C25 Tax Transparency

Trends in the tax reporting of C25 companies, 2023

pwc

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Introduction

Advancing tax transparency reporting of the C25 entities

Welcome to the fourth 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 once again many of the C25 entities are still taking up the difficult task and put in a great effort in explaining the tax positions.

In this years survey we see a continuous positive picture of the tax transparency. Although not directly reflected in the numbers, this year's survey conveys the impression that the level of details and information shared by the C25 entities is enhanced. In turn the task of educating the stakeholders in terms of taxation is also further developed. As an indication to this we have registered that five of the C25 entities now provide separate tax reports or stand-alone reporting on certain tax matters, mainly in respect of country-by-country reporting.

Approximately 140 countries have now reached a global agreement on the OECD Pillar 2 initiative which at its core is a global minimum corporate income tax rate of 15%. The initiative will likely draw scrutiny for companies operating not just in jurisdictions with a CIT rate of less than 15% but also in countries that provide for tax incentives and other adjustments that reduce the effective tax rate below 15%.

Further the transposition of the EU Directive on public country-by-country reporting is due by June 2023 with effect from reporting after 22 June 2024. These initiatives together with the wider ESG developments are essential drivers for companies to continuously develop the transparency reporting in respect of tax, as the debate around whether companies are paying their "fair share" is likely to be reignited in this new reporting environment.

This year's C25 tax transparency survey covers the legislative development regarding the main reporting requirements on tax matters. Further we share our considerations in respect of how tax functions could respond to the changing legislative environment as well as the shift in requirements from stakeholders.

Further, we zoom in on country-by-country reporting requirements, how to prepare for the reporting and share our insights and recommendations in this respect.

The tax transparency landscape is continuing to develop rapidly. If you wish to benchmark your current voluntary tax transparency reporting against the C25 entities or have a conversation about any of the topics touched upon in this report, please feel free to contact us.

Content

Everchanging tax reporting landscape and how to respond to stakeholders

The tax legislation and the landscape of voluntary tax reporting frameworks have developed rapidly during the past years. In turn, the requirements from the stakeholders have also changed over time.

In this article we will provide an overview of the main developments driving the change and share our thoughts and considerations in respect of a strategic response from the tax functions to these changes[1].

What we see

Legislative developments

With the adoption in November 2021 by the European Parliament of the EU Directive to publish country-by-country data (CbC) it has been clear that increased focus on the larger multinational groups' (MNEs) tax positions is here to stay. The Directive must be transposed into national legislation no later than 22 June 2023[2]. The reporting is required from financial years beginning on or after 22 June 2024, hence the first year of reporting for MNEs following the calendar year will be 2025.

A draft proposal for the Danish implementation has been presented and the expectation is that the proposal will be presented during spring 2023 . The legislative process is expected to be completed within the deadline above. In respect of the Danish implementation, it should be noted that Denmark has chosen some sort of a minimum implementation. The main points to be aware of are as follows:

- The publication of the CbC data is required to be submitted to the Danish Business Authority to be published in a national register, and
- Cooperatives [in Danish: andelsselskaber] and to some extent commercial foundations have been included in the scope of the rules.

The CbC data is suggested to be published via national register. This may seem less burdensome for the reporting MNEs, however, the risk of drawing quick conclusions based on non-comparable data seems present. Further, this format also limits the MNE in providing supporting narratives to the data.

The background for including cooperatives and commercial foundations is based on the fact that some of the larger Danish companies either take the form of cooperatives or are controlled by commercial foundations. Further, due to the fact that these entities generally are subject to the Danish Financial Statement Act, these entities are also suggested in scope for the CbC reporting (CbCR).

As is the case for this year's C25 analysis, we see a slight increase in companies reporting in accordance with either the EU public CbC measures or the GRI 207: Tax CbC measures[3]. From our interactions with MNEs, we recognize that the development of this reporting is driven by a desire to be at the forefront in terms of tax transparency. That being said, the push from investors[4] to disclose the CbC data may also have impacted the decision to build the (yet) voluntary reporting in this area.

Globally the OECD Pillar II initiative is also agreed and the EU Directive was agreed in December 2022 with a requirement to transpose into domestic legislation in 2023[5]. With an international 15% minimum taxation, and extensive requirement of data to be reported

1 This article is based on our general observations and interactions with both Danish and non-Danish MNEs and investors.

2 EU Directive 2021/2101 as of 24 November 2021, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021L2101

3 Data point to be reported in accordance with the EU Directive or the GRI 207: Tax are to some extent overlapping. Refer to overview p. 11. For further information related to GRI 207:Tax https://www.globalreporting.org/standards/media/2482/gri-207-tax-2019.pdf

4 In the period 2020 – 2022 requests to consider public CbC reporting and/or considerations to increase tax transparency reporting was an item on the agenda of the annual general meeting of 6 C25 companies.

