



Clearing The Air On The “Tax Transparency Agenda” A Focus On Tax Transparency And Governance

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“**T**ransparency” is the emerging tax buzzword. As the authorities, the media and the public set their sights on tax, it is critical for corporations to proactively manage their tax disclosures and reputations. Business-as-usual is no longer enough.

What Is Tax Transparency And Governance?

Transparency, plainly defined, is the condition of being easy to perceive.¹ When used in the context of tax, it suggests that a business should report its taxes in a manner that visibly and faithfully reflects its practices. Exploitation of legal loopholes and profit-shifting practices to lower tax jurisdictions has lost their lustre; accountability and accurate disclosure of information are strongly advocated.

Governance, on the other hand, refers to the manner of governing an organisation. In Australia, the tax authority defines tax governance as having clear controls and processes within the organisation’s corporate governance framework to support tax decision making and manage tax risks¹.

“Tax transparency and tax governance are intricately linked. Building effectiveness within and confidence around a company’s tax governance is key to fuelling the tax transparency agenda,” shared Accredited Tax Advisor (Income Tax) Brendan Egan, Tax Partner at PwC Singapore, at a webinar organised by the [Singapore Chartered Tax Professionals](#). “Strengthening one’s compliance capabilities will allow a company to consistently deliver the correct tax outcomes and consequently, mitigate the financial and reputational risks arising from potential tax disputes.”

The Genesis Of The Tax Transparency Agenda

Before 2000, tax transparency and governance would rarely (if at all) make it to the board agenda. The dawn of the 21st century witnessed major corporate financial scandals and sweeping regulatory enactments such as the Sarbanes-Oxley Act designed to strengthen corporate governance and accountability across multiple aspects of corporate business practice.

These would be followed by the SARS epidemic in 2003, the Global Financial Crisis in 2007-2009, the MERS outbreak in 2012, and the ongoing Covid-19 pandemic.

To manage these crises, governments around the world scrambled to deploy support measures and fiscal stimulus while they literally watched their tax bases contract. In need of more revenue to fund their economic policies, governments turned their attention to large multinational corporations (MNCs), particularly those with extremely low global effective tax rates, in search of the next “pot of gold” (tax dollars). Improved tax transparency was called for, to scrutinise MNCs’ tax positions.

¹ ATO (n.d.) “[Tax governance for privately owned groups](#)” (n.d.), ATO; <https://www.ato.gov.au/>

The Stakeholders Driving The Tax Transparency Agenda

Several key players stood at the forefront of the tax transparency agenda – international forums, tax authorities, non-governmental organisations (NGOs), the media, and investors.

INTERNATIONAL FORUMS

International forums provide powerful platforms for countries to come together to discuss tax issues and have been imperative in setting the basis and tone for the tax transparency agenda. One example is country-by-country (CbC) reporting, which emerged from the [Organisation for Economic Co-operation Development \(OECD\)'s Base Erosion and Profit Shifting \(BEPS\) initiative](#)².

More recently, the G7 nations have agreed at the 2021 G7 Summit to work towards a global minimum corporate tax rate. This provided the much-needed impetus and political support for the ambitious international tax reform to counter base erosion and profit shifting, eventually nudging 130 countries and jurisdictions into joining the new framework for international tax reform.

TAX AUTHORITIES

As the administrators of tax, tax authorities are naturally key to the tax transparency agenda. Improved tax transparency and the standard of reporting empower tax authorities to adopt risk-based assessments, focus resources on high-risk areas, and identify any red flags of tax avoidance or evasion.

NGOs

Certain NGOs have consistently lent their voices to calls for measures against tax avoidance, tax havens and financial secrecy around the world through research and analysis on the efficacy of current proposals by countries or international forums.

MEDIA

Media has been a driving force of the tax transparency agenda. Apart from coverage of tax developments, investigative journalism has galvanised the agenda into action on occasion, following the public disclosures that provided shocking revelations into the vast network of tax havens involving high profile individuals and corporations across the world.

Beyond the traditional media, social media platforms have also contributed to heightened awareness of tax transparency and governance. Public indignation and uproar over tax scandals can translate into public boycott on the perceived culprits.

