GRI

The GRI Perspective

We need to talk about tax

Issue 5 - 28 March 2022

The news that *investors are pressuring Amazon* to increase transparency on where and how much it pays in tax – with a shareholder resolution that calls for Amazon's board to issue a tax transparency report in accordance with *GRI 207: Tax* – should not come as a surprise. Afterall, GRI's Tax Standard was developed in response to growing stakeholder demands, especially from investors, for more and meaningful tax information to be provided by companies.

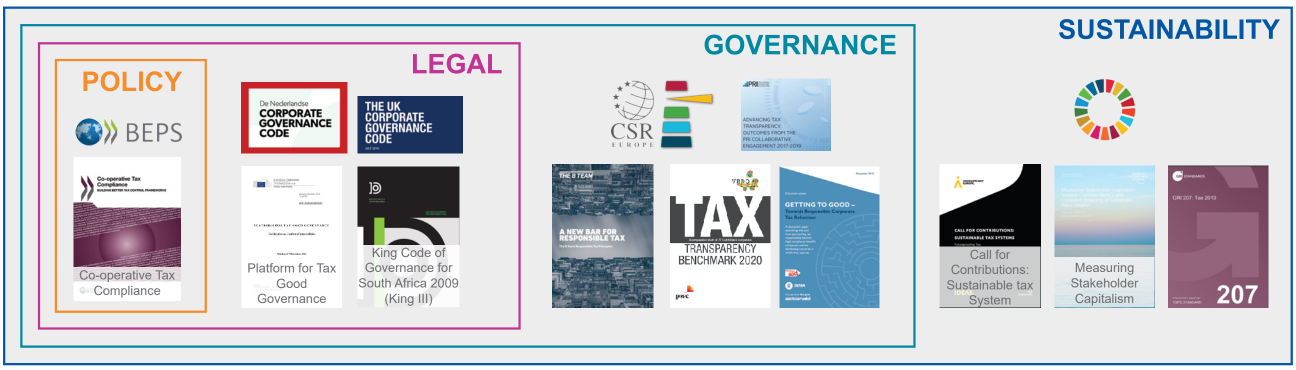
During the consultation to develop the Tax Standard, more than 110 stakeholders submitted feedback, of which 55% represented the investor community with jointly invested assets in excess of $2.5 trillion. Besides, as we share below, many multinational companies already report voluntarily under *GRI 207*.

