C25 Tax Transparency

Trends in the tax reporting of C25 companies, 2022

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C25 Tax Transparency Survey

Executive Summary

Welcome to the third edition of the Danish C25 tax transparency survey. Communicating about taxes has always been a difficult task because of the high complexity and divergence of the rules across the world and not least the differences between accounting and tax rules. This year's survey shows that many of the C25 entities are now taking up the difficult task and doing their best to explain the tax positions. We see this as a positive development which is also reflected in the transparency measures applied in the survey. Questions regarding whether companies are paying their fair share are getting even more attention as 137 countries in December 2021 signed up for the OECD Pillar II minimum taxation of 15% to be implemented along with the EU proposal for minimum taxation almost similar to the Pillar II model rules. In addition, the adoption of the EU Directive on public country-by-country reporting is now a reality and companies will need to prepare for the additional disclosure no later than 2025.

Voluntary tax reporting as a measure for ESG reporting

Coming out of the pandemic, countries across the board have to some extent experienced economic turmoil resulting in an even greater focus on collecting taxes and providing incentives for companies to support and increase economic growth. This has led to an increase in tax payments, both directly as taxes stemming from increased economic activities but also indirectly from the increasing number of employees paying taxes on their salaries and from consumption taxes from increased spending on consumer goods and services.

At the macro level, the OECD and the EU have put forward proposals for a global minimum taxation of 15% and the EU has adopted the Directive on public country-by-country reporting. These initiatives are closely related with the public debate on companies paying their 'fair share' which seems to have taken on a new format in this new legislative and reporting environment.

We are still awaiting the legislative development on EU's corporate sustainability reporting in terms of the general tax perspective, however, bearing the development in mind, tax transparency reporting is going to be an even more integrated part of the sustainability / ESG reporting. The reporting will not only cover the structural taxation impacting the environment but also the impact of the social aspect of taxation and the governance of taxation, providing a perspective of companies' contributions to society.

Following this projection, it mirrors the trend which we have seen over the past couple of years where companies have shifted from a position of reporting on taxes and moved from being a financial reporting measure to also being a measure under the ESG / Sustainability reporting. Taxes are no longer regarded as purely financial costs but are also recognised as societal contributions supporting long-term sustainable measures for the company itself and for society.

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Executive Summary

Continued increase in voluntary tax reporting

Our analysis of the C25 reports for 2021 shows a positive development with progress in the companies' tax transparency compared to 2020 across all measures. Almost every company publishes information on its tax position on a voluntary basis and has published a tax strategy approved by the board. In addition, information on tax risk management is still being further developed and we see an increase of five from 17 companies in 2020 to 22 in 2021 addressing the process or actions mitigating tax risks. In addition, companies have increased their narratives explaining the tax charge in the annual report by addressing the main items impacting the tax position for the year almost doubling from eight in 2020 to 15 companies providing these additional voluntary disclosures in 2021.

This year, we see that a couple of companies are providing stand alone tax reportings, mostly focussing on the country-by-country reporting but also integrating the tax policy of the company and introducing disclosures on the tax operating model to support the country-by-country reporting. Still, some companies devote one or more sections in their annual or ESG / sustainability report to explain their tax positions, including how their operational model affects their tax payments in countries where they carry out business operations. We experience that this year positive development is also driven by the companies' response to the increased interest regarding their tax position from investors and stakeholders alongside the correlation between the companies' tax payments and social responsibility post the pandemic.

On the following pages, we present the result of the survey distributed on nine indicators for tax transparency.

Benchmarking against the C25 2021 transparency?

If you wish to explore how your company is providing voluntary tax disclosures compared to the C25 index or if you would like to have a conversation about the topics raised in this publication, please reach out to either of us and we would be happy to talk.

Tax governance and approach to tax

Tax governance

Board approval

22 — 2021
19 — 2020

In this year's analysis, board approval of the company's tax policy has increased by 3 compared to 2020.

The Danish Committee on Corporate Governance updated its recommendations on corporate governance in December 2020 to include recommendations in terms of public disclosure of the company's tax policy. The Committees recommendation included board approval of the company's tax policy ensuring that the tax policy has attention and involvement at the highest level of the business. In addition it was also recommended, that the tax policy is publicly available on the company's website and that certain specific areas such as acceptance of tax incentives and tax planning, presence in so-called tax havens are addressed.

