom	37	26
	Germany	31	21
	Switzerland	26	21
	Netherlands	16	8
	Sweden	13	5
	Spain	13	6
	Italy	12	5
	Denmark	8	3
	Finland	7	2
	Belgium	4	3
	Norway	3	1
	Portugal	2	
	Austria	2	
	Ireland	1	1
Emerging Europe	Russia	16	
	Turkey	4	
	Hungary	2	
	Czech Rep.	2	
	Greece	1	
Japan	Japan	178	48
Latin America	Brazil	37	
	Mexico	15	
	Chile	10	
	Colombia	4	
Middle East & Africa	South Africa	21	
	Saudi Arabia	17	
	Qatar	9	
	Israel	8	3
	UAE	6	
	Kuwait	5	
	Egypt	1	
North America	United States	226	105
	Canada	20	3
Grand Total		**1384**	**316**

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