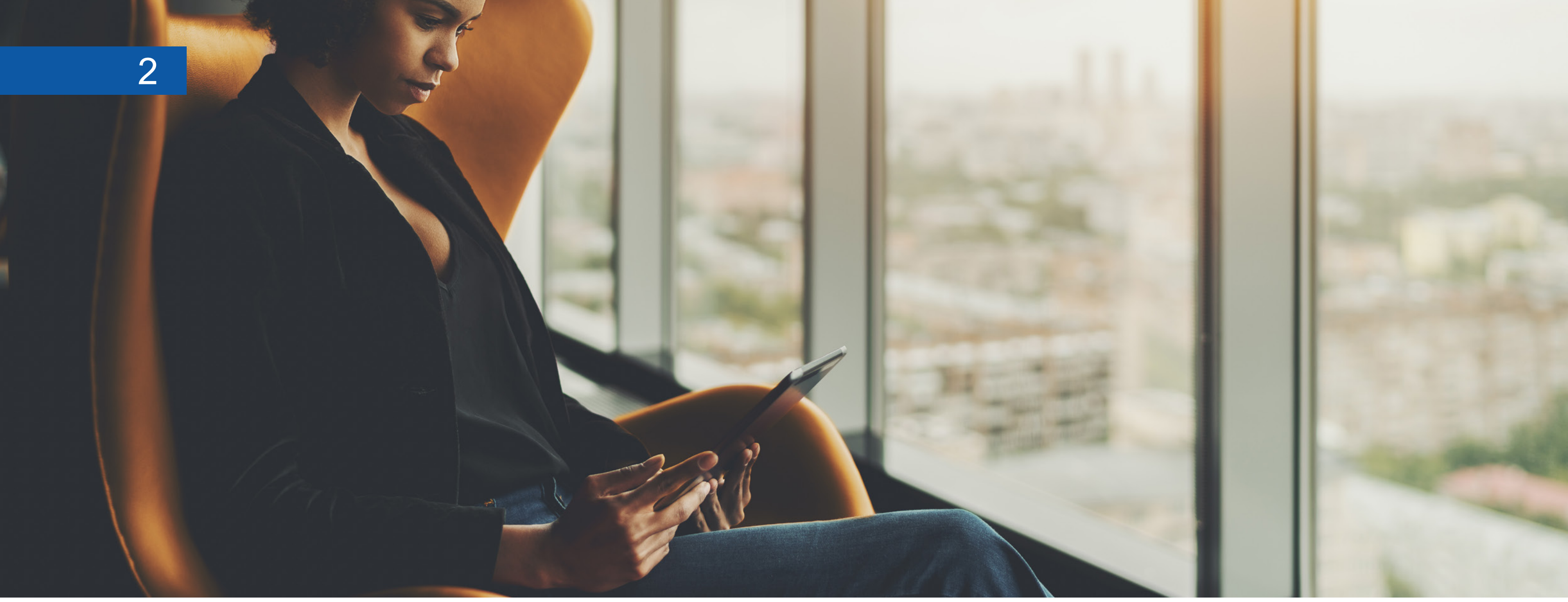
Tax as an ESG metric

Going back to basics, taxes are levied for three main reasons: financing of the state, redistribution of wealth and to influence behavior. Nowadays it is widely accepted that taxes are central to the macroeconomic stability of countries. They are a key tool in reducing global and national inequality and financing the low-carbon transition. And as global geopolitics are currently demonstrating, taxes are a vital instrument to fund defense, security and health care. Not surprisingly, the UN has acknowledged that taxes play a vital role in achieving the Sustainable Development Goals (SDGs).

The evolution of tax reporting

Much of the debate on tax transparency has centered on the credibility of the international tax system as triggered by amongst others the *Lux Leaks*, the *Panama Papers* and the *Luanda Leaks*. However, focus was not usually applied in the broader sustainability context. This changed with the introduction of *GRI 207* in 2019, delivering the first global standard for tax transparency. Tax is now a topic that not only encompasses legal and financial issues, but also governance, corporate social responsibility and stakeholder engagement. ***GRI 207* emphasized that achieving the SDGs is not possible without including tax as a sustainability topic, with an appropriate standard to report on.**





Momentum on tax transparency

Prior to *GRI 207* there were already several initiatives[1] formulating guiding principles for 'good tax behavior', amongst them *the B-Team principles*. However, as discussed in a *previous GRI Perspective*, the application of principles without a monitoring function attached gives no certainty of compliance. **The strength of *GRI 207* is that it has incorporated guiding principles of good tax behavior into a single, coherent, globally applicable reporting standard**.

Under *GRI 207*, organizations are asked to provide insights into four main topics: tax strategy; tax risk and control environment; stakeholder engagement; public country-by-country information. Reporting in accordance with *GRI 207* also allows organizations to address the needs of investors as set in the *UN-PRI guidance*.

Since its launch, a growing number of companies are already voluntarily reporting with *GRI 207*. Allianz, Anglo American, BP, Credit Suisse, Deutsche Bank, Enel, Lukoil, Nestlé, NN Group, Novartis, Orsted, Phillips, Publicis Groupe, SAP, Swiss Re, UBS, Unibanco, Visa, Volkswagen, and Zurich Insurance – to name a few.