5 Refer to p. 9 for a short overview of Pillar II

to the national tax authorities, the Pillar II rules impose yet an reporting obligation to the MNEs. In a tax transparency context, Pillar II is likely to lead to increased attention to not only companies operating in countries with a statutory tax rate below 15% but also companies that operate elsewhere but due to the nature of their operations realize an effective tax rate below 15%.

Lastly, it goes without saying that reporting of ESG data as a consequence of the adoption of the Corporate Sustainability Reporting Directive (CSRD) is also on top of many MNEs' minds. However, tax functions may argue that this is not relevant to them. At first sight this seems true.

The flood of reporting requirements, which the CSRD in combination with the EU Taxonomy Regulation and the European Sustainability Reporting Standards (ESRS) represent, does not directly require reporting of tax data or tax matters. But taking a closer look at the combination of the reporting standards and digging into the interpretive guidance, one will discover that taxes actually do play a role.

In October 2022, the Platform for Sustainable Finance issued a final report on minimum safeguards (the MS Report) relevant to the reporting in accordance with the Sustainable Finance Disclosure Regulation (SFRD). When exploring the links between legislations, the report focuses on the existing Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD) and the upcoming Corporate Sustainability Due Diligence Directive (CSDDD)[6]. In the MS Report, taxation is considered as a minimum safeguard of Article 18 of the taxonomy. Article 18 does not place much emphasis on taxation but it refers to the OECD guidelines for multinationals[7]. The MS Report makes it clear that while taxation is indeed a minimum safeguard, taxes should be assessed. Further, the MS Report mentions the following two key expectations in terms of taxation:

(a) *Undertakings should comply with the letter and the spirit of tax laws and regulations of the countries in which they operate. Complying with the spirit of the law is defined as "discerning and following the intention of the legislature", which in turn is supposed to guide the determination of the tax amount legally required. (OECD MNE Guidelines, XI.1.)*

(b) *In order to meet the expectation set out in (a), undertakings should "treat tax governance and tax compliance as important elements of their oversight and broader risk management systems and "(…) adopt tax risk management strategies to ensure that the financial, regulatory and reputational risks associated with taxation are fully identified and evaluated." (OECD MNE Guidelines, XI.2.)*[8]

6 https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf p. 5

7 https://www.oecd.org/corporate/mne/ncps.htm

8 https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf, p. 50

As such, this translates into an obligation for MNEs to assess and communicate on the governance and processes of the tax function and ensure that tax risk management is part of the MNEs' broader risk management system assessing not only the financial and regulatory risks but also the reputational risks.

We note that the guidance mentions compliance with "the spirit of tax laws and regulations". This would indicate that MNEs should at least confirm the adherence to this requirement and further report on mis-alignment. From our analysis of the C25 in respect of tax transparency, we find that the vast majority of the C25 companies in the tax policies address the approach to compliance and tax laws. In doing so, phrases around this generally include that tax laws are considered not only by the letter but also the spirit of the laws. It becomes tricky when the MS Report suggests that MNEs should report on the actual adherence to (or lack of) compliance with the spirit of the laws.

Further, almost all C25 companies provide information that tax risk management procedures or systems are in place. Where we see the perhaps challenging task, is the fact that tax risk in addition to the financial and regulatory impact should also consider the reputational impact.

The above obligations are, as mentioned above, based on the OECD MNE Guidelines. Acknowledging that the guidelines were published in 2011, the MS Report also suggests more recent guidance such as the GRI 207: Tax 2019 as an indicator for MNEs when reporting on the tax measures.

Change in stakeholders' expectations and requests – some observation points

Considerations in respect of stakeholders to MNEs regarding transparency on tax matters could be grouped in five main groups: investors, employees, business partners, tax authorities and the civil society. For this article we focus on our general observations in respect of investors.

Expectations and requests to the MNEs by investors vary within a wide range. However – broadly – we do see a shift in the expectations and requests put forward by investors. Moving from a somewhat narrow focus on the effective tax rate as the key performance indicator for taxation, investors' expectations from MNEs to demonstrate that taxes are governed at the appropriate level by senior management, that tax risk management procedures are in place and that business structures are not tax driven have emerged over the last couple of years. What can be further derived by such expectations is a focus by investors to understand if taxes are under control and sustainable positions are taken by MNEs in terms of taxation. This translates into the request for predictability and stability in terms of tax matters.

Yet a request from investors, which has called for attention over the past couple of years, is the request for CbC reporting. This re-

quest seems to be rooted in the fact that the public debate evolving around tax evasion and non-business driven structures has surfaced. In turn, the lengthy process for the EU member states to agree on the EU Directive on public CbCR may also drive this request for further transparency requested by the investors. Alongside the discussions on the EU CbCR directive, the emerging of frameworks such as the GRI 207: Tax 2019 but also other recommendations and guidance provided by UN, The B-Team, has inspired investors to consider tax matters of MNEs more broadly.

