Barbara Strozzilaan 336
1083 HN Amsterdam
The Netherlands
info@gssb.globalreporting.org

Item 04 – Final Project Proposal for Disclosures on Tax and Payments to Government

For discussion and approval

Date	10 May 2017
Meeting	24 May 2017
Project	Disclosures on Tax and Payments to Government
Description	This paper sets out the final project proposal for developing disclosures on Tax and Payments to Government. The proposal has been slightly revised based on input during the GSSB meeting on 26 April, as well as comments from selected members of the GRI Board and Stakeholder Council (see Annex A for the full set of Board and Stakeholder Council input received).

About this paper

The Global Sustainability Standards Board (GSSB) identified *GRI 201: Economic Performance* as a priority standard for review in its 2017-2019 Work Program. The scope of this review was established with the specific aim to also consider new content related to Taxes and Payment to Governments. This project could potentially lead to development of new disclosures on tax to include in existing GRI Standards (such as *GRI 201*), and/or a new dedicated standard on Tax and Payments to Governments.

This paper sets out the final proposal for this review project, for comments and feedback from the GSSB, the GRI Stakeholder Council and GRI Board.

This draft project proposal incorporates initial feedback from the GSSB on a discussion paper prepared by the Standards Division, which was discussed during a public meeting on 21 March 2017. During this meeting, the GSSB agreed:

- To move ahead with a project proposal to develop new disclosures on tax and payments to government
- To pursue this as a separate project that will be carried out in parallel with the review of *GRI 201: Economic Performance*, given the specific expertise in tax that will be required (note however that outcomes of this workstream could potentially be included in the revised GRI 201 or other existing GRI standards)

Changes since previous version

The document has been further revised based on the GSSB discussion on 26 April 2017 and comments received via email from members of the GRI Board or Stakeholder Council (see Annex A for a full set of those comments). The following minor changes have been made:

- An additional sentence has been added to the project objectives to give further detail: *'The aim of this work is to help promote greater transparency on a reporting organization's approach to taxes, including potential elements such as tax strategy, governance, and information on actual taxes paid or payments to governments'* (see lines 85-87)
- An additional bullet point has been added under the scope of recommendations for the Technical Committee, referring to the additional contextual information that may be necessary for users to accurately understand/ analyze reported information on taxes (see lines 111-113).

Project background

The global discussion around tax transparency has gained momentum in recent years, with leading intergovernmental organizations, civil society groups, and investors calling for increased disclosure on corporate tax and payments to governments. Currently, many companies publicly disclose very limited information on their tax structure or taxes paid at a country-by-country level. For example, a survey of tax reporting amongst FTSE 100 companies showed that most report only very generic information on their tax strategy, with an emphasis on the fact that their practices are 'legally compliant'.[1] Another recent study by RobecoSAM indicated that only 17% out of 830 companies surveyed were currently reporting publicly on tax payments at a country level, and most of these were only operating in a single country.[2]

Greater transparency can be one tool to help ensure public and stakeholder confidence that companies employ fair tax strategies and demonstrate their contributions to society in the regions where they operate. This issue is closely linked to the sustainable development agenda, since corporate tax payments can play an important role in helping governments to address issues such as poverty and wealth inequality. Although the exact scale of the impact is difficult to determine, recent research shows that greater transparency in tax is correlated with reductions in 'tax dodging' practices (such as base erosion and profit shifting) and this in turn leads to governments having more revenue to put towards development programs. Recent reports from the OECD attest that in developing regions, domestic revenues provide by far the greatest share of financing for development, including programs designed to make progress towards the Sustainable Development Goals.[3] At the same time, the total tax revenue lost due to practices such as base erosion and profit shifting is estimated to be between 100-240 billion USD annually, with developing countries suffering the greatest share of losses.[4]

To help increase transparency and accountability on corporate tax, a number of new international and regional policy initiatives have emerged in recent years. Under the OECD/ G20 Base Erosion and Profit Shifting (BEPS) Package,[5] large multinational enterprises are required to report detailed, country-by-country tax information to tax authorities, although not publicly. The Action Plan on BEPS was first introduced by the OECD in 2013 and it has since been adopted by 94 countries or jurisdictions, with the first exchanges taking place early in 2017.[6] It is expected that an estimated 10,000 large companies (with annual consolidated group revenues over 750 million euros) will be impacted by the BEPS legislation.

The EU has also proposed new legislation that would require large companies based in and operating in the EU to *publicly report* on tax payments on a country-by-country basis. This proposal to amend the existing EU Directive 2013/34/EU[7] was developed following a 2015 public consultation on corporate tax transparency requirements, and is part of the Commission's overarching 'Action Plan for Fair and Efficient Corporate Taxation in the EU.' However, according to experts working in the tax disclosure field, there is no indication at the moment that this proposal is likely to be approved by the EU in the near term.