Risk framework

22 — 2021
17 — 2020

In this year's analysis, 22 companies have disclosed that they have an established process or system for tax risk management which represents an increase of 5 compared to 2020. Tax risk management is increasingly important in order to assure stakeholders that the company's tax strategy and public disclosures are followed in practice. A tax risk framework includes a set of activities, tools and governance structures in order to ensure that tax risks are identified, assessed and responded to in order to mitigate the potential risks.

Approach to tax

Transfer pricing

24 — 2021
22 — 2020

This year's analysis shows that transfer pricing was mentioned by all companies in the C25 index which is an increase of 2 compared to 2020.

Information on transfer pricing is an area which numerous companies are transparent about, not only in Denmark. Some companies simply state that they comply with the OECD principles. Other companies go further into detail and provide information about their business model and their transfer pricing set-up. Some companies provided this information in combination with voluntary disclosures on the impact of the applied model on the tax payments in the countries in which they operate, linking the disclosures with the narratives and/or numbers provided on a country-by-country basis or in connection with disclosures about the company's Total Tax Contributions (TTC).

Tax incentives

18 — 2021
14 — 2020

Tax incentives were mentioned by 18 companies. This represents an increase of 4 companies compared to 2020.

A tax incentive is designed to stimulate specific behaviors such as investments in new technology by for example providing extraordinary deductions for R&D costs or preferential tax positions for selected industries and activities. A growing number of stakeholders focus on how the companies utilize and act upon tax incentives. The companies typically provide information regarding under which circumstances and to what extent they utilize tax incentives. This information is often included in the tax policy of the company.

Tax havens

17 — 2021
11 — 2020

Tax havens were discussed by 17 companies in this year's survey which represents an increase of 6 compared to 2020 where 11 companies mentioned them.

Tax havens are increasingly subject to public debate in recent years and attract interest from NGOs, ESG analysts and the broader public. As a reaction to the increased debate, a growing number of companies disclose information regarding why and to which extent they are present in tax havens. This includes information regarding the number of subsidiaries operating in low-tax jurisdictions and the background for their presence. Information on tax havens is often provided in the tax policy of companies performing business operations in the relevant countries. Other companies refrain from mentioning the term 'tax haven' because they do not operate in such countries.

Tax numbers and performance

Tax numbers and performance

Narratives to support tax reconciliation

15 — 2021

8 — 2020

Cash tax reconciliation

8 — 2021

5 — 2020

Country-by-Country reporting

4 — 2021

1 — 2020

Total Tax Contribution

9 — 2021

6 — 2020

This year's analysis shows that 15 companies provided verbal explanations supplementing the mandatory note requirement related to the reconciliation of the effective tax rate. The number has almost doubled compared to 2020 where only eight companies gave a narrative to support their tax reconciliation.

The increase is likely attributed to the general focus on tax transparency. A growing number of companies provide detailed verbal explanations regarding the most significant matters affecting the company's calculated tax. By providing the increased voluntary narratives into the drivers of significance affecting the effective tax rate and thus the company's tax position this again is a response to the request from stakeholders to provide increased transparency of the tax position.

This year's analysis shows that eight companies provide some information on the actual corporate income tax paid in the year as well as the income tax expense as calculated in the annual report. This represents an increase of three compared to 2020. Disclosing this information is voluntary and often forms part of the explanation to the development in the company's actual / payable tax. The information is less commonly disclosed and includes the elements relevant to the actual corporate income tax paid. There will often be information regarding which factors that impact the actual tax paid, such as the utilization of tax losses, tax credits, the impact of adjustments from previous years and taxes on account. The reconciliation can be supplemented by information on the actual corporate income tax paid which also can be part of the Total Tax Contribution (TTC) information.

Last year, we expanded the analysis with the indicator of public Country-by-Country reporting (CbCr) which includes data that increasingly is requested by institutional investors and other stakeholders. The analysis shows that four C25 companies publish CbCr data for 2021 complying with a framework inspired by the OECD's model (GRI or EU).