The request for increased transparency on tax matters indicates that investors in fact do have an increased focus on taxes and look to confirm if the MNEs are contributing by paying the right tax at the right time in the right country. Some investors may even also focus on other taxes paid besides corporate taxes and request insight into total tax contributions (TTC) of the MNE's.

Phrased differently, we seem to be at a tipping-point where investors move from considering taxes as a component to be controlled and optimized by the MNEs, to increase shareholder value to a focus on the MNEs wider contribution to society by taxes paid and thereby increasing MNEs' stakeholder value to the benefit of the society in which they operate.

How to respond?
Suggested response by the tax functions

Over the past years it has become more and more clear that tax transparency reporting is rapidly developing. Legislative proposals, organizational guidelines and frameworks have been introduced. Additionally, investors and other stakeholders have also developed a wider interest in MNEs' tax affairs.

As a response to the request for transparency, MNEs have further developed the reporting on taxes. The response has been to provide further details in the publicly available tax policies, which provides insights into the governance of the tax function, tax risk management processes and control as well as engagement with stakeholders, especially tax authorities. Further, some MNEs also report on CbC and TTC data.

The increased level of reporting suggests that tax functions already dedicate more time and resources to transparency. Further, throughout our reviews of the C25 reportings we observe a convergence of taxes and the wider ESG agenda in which taxes bring along tangible numbers in respect of the contributions to society through taxes. All in all, transparency reporting on tax matters has moved up further up on the agenda. But what should tax functions look out for next?

With the additional reporting surfacing from the flood of the ESG standards, it is even more clear that the internal procedure to ensure the actual adherence to the tax policies should be further articulated rather than stated as guiding principles and intentions. Taking it a step further, the MS Report referenced above states that MNEs should report on the compliance of the spirit of the law. This may seem troublesome. Capturing the documentation for this may require additional internal procedures and controls and yet this will remain subject to some degree of judgment. This will call for a structured approach to demonstrate that if not compliant with the spirit of the laws, then at least present documentation to capture any incidence where this was not the case.

Second element of the MS Report is that tax risk should be evaluated taking into consideration financial, regulatory and reputational risk. Especially the evaluation of tax risk within the sphere of reputational impact may seem abstract at first sight. However, the good news is that most MNEs already do have well-developed internal risk and/or compliance departments to which assessing risks from this perspective is within the everyday job. What tax functions are encouraged to do is to team up with these specialists and develop a common understanding of the MNEs' wider enterprise risk management system and the assessment in respect of reputational risk. Reaching a wider understanding should enable the tax function to perform the assessments required in the MS Report.

Eventually the documentation as required under the MS Report would be subject to audit as goes for the rest of the ESG data reportable in accordance with the CSRD and supporting directives and taxonomy in the ESG sphere. This should be kept in mind when developing the processes and documentation.

With CbCR now becoming a reality as per 2024/2025, it goes without saying that MNEs not already in the process of building the public CbCR should initiate this process.

Last but not least, Pillar II adds another layer of complexity to the tax reporting. Both due to the complexity of the rules and the massive data requirements but also the fact that Pillar II introduces new tax measures to report on such as the Globe ETR, Top-up tax etc.

The above-mentioned additional reporting requirements call for an even more cohesive reporting on taxation. While maintaining and establishing the right procedures, models and controls to adhere to the new reporting requirements in terms of data may be challenging in itself. Enabling to put sufficient narratives to explain the coherence of the numbers should not be neglected. For instance, joggling the difference between ETR, CTR[9] and Globe ETR may already cause one to lose one's breath.

These tasks require tax technicians to further sharpen the analytics and verbal tools in order to cut through the details and provide explanations that non-tax professionals can absorb and digest. Boiling it all down, the response from the tax functions to the latest development should be to increase the focus on data, processes and controls in combination with the ability to capture and clearly communicate on the tax positions taken.

9 Cash tax rate

Review of C25 tax transparency reporting

Tax governance

Board approval

FY22	FY21
21	22

In this year's analysis, board approval of the company's tax policy has decreased by one compared to 2021. The decrease is a result of a change in the companies in the C25 index.

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 Committee's 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 and presence in so-called tax havens are addressed.

Risk framework

FY22	FY21
23	22

In this year's analysis, 23 companies have disclosed that they have an established process or system for tax risk management which represents an increase of one compared to 2021. Tax risk management is increasingly important to assure stakeholders that the company's tax strategy, public disclosures as well as returns are followed in practice. A tax risk framework includes a set of activities, tools and governance structures to ensure that tax risks are identified, assessed and responded in order to mitigate the potential risks.

Approach to tax

Transfer pricing

FY22	FY21
24	24

This year's analysis shows that transfer pricing was mentioned by all companies in the C25 index which is the same as 2021.