Public country-by-country tax reporting requirements currently apply mainly to two specific sectors – financial institutions and extractives. The EU's Capital Requirements Directive IV

---

[1] Maya Forstater, 'Publishing Corporate Tax Strategies'. *Tax Journal*, 5 August 2016.
[2] RobecoSAM, '*The Sustainability Yearbook 2015'*, January 2015.
[3] UNA-UK, 'Can tax regimes underpin the SDGs?', http://www.sustainablegoals.org.uk/can-tax-regimes-underpin-sdgs/ (accessed 03 April 2017). See also the OECD Secretary General Report to G20 Finance Ministers, March 2017, page 5.
[4] OECD/G20 Base Erosion and Profit Shifting Project (March 2015), https://www.oecd.org/ctp/beps-reports-2015-information-brief.pdf (accessed 30 March 2017)
[5] OECD, 'BEPS Actions', Available at: http://www.oecd.org/tax/beps/beps-actions.htm (accessed 30 March 2017)
[6] OECD, Inclusive Framework on BEPs Coalition, March 2017, http://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf (accessed 05 April 2017)
[7] Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016PC0198

covers much of the financial sector (mainly banks), and includes a country-by-country tax reporting obligation. Similarly, the Extractive Industry Transparency Initiative (EITI) Standard applies to the extractives sector and is implemented in 51 countries around the world. It requires applicable companies to publicly disclose all material taxes and payments to governments in their countries of operation. However, the tax information required under these initiatives is less detailed than the information reported to tax authorities under the OECD BEPS legislation.

Considering the limitations of current policy instruments, and the growing demand from investors and civil society for greater transparency on this issue, the GRI Standards could play an important role in encouraging more voluntary disclosure on corporate tax.

Project objectives and scope

The primary objective of this project is to develop new, specific disclosures related to Tax and Payment to Governments, which will be considered for incorporation into the GRI Standards. The aim of this work is to help promote greater transparency on a reporting organization's approach to taxes, including potential elements such as tax strategy, governance, and information on actual taxes paid or payments to governments.

Wherever possible, this project will consider and seek to align with existing frameworks and methodologies for reporting on tax and payment to governments.

The outcomes of this project could take several forms. It could lead to new overarching disclosures to be included in the universal GRI Standards (most likely *GRI 102: General Disclosures*), additional disclosures on tax to be included in existing economic topic-specific Standards, and/or a new standard focused specifically on Tax and Payments to Governments.

This project will be carried out in parallel to the GSSB's review of several standards in the economic (200) series: *GRI 201: Economic Performance, GRI 202: Market Presence, and GRI 203: Indirect Economic Impacts*. Due to the strong linkages between tax and socio-economic development, it is also possible that outcomes from this project could be integrated into these revised economic standards.

Proposed next steps

This project will follow the GSSB's standard-setting process as set out in its [Due Process Protocol]. Given the specific technical expertise required on tax and payments to governments, the GSSB has proposed to form a dedicated Technical Committee to develop initial draft content on this topic. A detailed Terms of Reference for the Technical Committee will be developed, including the objectives, scope, and timeline for their work. The Technical Committee will be asked to produce recommendations on the following areas:

- the benefits and considerations of including tax disclosure within the universal GRI Standards (i.e. as an overarching disclosure for all companies), as new disclosures within existing economic standards, and/or as a new dedicated standard
- the specific recommended disclosures related to Tax and Payments to Governments (including associated guidance and recommendations, where appropriate)
- additional contextual information that may be required for users to accurately understand/ analyze disclosure on tax and payments to government. This information could be contained already within other GRI Standards.

The findings of the Committee will then be shared back with the GSSB for consideration. Based on the outcomes of this initial phase of work, the GSSB will then also determine whether further Technical Committee or Project Working Group input is required, or whether to move ahead with developing an Exposure Draft for public consultation.

Annex A: Full set of comments received from the GRI Board and Stakeholder Council

SC or Board Member	Comments
SC Member	This is indeed an issue that has been the subject of much more public debate – and not enough disclosure – over recent years. I think the GRI should be active in this space, but I expect it to attract opposition from some business and possibly the accounting world. There is clearly a large scale problem with tax minimisation and tax avoidance by business globally, and this is affecting the sustainability of government budgets and flowing through to restrictions on what governments can do in areas of core responsibility like health, education and poverty alleviation. I note the discussion on objectives and scope at lines 71-84 is rather vague. There are not good reference points for this area of work. There is reference to the OECD's BEPS package. It is disappointing that the BEPS package will only improve disclosure to tax authorities, not to the broader public. The GRI could contribute to fixing this problem through its standard-setting (and in the context of the shift to mandatory sustainability reporting). There is reference to the Extractive Industries Transparency Initiative. This is relevant. I am involved in the EITI implementation in Australia but it is heavy-going. While the EITI is improving in terms of requiring company-by-company disclosures, then project-by-project disclosures and beneficial ownership, it does not do technical standard-setting in these areas and that is an increasing problem. Also of concern re the EITI is that the Trump administration in the USA has put on hold the US's already very restricted implementation of the EITI, and also s1504 of the Dodd-Frank Act that requires tax disclosures by extractives companies in respect of global operations. The GRI doing work in this area will be useful for supporting the growing public interest in this sort of disclosure , but won't win it more friends in parts of the US business world. The EITI as it currently stands does not prefer or require accrual-based reporting over cash reporting. (In the EITI context, the relevance is whether tax payments are simply reported for the year in which they occurred, or are reported for the year to