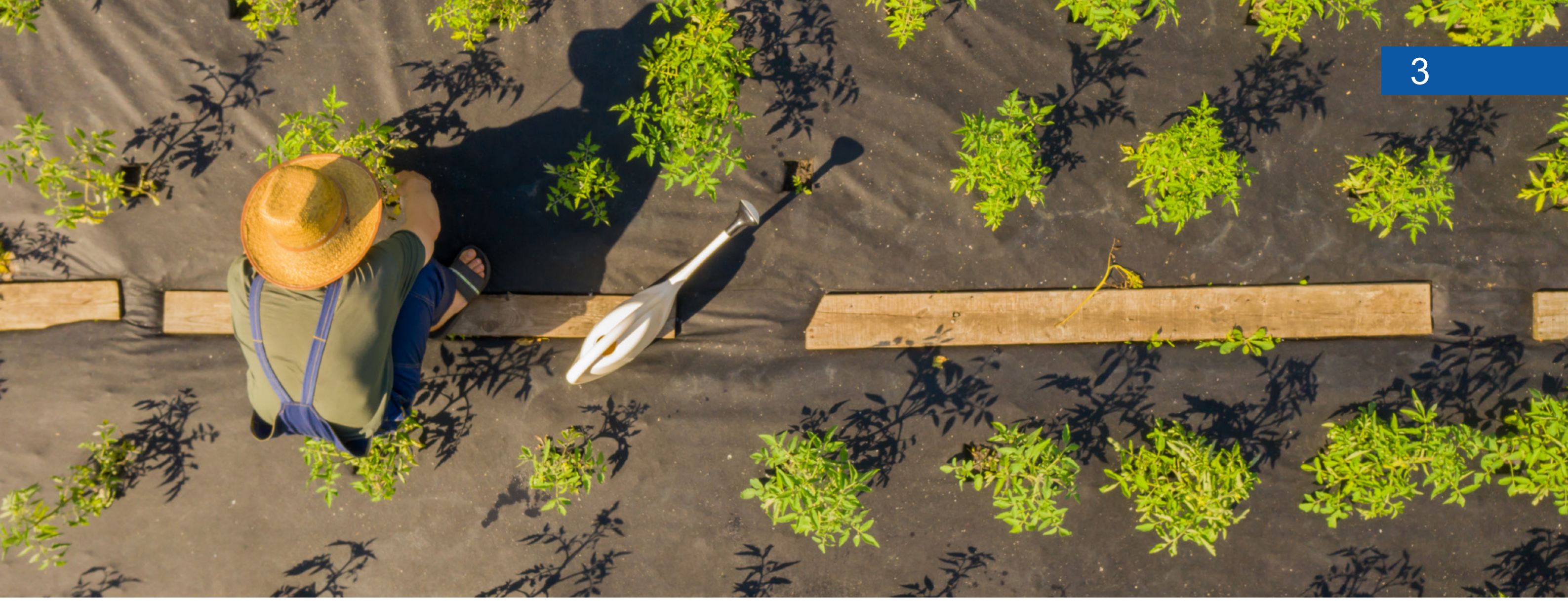
Moreover, various stakeholders incorporate (components of) *GRI 207* in broader regulations, including in the *OECD BEPS 13* (base erosion profit shifting) requirements, and the upcoming EU country-by-country reporting Directive. More recently also in the final advice on the EU Social Taxonomy various elements of *GRI 207* can be found and in the proposal for a *UN tax convention bill*, the country-by-country part heavily leverages from the GRI Tax Standard.

Is tax material or not?

Despite all this, many tax practitioners still defend the lack of detailed tax disclosures with the argument that tax is not 'material'. *Evergreen arguments* like *tax data is difficult to retrieve, exposure to sensitive business secrets; cost of compliance and competitive disadvantage* are mentioned. The truth is that you can only argue tax is not material if you proceed from the financial materiality principle only and ignore that tax is crucial and therefore material for sustainable development.

Not being 'in control' is never a good argument for not disclosing information in an era of 'transparency by default'. Tax soon becomes a material topic if you look at the impact taxes have on the economy, the environment and society.
In addition, the question to what extent tax is a 'material' ESG topic has already been answered by *WEF/IBC as its 'Measuring Stakeholder Capitalism*' report.

Many stakeholders – and investors in particular – consider tax to be material. Tax information is increasingly part of the investment risk analysis processes. It is also used more frequently in the compilation of ESG rankings. Last year Norway's sovereign wealth fund *dropped several investments* due to lack of tax transparency. All this clearly shows that **modern society does not see tax as a short-term cost factor only, but as an instrument to create socio-economic cohesion, environmental value, and long-term prosperity**.



Tax planning to save the planet

Organizations can now turn taxes into a competitive advantage. Companies show their impact on climate and society under the guise of ‘aggressive tax planning to save the planet’, they can use their ‘green tax burden’ to show progress in the energy transition and net zero commitments. **Tax is increasingly an ‘engine for good’ and important condition in achieving long-term sustainable value creation**. Tax in ESG goes beyond Co2 taxes and subsidies for solar panels. The interaction of tax behavior across ESG metrics needs to be fundamentally better understood.

Measurable ESG metrics

Environmental

1. Carbon emissions
2. Number of water intensive operations
3. Percent of reduction in energy used
4. Percent of products sustainably sourced
5. Amount of management pay tied to climate response targets
6. Sensitivity of earnings to price on carbon aligned to the Paris Accord
7. Tons of toxic waste

Social

1. Types of employee wellness initiatives
2. Percent of employees digitally upskilled
3. Median hourly gender pay gap
4. Percent of employee retention
5. Percent of employees retained after automation impacts
6. Percent of gender and racial/ ethnic group representation
7. Number of suppliers with high risk labor conditions and actions taken

Governance

1. Number of female directors
2. Board oversight of climate issues
3. Number of minority directors
4. Executive compensation