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 setup. 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

FY22	FY21
18	18

Tax incentives were mentioned by 18 companies which is the same as in 2021.

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

FY22	FY21
21	17

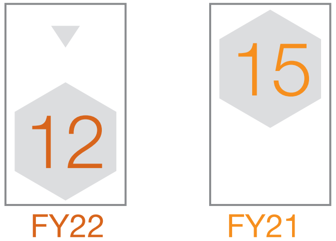
Tax havens were discussed by 21 companies in this year's survey which represents an increase of 4 compared to 2021.

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.

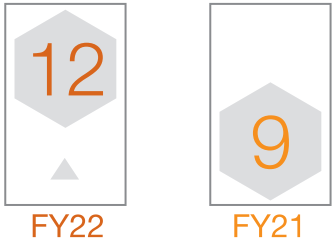
Review of C25 tax transparency reporting

Tax numbers and performance

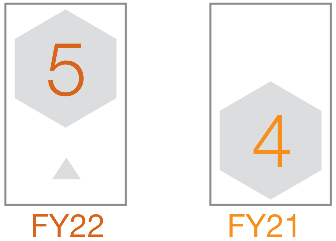
Narratives to support tax reconciliation



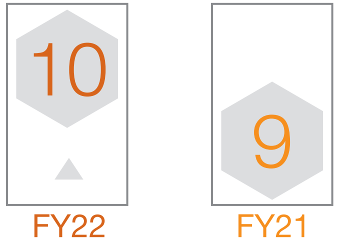
Cash tax reconciliation



Country-by-Country reporting (CbCr)



Total Tax Contribution



This year's analysis shows that 12 companies provided verbal explanations supplementing the mandatory note requirement related to the reconciliation of the effective tax rate. The number is a decrease of three compared to 2021.

The decrease appears to be linked to the fact that certain companies did not have significant or special positions impacting this year's effective tax rate compared to 2021. In general, providing the voluntary narratives in respect of the drivers of significance affecting the effective tax rate and thus the company's tax position is a response to the request from stakeholders to provide increased transparency of the tax position.

This year's analysis shows that twelve companies provide 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 2021.

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. This information often includes description of factors that impact the actual tax paid, such as the utilization of tax losses, tax credits, the impact of adjustments from previous years and tax on account. The reconciliation can be supplemented by information on the actual corporate income tax paid which can also 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 is increasingly requested by institutional investors and other stakeholders. The analysis shows that five C25 companies publish CbCR data for 2022 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. Private CbCR data is exchanged by tax authorities across 80 countries based on OECD's model. The GRI 207: Tax recommends, among other things, that CbCR data is made publicly available and the standard is to a great extent inspired by OECD. The European Parliament has adopted the directive on public CbCR reporting which is widely aligned with OECD's model.

The analysis shows that besides the five companies reporting in accordance with a framework, even more companies publish parts of the data points which the OECD model contains and that these data points are distributed on significant markets or at regional level.

This year's analysis shows that ten companies publish some information or data on their Total Tax Contribution (TTC). This represents an increase of one compared to 2021.

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 may include VAT / GST, excise duties, payroll taxes, etc. By applying the TTC framework, the companies can connect the broader tax perspective with the wider ESG / sustainability reporting by the companies.

A history of transparency initiatives

2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

2010 - US Dodd Frank Act

Extractive industry proposal to report all payments made to governments.

2013 - EU Accounting Directive

EU Accounting Directive – payments to government for extractive sector.

2014 - CRD IV

EU transparency initiative for banks and capital markets.

2015 - OECD BEPS

Introduced as a way to stop MNCs from exploiting mismatches between different countries' tax systems - introduces CbCR disclosure to governments.

2015 - ATO tax principles

Australian tax authority introduces a set of minimum standards to guide on public disclosure of tax information.

2016 - UK tax strategy

UK requirement to publish a tax strategy.

2018 - The B Team

A group of leading companies came together to generate a set of tax principles.

2019 - GRI 207 tax standard

GRI developed a new standard on tax which includes public country-by-country reporting.

2020 - WEF metrics

International Business Council of the World Economic Forum includes a core metric of tax borne (paid); expanded metric includes tax collected in set of ESG metrics.

2021 - EU Public CbCR

EU agrees to new public CbCR for large businesses operating in the EU. Effective 2024/25.

2021 - IFRS

IFRS established the International Sustainability Standards Board at COP26.

2021 - OECD Pilar 2

OECD reaches agreement on global mimimum corporate income tax rate of 15%.

2021 - US Bills introduced

Bicameral proposed legislation (two bills) for public CbCR.

2022 - SEC proposed ESG rules

Disclosures og climate-related metrics, governance and managemet processes, and risk mitigation approach.

2023 - CSRD

CSRD was adopted in 20222 with effect from 5 January 2023 with a timeline to be transposed into national legislation during 2023.