CbCr is an expression broadly used and represents reporting of certain financial data (including revenue, result of the year before tax, number of employees, assets and calculated corporate income tax) per country and not on group level.

The analysis shows that besides the four companies reporting in accordance with aframework, nine companies disclose some of the data points which the OECD model contains and that these data points are often distributed on either significant markets or at regional level. Last year the number for these disclosures was two.

This year's analysis shows that 9 companies publish some kind of information or data on their Total Tax Contribution (TTC). This represents an increase of 3 compared to 2020.

The companies' TTC information is often distributed geographically in accordance with the type of taxes and distinguishes between taxes imposed on the companies and taxes collected by the companies on behalf of tax authorities. A growing number of companies have an interest in communicating their contributions to society in a broader perspective than just corporate income tax. Other taxes can include VAT / GST, excise duties, payroll taxes and others. By applying the TTC framework, the companies can connect the broader tax perspective with the wider ESG / sustainability reporting by the companies.

CbCr - Deep dive

What is CBCR

CbCr is a broadly used term which usually refers to the reporting of certain financial information (e.g. revenue, profit, number of employees, assets, corporate income tax paid at an individual country level rather than globally).

While under OECD BEPS Action 13 disclosures of this information have been required from tax authorities in over 90 countries since 2016, developments towards public CbCr have been gaining momentum in recent years.

What are the latest CbCr developments in legislative reporting Developments in the EU

In April 2016, the European Commission presented proposals on public country-by-country MNCs headquartered in the EU with a total consolidated revenue of at least EUR 750m.

On 11 November 2021, the European Parliament formally adopted the public EU country-by-country reporting directive (CbC Directive). It is intended to have effect for MNC's financial reporting starting on or after 22 June 2024, however, Member States can implement the Directive with earlier effect. The CbC reporting must be made available at the Multinational Enterprises (MNE) website or a public register within 12 months from the year-end of the financial reporting period.

Member States have until 22 June 2023 to implement the Directive into domestic law.

Generally, the MNEs are to provide reporting on where their profits arise and where these are taxed. The information required to be disclosed by the CbC Directive must cover all EU Member States in which they have affiliated undertakings consolidated in the financial statements for the relevant year, broken down for each EU Member State plus in each of the countries that are on the EU list of non-cooperative jurisdictions for tax purposes (EU's blacklist) or listed for two consecutive years on the EU's greylist. For all other third-country operations, the information could be given in an aggregate number. The MNEs must further provide information on the nature of activities, number of employees, net turnover, profit / loss before tax, income tax accrued, income tax paid and accumulated earnings.

Challenges

Tax is a complex topic which can be easily misunderstood. The OECD BEPS template, which is the basis for private disclosures for 90+ tax authorities globally, was devised as a risk assessment tool based on limited information which can be difficult to interpret. In an era of greater transparency, tax is no longer simply a private matter between tax teams and tax authorities. Where CbCr data is made public, it needs to be accompanied by the appropriate context owing to a number of challenges inherent in the data:

- The basis of the preparation for CbCr datasets is not aligned with accounting standards, making it non-comparable with a company's financial statements.
- CbCr disclosures focus on corporate income tax in isolation. The data lacks contextual nuance which may lead readers to draw the wrong conclusions from limited data without seeing the holistic picture.
- The various CbCr datasets have small but significant differences in their disclosure requirements. For companies which already perform public CbCr disclosures, reconciling and explaining discrepancies could be time consuming and demand significant resources.

With these challenges in mind, it is important that companies understand what public CbCr looks like for them.

Consideration should be given to how the data could be interpreted and compared externally with others and whether additional narratives to explain outlying data points or how tax arises in the company's business model would assist stakeholders in their understanding of the data.

Total tax contribution could be part of that context. It highlights all taxes businesses pay, beyond corporate income tax, helping to inform the debate over the broader contribution that businesses make in taxes.

Have you considered:

- The risks and benefits of having to disclose your CbC data and the format of the disclosure?
- How your CbC data will be interpreted?
- The narrative around the CbC disclosure?
- How you communicate sensitivities around the dataset to your stakeholders?
- Whether Total Tax Contribution data would provide useful context alongside your CbC data?
- Making a Total Tax Contribution disclosure at a time when corporate income may be low?