SC or Board Member	Comments
	which they relate – ie to revenue and profits in a particular year. Companies usually make their final tax payments for a year in the year – or two – AFTER the year in which the activity occurred.) I think accrual-based reporting is needed, as tax disclosures need to be placed in context if they are to have enough meaning – tax payments to a government need to comprehended with reference to the revenue produced or other activity undertaken in that country. The GSSB will need to consider requirements around the contextual information that will enable tax payments to be comprehended / analysed / judged. That contextual information may well be elsewhere in the GRI report – eg economic disclosures. I think the global Tax Justice Network would be a relevant organisation for the proposed Technical Committee. They have done very good work documenting various international profit-shifting and tax-avoiding mechanisms. Their branch in Australia has done great work on this issue, with various legislative amendments on both transparency and on closing loopholes underway.

SC or Board Member	Comments
SC Member	I suggest to include different legislation or public policies within tax payments. In Peru we have a law called ¨Obras por impuestos¨. This law allows companies to invest 50% of their income taxes in some kind off necessary infrastructure within the country or close to the area of one of the main operations centre of the company, for example a new road, a school, a hospital.
SC Member	It is my opinion that sensitive information such as this will not be fully disclosed. In any event, the detailed financials should reveal this information. In the case of DFI's and SOE's (state owned enterprises), they are to a large extent exempted from paying corporate taxes. In South Africa there are different categories of SOE's (schedule 2, 3a, 3b and so forth). These all have different status in terms of taxes and reporting requirements. It will be valuable to report on mandatory levies (taxes) such as Skills Development Levies (1% of the payroll) and unemployment (UIF) levies. These funds are directed at skills/unemployment programs on a national level and shows the direct contribution of the entity to development. This content should probably sit within the GRI 201 Standard.
SC Member	I would suggest that an expert from Transparency International is invited to the Technical Committee.
SC Member	This is a critical project. GRI needs to ensure this is focused on full tax - not just corporate tax, but including tax on wages and products. Further again policy, risk management, actions and performance is key. I don't understand how the current scope will be applied to limited partnership organisations where certain information is not disclosed (which is required to meet standards) – perhaps moving this requirement out of General Standards into Specific Standards would remove this issue? Or, making it a General Standard only where it's required by national law?
SC Member	Representation from Government entities on the technical panel. In Australia, there is an organization called "Board of Taxation" which is a non-statutory advisory body charged with contributing a business and broader community perspective to improving the design of taxation laws and their operation. The Chair of this board is Mr Michael Andrew. The Voluntary Tax Transparency Code (the Code) is a set of principles and 'minimum standards' to guide disclosure of tax information by businesses. The Code was developed by the Board of Taxation at the Treasurer of Australia's request and was released on 3 may 2016. Its purpose is:

SC or Board Member	Comments
	To encourage large and medium-sized businesses to publicly disclose their tax affairs to highlight those that are paying their fair share and to encourage all businesses not to engage in aggressive tax avoidance; and For large businesses to take the lead, to become more transparent and help educate the public about their compliance with Australia's tax laws. Representation from very large global corporates would be valuable, as they have been actively involved in the taxation payment debate.

Board member	• The ongoing global public and political debates on fiscal justice need to be supported by greater transparency in reporting
	• Without doubt this is of tremendous public interest.
	• Measures and sanctions such as those announced by the European Union, for example, could create risks for companies and investors.
	• Reporting on assistance received from governments should be supplemented by reporting of grants and loans received from multilateral institutions like the IFC, the European Union etc.
	• It is relevant in regard to the impact on development and the SDGs
	• And many of these aids are linked to compliance with sustainability criteria
	• On behalf of Global Labor the Public Services International (PSI) and / or its European regional organization EPSU as well as/or the ETUC and OECD-TUAC should be invited to participate in the technical committee
	• In addition to the EITI and the global Tax Justice Network as already mentioned by Peter Colley the following organizations can be relevant:
	    • Transparency International
	    • ATTAC
	    • International Centre for Tax and Development
	    • European Network on Debt and Development

SC or Board Member	Comments
	• International Tax Compact (an organization which actually receives tremendous financial support from the European Union and the German government)