A new international reporting landscape

EU Public Country-by-Country Reporting

What is it?

The incoming EU requirement for large multinational entities (MNE) to publicly disclose information on where their profits arise and where these are taxed.

What is the latest?

The EU public country-by-country reporting (CbCR) Directive came into effect in December 2021 and is now being transposed into EU member state legislation for implementation at national level. MNEs in scope will be required to publish information for financial years beginning on or after 22 June 2024. The implementation in Danish legislation will largely be a minimum implementation expected to be adopted by end June 2023.

Who is in scope?

MNCs with global consolidated revenues over EUR 750 million for each of the last two financial years. The disclosure requirements cover all EU member states, plus each of the countries that are on the EU's list of non-cooperative jurisdictions for tax purposes (the "black" list), or listed for two consecutive years on the list of jurisdictions that do not yet comply with all international tax standards but have committed to reform (the "grey" list). For all other third (non-EU member) countries, each information item can be given in aggregate.

Which information needs to be disclosed?

The disclosure requirements are broadly similar to the OECD BEPS template which has been shared privately with tax authorities in over 90 countries since 2016. Data points include; profit/loss before tax; cash tax paid; tax accrued; number of employees; total accumulated earnings; and nature of activities.

What are the challenges?

CbCr focuses on corporate income tax in isolation and does not offer stakeholders a holistic picture of an organization's tax profile.

Tax is a complex topic which often requires context and narrative to support external understanding, and to assist in explaining potential outliers or particular nuances. It is important for organizations to understand how their data could be interpreted and compared externally with others.

Pillar Two

What is it?

Pillar II is part of a two-pillar solution designed to address the tax challenges arising from the digitalisation of the global economy which follows up on the OECD/G20 Base Erosion and Profit Shifting Project (BEPS).

The core element of Pillar II is a global minimum effective corporate income tax of 15%, which would be achieved by imposing a "top-up" tax on profits arising in jurisdictions where an MNE's effective tax rate (ETR) is below that threshold. The ETR would be determined under the Global Anti-Base Erosion (GloBE) rules.

What is the latest?

Over 140 jurisdictions have signed up to the OECD agreement that labeled the Pillar II GLoBE rules a "best practice" and the domestic implementation phase has now been initiated based on the OECD Model Rules and its commentary.

In December 2022, the Pillar II implementation gained additional momentum as the EU Council found unanimity on the proposed Pillar II Directive. EU Member States are therefore required to implement the rules with effect from 1 January 2024. Several other jurisdictions have at this point published draft legislation to implement the Pillar II regime while some have already enacted the rules with effect from 2024. It is expected that the draft Danish Pillar II legislation will be published for public consultation in June 2023.

Who is in scope?

The global minimum tax regime will apply to both public and privately-held MNCs with consolidated revenues over EUR 750 million. Parent entities of non-profit organizations, pension/investment funds and government entities (or any holding vehicle used by such entities) will be excluded.

Which information needs to be disclosed?

Draft guidance on the reporting and disclosure requirements for Pillar II was published for public consultation by the OECD in December 2022 revealing a significant compliance burden to be laid upon MNEs. Final guidance is yet to be issued by OECD or the implementing jurisdictions.

What are the challenges?

The main challenges from a transparency perspective center around any potential disclosure of an MNE's ETRs under GloBE, as well as any top-up tax incurred. The immense complexity of the rules and the possible variations among implementing jurisdictions provides for a high level of uncertainty and risks of incorrect filings.

The rules could also draw attention to operations in jurisdictions with an ETR rate below 15%. There are risks that any heightened scrutiny could reignite debate around companies paying their "fair share" leading to potential reputational damage.

EU Corporate Sustainability Reporting Directive

What is it?

The Corporate Sustainability Reporting Directive (CSRD) expands on the existing reporting requirements of the Non-Financial Reporting Directive (NFRD) introduced in 2014. The purpose of both directives is to enable stakeholders to evaluate companies on non-financial performance metrics and encourage organizations to develop a more responsible approach to business. In addition to the CSRD, European Sustainability Reporting Standards (ESRS) have been introduced defining the ESG standards MNE's must report against.

What is the latest?

The CSRD Directive was adopted by the EU Member States in November 2022 with effect from 5 January 2023. The timeline is for EU Member States to transpose the new directive into national legislation. The Danish implementation is expected to be put forward in June 2023. The ESRS takes form as an EU Ordinance with direct effect for the EU member states.

Who is in scope?

The CRSD extends the scope of the NFRD to include all large companies as well as all listed SMEs (there are exceptions for micro-entities). The expected scope for Danish MNE's are listed entities as per the financial year 2024 and "large C" entities are included as well as per the financial year 2025.

Which information needs to be disclosed?

The CRSD introduces a requirement to report more detailed information according to mandatory sustainability standards. The standards touch on all aspects of the ESG agenda, including taxes. Importantly, CRSD also introduces a requirement that the reported information be audited.