Could a Total Tax Contribution disclosure add value?

What is Total Tax Contribution (TTC)?

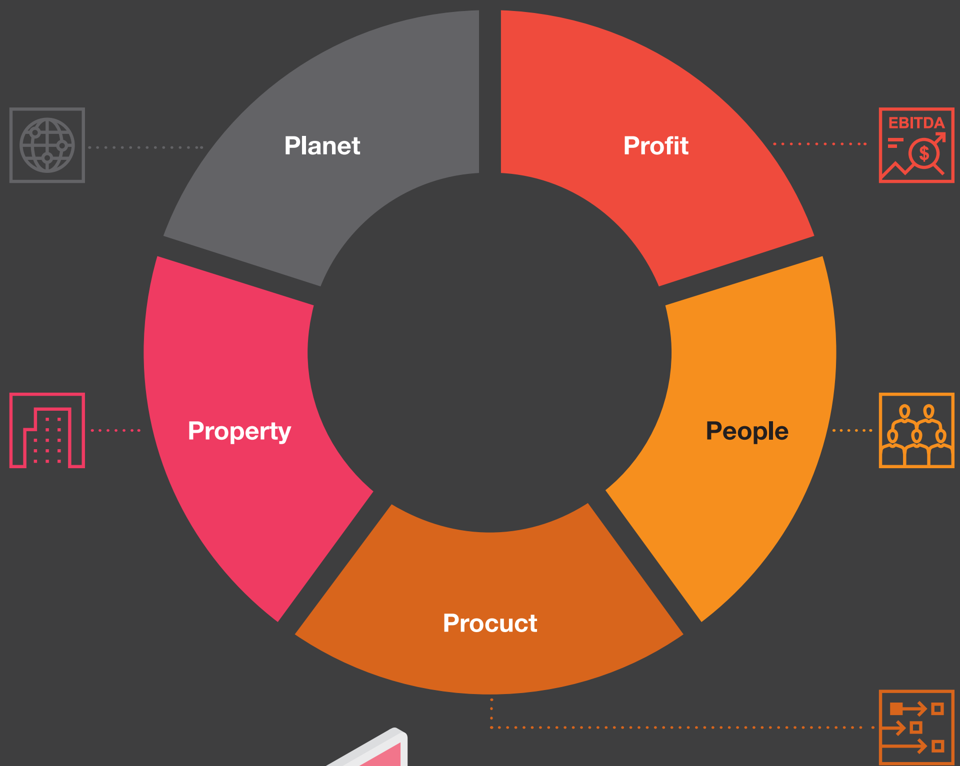
TTC is the total of all cash taxes and levies paid by a company to any level of government. It is split into two categories:

- Taxes borne: taxes which are a cost to the company when paid; and,
- Taxes collected: taxes which are collected on behalf of governments as a result of the economic activity generated by the business, such as payroll or consumption taxes.

Why make a TTC disclosure?

- It helps broaden the debate beyond corporate income tax - which is often viewed in isolation such as through CbC reporting.
- The TTC framework can be applied to any tax regime globally, is non-technical and easy for non-tax experts to understand.
- Enables companies to measure and communicate the total tax they pay and show their economic contribution to public finances.
- TTC can be used for external relations and in corporate reporting, facilitating discussions with the key stakeholders on tax and governance.
- TTC datasets can be used for internal communications - such as board briefings - in a non-technical way.

5 P's - The TTC tax bases



How can we help?

- **Support with global TTC data collection:** We can provide bespoke collection templates for individual countries and sense check the data once received; we will support you throughout the collection process offering our knowledge and expertise to streamline the process.
- **Reasonableness review:** We can undertake a thorough reasonableness review of your TTC data to provide comfort that your data is robust and sensible.
- **TTC Assurance:** We can provide assurance over your TTC data, producing either an internal report for management or an external opinion. This will provide you with comfort over your published data.
- **TTC sector cut and benchmarking:** Based on the data collected from TTC surveys and publicly available data, we can benchmark your data against peers or specific industries / sectors.
- **TTC Automation:** We can help automate the data collection process with bespoke technical solutions and machine learning to help you save time and resources.