Tax in the E

1. Environmental taxes e.g. carbon taxes, plastics
2. Green subsidies and incentives
3. Compliance and reporting requirements
4. Carbon adjustment mechanism

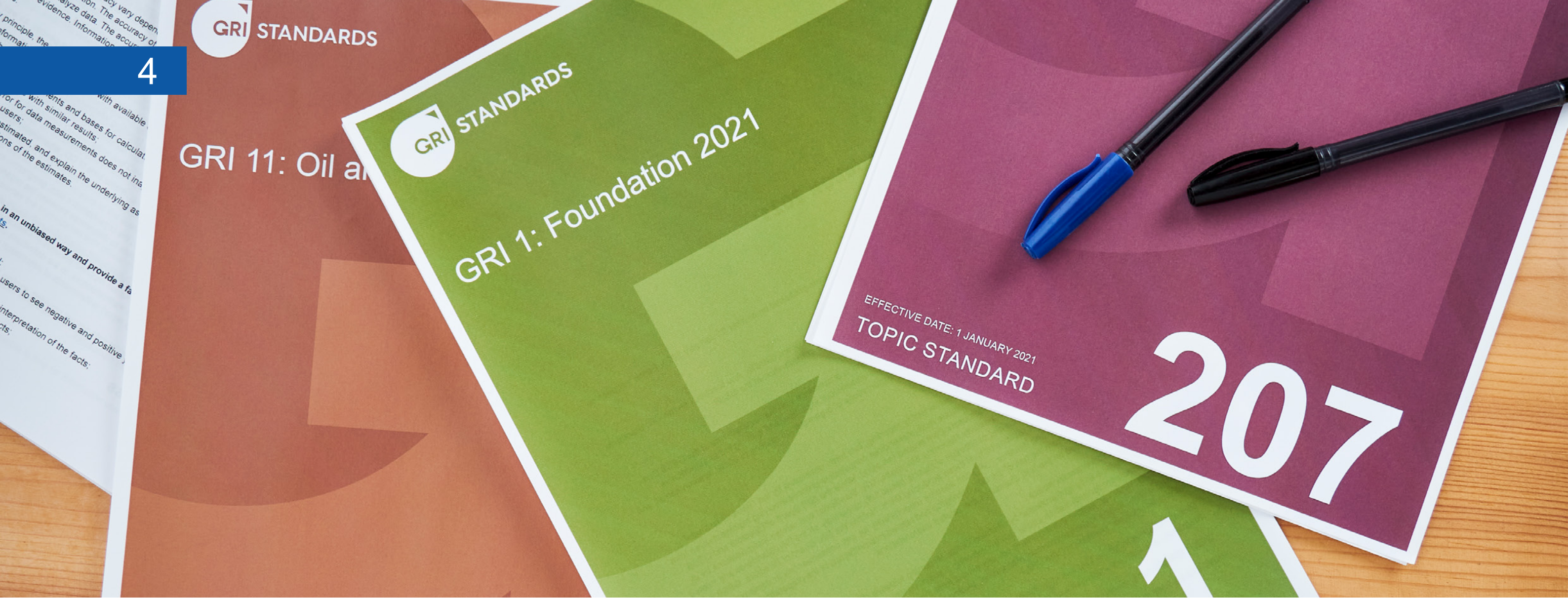
Tax in the S

1. Social insurance, health care - and pension premiums
2. Gig economy, flexible workforce and global mobility
3. Equal pay, living wages and remuneration policies

Tax in the G

1. Aligning ESG policy with Tax behavior
2. Tax reporting and stakeholder communication
3. Process controls and compliance assurance

Tax to ESG metrics



How we can help

As set out in this paper, tax is a key sustainability topic. Yet we recognize that effectively applying *GRI 207* standard requires support.

The *GRI Academy* offers specific training on *GRI 207*, to equip reporting organizations and business practitioners with its features. Learn more about the full range of *GRI's services and tools* that are here for you.

Our ask

We are an international non-profit organization that reflects multi-stakeholder interests by developing and setting world-class sustainability reporting standards.

Our standards are free to use, but not free to develop. Creating and maintaining standards is time and resource intensive. To enable us to keep up the good work and stay on the leading edge of corporate sustainability reporting **we need your support!**

Get in touch →

1. Other examples include 'A blueprint for responsible and transparent tax behavior by CSR Europe', The principles for good tax governance by the association of investors for sustainable development (VBDO) and Principles of Responsible Tax Behavior by Christian Aid, Oxfam and Action Aid.

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