What are the challenges?

These developments highlight the growing importance of non-financial information for stakeholders and investors. MNEs will need to map out what ESG elements are material to their business - including taxes - and assess the risks of disclosing non-financial information around policy, governance and business operations.

How to prepare for the the public country-by-country reporting

In this year's C25 analysis we see more companies disclosing CbC data. The data is generally disclosed as part of the financial statements, the sustainability report or in another separate document.

A total of five companies in the C25 index reported on CbC data in accordance with either the GRI 207: Tax framework or the EU CbC Directive. From our review of the C25 reportings it should also be mentioned that we do see companies that do not report on all data points, but choose to limit the number of data points or choose to disclose on a regional or segments basis.

Multinational enterprises are already subject to CbCR to the Danish Tax Authority, which came into force in 2015 as Action 13 in OECD's BEPS project. As such, companies have been preparing the data points for some years.

Whilst most companies are reasonably confident with the assumptions made during the preparation and the accuracy of their CbC data to the tax authorities, communicating the data points to a wider range of stakeholders is a different task.

Tax is a complex topic. Without a supplementary narrative to the CbC data, the reporting may cause reputational damage for a company if it is taken out of context. Public CbCR provides companies withthe opportunity to explain the numbers disclosed, ensuring the conclusions drawn are accurate, meaningful and balanced.

A compilation of the data points to be disclosed in accordance with the GRI 207: Tax, OECD BEPS action 13, and the EU Public CbC is presented on the following page for reference.

CbCR focuses on corporate income tax, which is only one of the taxes borne by multinational enterprises. Companies pay many other taxes, with corporate income tax making up a small part of the total tax receipts (generally less than 10% in the OECD). Notwithstanding, corporate income tax remains the most examined and most debated tax. Understandably, given its high profile, calls for greater transparency often focus on this specific tax. Companies could consider providing additional information on other taxes paid by reporting on their total tax contribution (TTC), to provide a more comprehensive picture of their contribution to society. TTC illustrates how multinational enterprises take responsible tax management seriously, abide by their ESG commitments, and contribute towards public finances.

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Companies need to ensure the information to be made publicly available is consistent with any other company data that is already in the public domain. For example, is revenue aligned to geographical segments in your financial statements? Does it agree with public TTC figures? Would the number of employees align with the sustainability or financial statements? If not, why?

Further, companies may benefit from using data automation, if not already in place. The inter-links between the information to be reported in accordance with the CbCR Directive may also be useful to substantiate transitional CbCR safe harbours under Pillar II.

A comparison of CbCR data requirements	GRI 207-4	OECD	EU pCbCR
Total revenue	✗	✓	✓
Revenue from third parties	✓	✓	✗
Revenue from related parties	Between jurisdictions only	✓	✗
Profit/loss before tax	✓	✓	✓
Cash tax paid	✓	✓	✓
Tax accrued	✓	✓	✓
Tangible assets other than cash and cash equivalents	✓	✓	✗
Number of employees	✓	✓	✓
Reasons for the difference between accrued CIT and statutory rate	✓	✗	✗
Total acccumulated earnings	✗	✓	✓
Stated capital	✗	✓	✗

How can we help

With the upcoming requirement on public CbC reporting, companies need to consider how their CbCR data may be interpreted by tax professionals and other interested parties.

Complying with the additional public CbCR requirements should also be considered in the broader context of a group's overall tax strategy and tax governance. Given that the overall tax strategy and ESG objectives are important to boards, tax functions should prepare to raise the proposed changes with their boards already now.

Using Alteryx flows, a Tableau dashboard and PwC's Workbench collaboration hub, a new digital solution from PwC makes it easy for companies to analyze and understand their CbCR data in advance of making it available to the public. A web-based solution developed by PwC's tax team picks up multiple years of CbCR data, analyzes it and provides key insights through interactive dashboards.

The only data we need from you to have this analysis automatically generated is your company's standardized format CbCR data for as many years as possible.

The key benefits of using the CbCR data analysis tool:

- **Key ratio analysis and risk assessment allowing for early detection of potential communication areas**
- **Increased transparency for the tax department and other stakeholders**
- **Meeting mandatory compliance in a timely manner**
- **Data visualization going beyond standard tax reporting to enable analysis of financial and tax data**
- **24/7 access to your CbC data in a user-friendly format**

Total Tax Contribution

Why TTC?

While CbCR only covers the corporate income tax on a cash and accrual basis, the TTC provides an overview of all taxes a company bears and collects on behalf of others. With the implementation of the EU public country-by-country requirements more companies use the TTC disclosure as a preparatory exercise.

TTC provides a holistic overview of a company's international tax profile and includes all taxes a company pays. This can provide tax teams with a robust baseline upon which key messages can be built and a broader transparency strategy formulated and integrated within a wider ESG strategy.