Why choose PwC?

- We are the market-leading specialists having worked with large companies around the world on the TTC framework for 15+ years.
- We have the knowledge, expertise and experience to support you through any stage of your TTC journey.
- We can leverage our global network and tap into specialist or local knowledge as required.
- We can leverage on data analytics and visualisation tools to offer visual insights.

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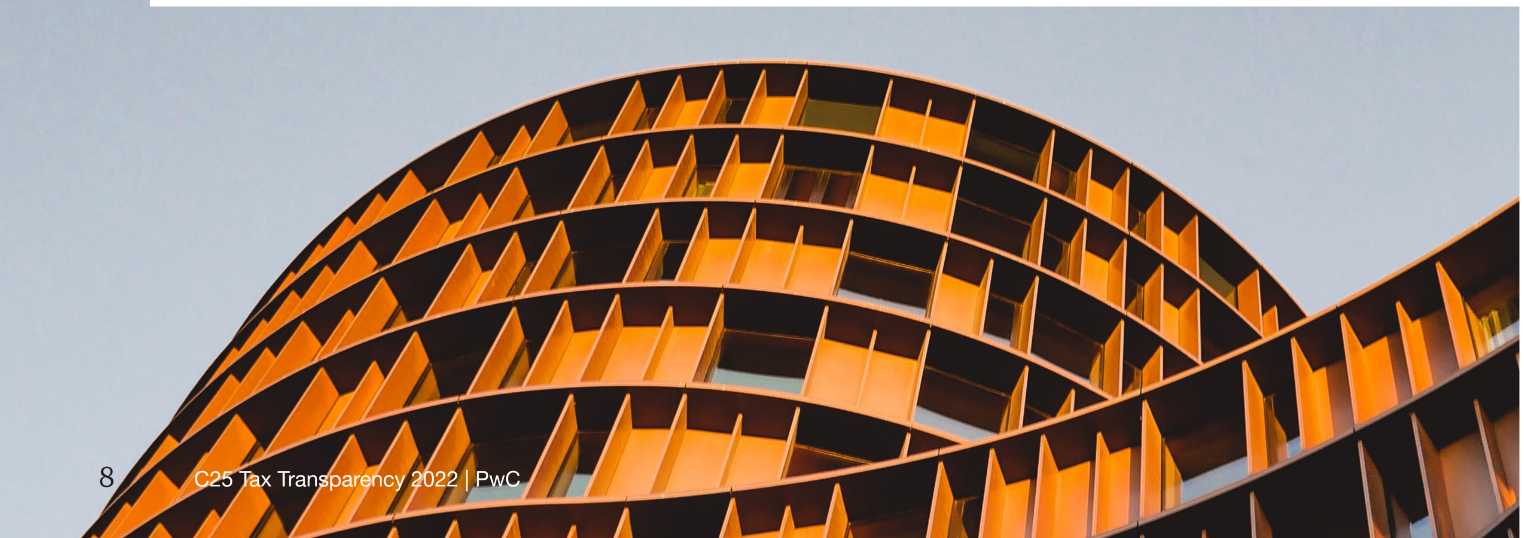
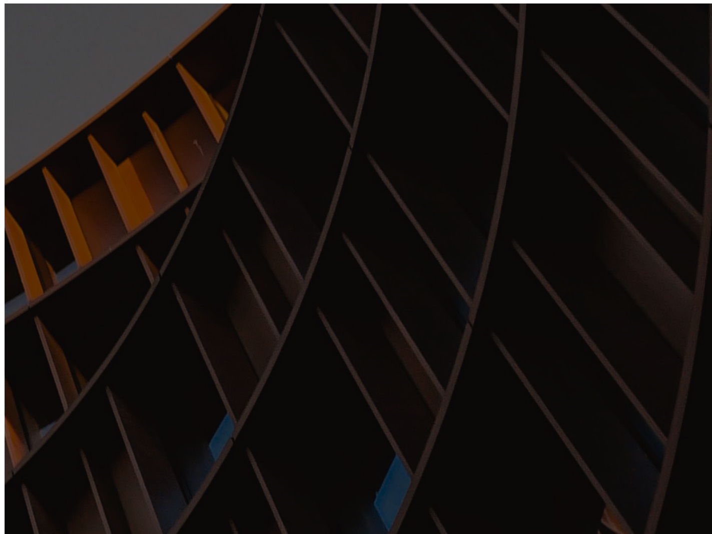
Both investors, partners and employees have a keen interest in the company’s tax behaviour.