INVESTORS

Investors have been stirring the next wave in the tax transparency and governance agenda. Cognisant that a corporation's long-term success is not limited to its economic viability, investors are increasingly savvy about the importance of tax in the overall corporate strategy and sustainability objectives and have progressively pushed for better tax disclosures.

² OECD (n.d.) "[Action 13 Country-by-Country Reporting](https://www.oecd.org/tax/action-13-country-by-country-reporting)" (n.d.), OECD; <https://www.oecd.org/tax/>

ESG And GRI

Emerging from the focus on extractive industries is the concept of environmental, social and governance (ESG) reporting. While the original ESG proponents focused mainly on environment factors, there has been an increased emphasis on other social factors, including the role of tax in the context of corporate strategy and sustainability objectives.

ESG is now providing another framework for tax transparency, in areas such as governance structures, transparency in disclosures, investor/shareholder rights, and fair and legal business operations. Through such sustainability reporting, insights into a corporation's tax strategy and practices are publicly released for investors' consideration. As a consequence, ESG is propelling discussion on tax transparency and governance into the boardroom.

The Global Reporting Initiative (GRI) is a widely adopted standard for sustainability reporting that encourages voluntary disclosure of a company's ESG activities. Specifically, the GRI 207 focuses on public reporting on tax. This includes management's perspective towards disclosures relating to the corporation's approach to tax, tax governance, controls, and risk management, as well as the reporting of financial, economic, and tax-related information for each jurisdiction in which the corporation operates³.

Comparing the GRI with OECD's guidelines in augmenting tax transparency, it must be noted that they are different in certain aspects⁴. Under OECD BEPS Action 13, CbC reporting is to tax administrations, and mandated for multinationals with consolidated group revenues of more than €750 million. On the other hand, voluntary reporting by any organisation adopting the GRI 207 is accessible not only to revenue authorities, but also to the public. "Without a single consolidated global tax body, the standards will not always gel," Mr Egan noted.

Ultimately, the divergence in reporting requirements can be attributed to inherent differences in purpose.

³ GRI (2020) "[GRI 207: Tax Standard 2019 Factsheet](https://www.globalreporting.org/)" (18 September 2020), GRI; <https://www.globalreporting.org/>

⁴ GRI (2020) "[Comparison of GRI 207: Tax 2019 & OECD Action 13 BEPS Country-by-Country Report](https://www.globalreporting.org/)" (18 September 2020), GRI; <https://www.globalreporting.org/>

CHECKLIST FOR TAX TRANSPARENCY AND GOVERNANCE

Essentially, each organisation should have a set of customised tax policies that caters to its specific needs and endorsed by the board. These tax policies should in turn be supported by a tax control framework to ensure that the tax objectives are met. It should be noted that the tax control framework need not be built entirely from scratch; existing benchmarks (such as tax authorities' corporate governance guidelines) can be referenced and adapted to the organisation's own practices and policies. Governance can be built around the tax controls framework and tax transparency matters may be incorporated into the agenda. Information to be disclosed to tax authorities or the public can then be corroborated and confirmed with these existing controls.

For the tax transparency and governance framework to work, it is critical to institutionalise a formal reporting mechanism (of material tax issues) to the board. Otherwise, the board will not be in a position to make informed decisions regarding the organisation's tax matters. In this regard, companies may consider consolidating a semi-annual or annual report on the significant tax issues to ensure that the board maintains effective oversight of the organisation's tax strategy.

BENEFITS OF TAX TRANSPARENCY

Corporate tax transparency and effective governance has its benefits for governments, shareholders, the society and even the environment. However, this does not mean that corporations are excluded as accountability and responsibility are not a one-sided equation. With many tax authorities moving towards a co-operative approach, corporations are better able to manage their tax risk through a strong governance framework and an enhanced relationship with the tax authorities.

Corporations should also consider how the appropriate level of public disclosure on tax can fulfil and enhance their corporate responsibilities. Analysing and presenting the contribution that the organisation makes to the countries it operates in can promote confidence and credibility in the organisation's business practices both within and outside the company.

CONCLUSION

By building an appropriate tax governance and controls framework, corporations will be well placed to position and support not only the corporation's tax transparency agenda but also the wider corporate disclosure agenda.

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