What is TTC?

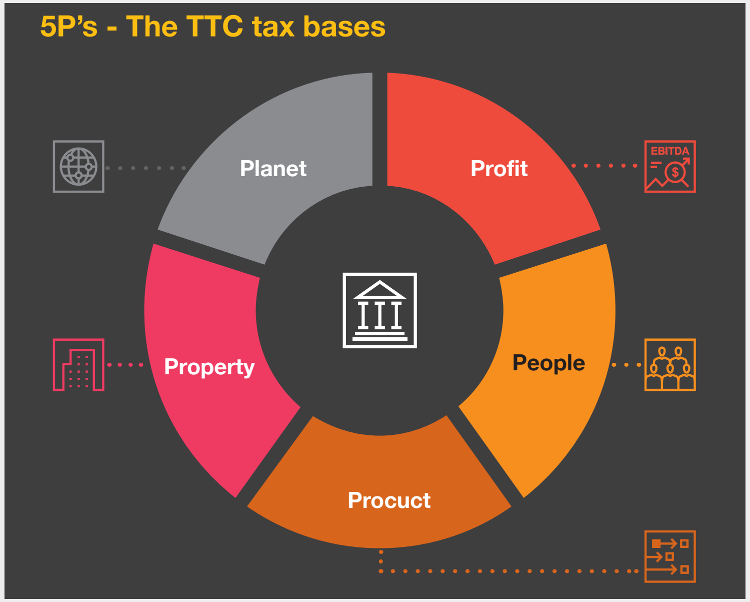
TTC is the total cash taxes and levies paid by a company to any level of government. At a broad level the TTC framework is split into two main categories:

- **Taxes bourne:**
  which are a cost to the company when paid and impact the company's financial statements; and
- **Taxes collected:**
  which are those taxes the company collects on behalf of governments as a result of the economic activity generated by the company.

Where to begin?

TTC is as much a journey itself as developing a wider strategy. Our recommendation is for tax functions to initially focus on data collection for material taxes from top locations with operations. Undertaking this process is likely to produce a tax profile which captures around 80% of total taxes paid by the company, and will provide key messages about the company's overall tax contributions which are unlikely to change in future years.

Building on this process as a starting point on a wider transparency journey will provide tax teams with a solid foundation upon which more informed conversations with stakeholders about transparency and how the company's tax profile supports broader ESG topics can be facilitated.



What are the 5 P's?

Profit:
These include taxes on company profits that are borne (such as corporation tax) and collected (such as withholding tax on payments to third parties).

People:
Taxes on employment, both borne and collected (including income tax and social security payments).

Product:
Indirect taxes on the production and consumption of goods and services, including VAT and sales taxes.

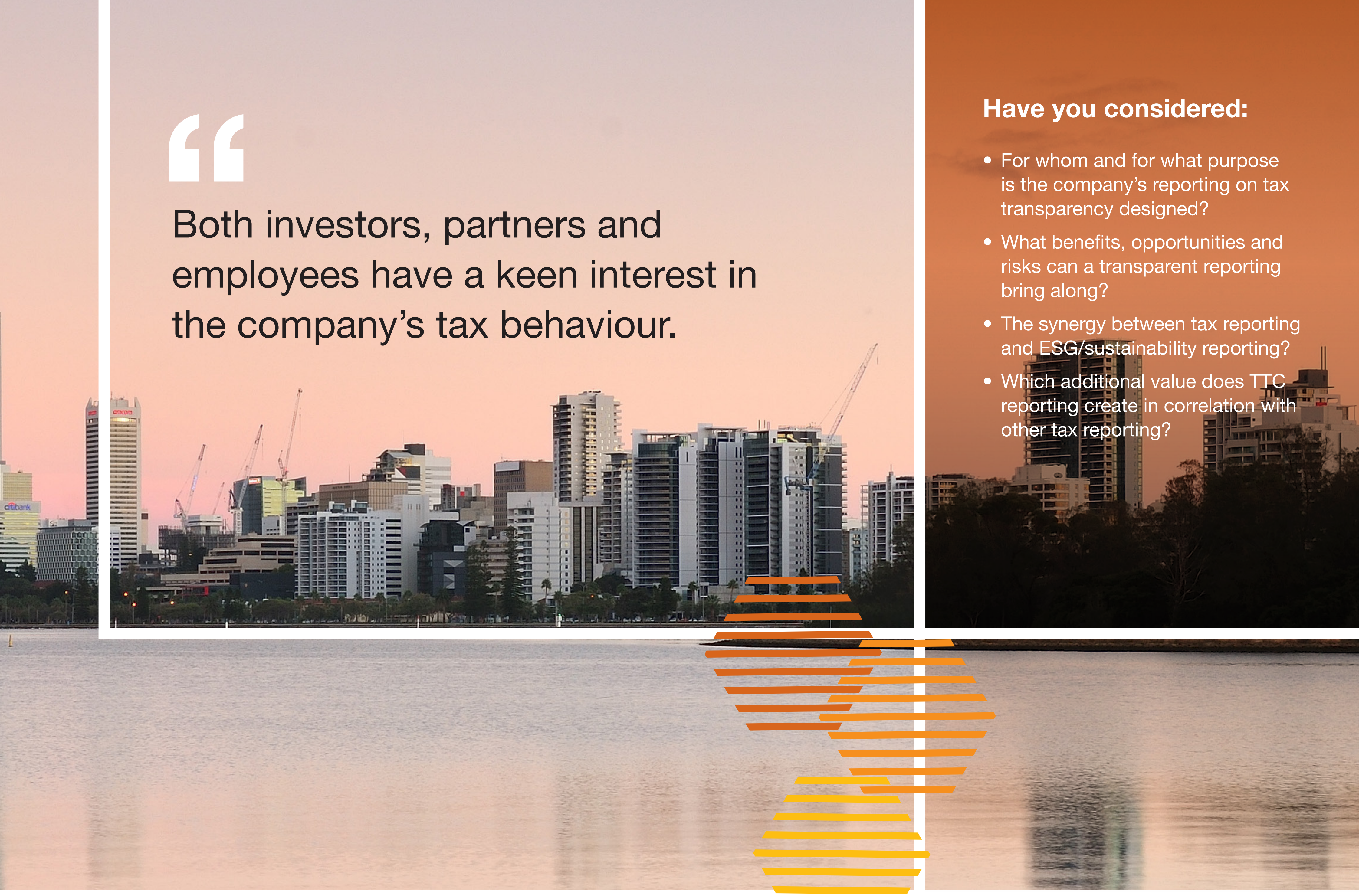
Property:
Taxes on the ownership, sale transfer and occupation of property.