Have you considered:

- For whom and for what purpose is the company’s reporting on tax transparency designed?
- What benefits, opportunities and risks can a transparent reporting bring along?
- The synergy between tax reporting and ESG/sustainability reporting?
- When you are required to publish CbCr data?
- Which additional value does TTC reporting create in correlation with other tax reporting?





Companies of OMX C25

- Ambu A/S
- A.P. Møller - Mærsk A/S*
- Bavarian Nordic A/S
- Carlsberg A/S
- Chr. Hansen Holding A/S
- Coloplast A/S
- Danske Bank A/S
- Demant A/S
- DSV Panalpina A/S
- FLSmidth & Co. A/S
- Genmab A/S
- GN Store Nord A/S
- H. Lundbeck A/S
- ISS A/S
- Jyske Bank A/S
- Netcompany Group A/S
- Novo Nordisk A/S
- Novozymes A/S
- Ørsted A/S
- Pandora A/S
- Rockwool International A/S
- Royal UNIBREW A/S
- Tryg A/S
- Vestas Wind Systems A/S

*It should be noted that A.P. Møller-Mærsk A/S has listed both A and B share in the C25 index.

Behind the survey and next step?

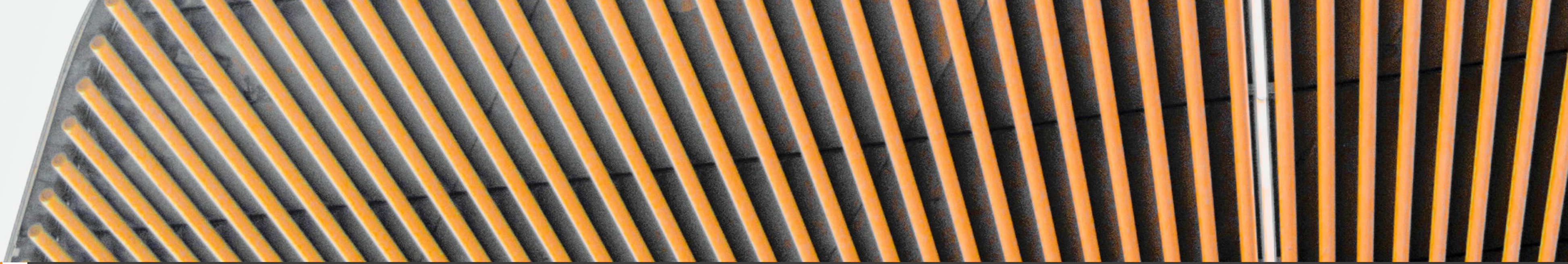
About the survey

This is the third survey of C25 performance on tax transparency. The first survey was conducted in connection with the conference 'Tax Function of the Future' hosted in Copenhagen in September 2020. The British FTSE 100 has for almost a decade been analyzed based on corresponding indicators for tax transparency.

We have reviewed annual reports for financial years between January 2021 and December 2021 published by the companies listed in C25 as per 31 December 2021. The numbers for 2020 represented the companies listed in C25 at the end of 2020.

The survey is additionally based on data such as ESG / sustainability reports alongside tax strategies and policies published on 15 March 2022 at the latest.

The purpose of the survey is to provide insights into performance and trends for 2020 og 2021 distributed on nine equally weighted indicators for tax transparency.



How we can help?

The survey shows that voluntary reporting of tax information is increasingly developing. We can help you assessing and understanding how your present and future reporting is placed compared to other C25 companies by means of those benchmark data on which the survey is based.

We are always ready for dialogue on how you can develop your approach to voluntary reporting of your tax affairs. We can help you navigate the ever changing landscape of recommendations and guidance so that your company is prepared for potential changes in the future.

You are welcome to contact us.

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