Planet:
Taxes and duties levied on the supply, use of, or consumption of goods and services that are considered to be harmful

Greater value in TTC

For those companies who are further along on their transparency journey, there are still ways of gaining more value from TTC.

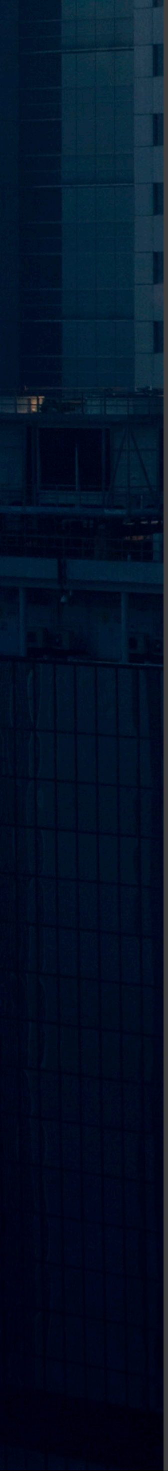
Leveraging technology and data automation to assist with the data collection process can save significant time and resources. TTC data which has been collected over a number of years can also be used to draw longer-term trends. This data could be used to inform public policy and support conversations on macroeconomic issues such as industry or geographically specific taxation.



> 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?
- 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 A/S
- FLSmidth & Co. A/S
- Genmab A/S
- GN Store Nord A/S
- ISS A/S
- Jyske Bank A/S
- Netcompany Group A/S
- Nordea Bank
- Novo Nordisk A/S
- Novozymes A/S
- Ørsted A/S
- Pandora A/S
- ROCKWOOL 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 shares in the C25 index.

Behind the survey and next step?

About the survey

This is the fourth 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. For almost a decade, the British FTSE 100 been analyzed based on corresponding indicators for tax transparency. We have reviewed annual reports for financial years between January 2022 and December 2022 published by the companies listed in C25 as per 31 December 2022. The numbers for 2021 represented the companies listed in C25 at the end of 2021. The survey is additionally based on data such as ESG / sustainability reports alongside tax strategies and policies published on 9 March 2023 at the latest.

The purpose of the survey is to provide insights into performance and trends for 2021 and 2022 distributed on nine equally weighted indicators for tax transparency.

This year the data gathering and first rough analysis has been conducted with help from Data Analytics. PwC's tax tech team has created two robots in order to automatically read through the published reports and collect the relevant information based on predefined keywords for each of the nine indicators. Afterwards the relevant screenshots from the reports were saved as documentation. On top of this, thorough reviews of the identified information were performed in order to determine if the relevant disclosures were made.

How we can help?

The survey shows that voluntary reporting of tax information is increasingly developing. We can help you advancing and understanding how your present and future reporting is placed compared to other C25 companies by means of the 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 company's tax affairs. We can help you navigate the ever-changing landscape of recommendations and guidance so that your company is prepared for rapidly changing tax reporting landscape.

Please feel free to contact us.

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