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A comparative study of 77 Dutch listed companies

TRANSPARENCY BENCHMARK 2021



Tax Transparency Benchmark 2021

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Preface

It has been ten years since we first started engaging with companies on their good tax governance practices. From the outset, transparency was the key objective. Back then, only 11% of Dutch stock-listed companies published a tax policy. Now, more than 80% do so. Furthermore,



Angélique Laskewitz
Executive Director VBDO

in 2021 we are proud to say that one in five companies report tax-related information on a country-by-country basis, and our overall average benchmark score has finally reached 50%. Tax transparency is here to stay.

It is our hope that fiscal disclosure will lead to greater scrutiny of corporate tax evasion and that seems to be the case. Recent scientific analysis of the national tax authorities' country-by-country databases estimates that close to 40% of the profits made by multinational enterprises (MNEs) were directed to tax havens in 2018¹. This figure would not have come to light without country-by-country tax information being filed to tax authorities. When more companies disclose country-by-country

tax information in their annual reports, more insights will be possible. As a result, stakeholders should finally be able to scrutinise companies and governments and put pressure on them to contribute to the countries in which economic activity occurs.

This year, 20% of the 77 participating companies in this benchmark have published country-by-country data. According to a recent study conducted by FTSE Russell and commissioned by the UN PRI, only 7% of the 1,300 publicly listed companies in their database had done so. The research also reveals another important insight – investors are increasingly incorporating tax governance to ESG research, ratings and metrics. You can read more about these developments, including the results from the tax policy question that was recently added to VBDO's annual pension fund survey, in chapter three of this report (page 35).

Another important indication that investors have stepped up their game regarding tax transparency is the development of the Global Reporting Initiative (GRI) 207: Tax standard. 2021 is the first year companies have been able to follow this standard when disclosing tax-related information. According to our assessment, six companies have done so: NN Group, Philips, Aegon,

¹ Please refer to this research from Torslov, Wier and Zucman (2021). Retrieved from: <https://missingprofits.world>. Also, refer to the visual presentation of data: <https://public.flourish.studio/story/939975/>

Randstad, KPN and DSM. The standard not only drives companies to provide meaningful and comparable disclosures, it also ensures that auditors can perform the appropriate checks to provide tax assurance. In chapter two, Gerard Beaufort and Ed Capel from EY explain how GRI 207: Tax is relevant for tax assurance. I call upon all multinational companies to report following the GRI standard.

It is fantastic news that none of the overall scores for our six Good Tax Governance Principles declined in 2021. The frontrunners in this benchmark make progress year-on-year. They keep on disclosing more relevant fiscal information to stakeholders. These frontrunners improve tax transparency in general as they explore how to find a balance between meaningful financial and non-financial tax disclosures.

Despite the progress made by the frontrunners, 23% of all companies in scope did not achieve our minimum baseline of 10 points. This is, however, slightly better than last year when almost one-third did not achieve this minimum baseline. For the first time, all AEX companies scored above 10 points, with an average score of 23 out of 35. As we have executed a relatively similar benchmark for four consecutive years, we can confidently conclude that many companies have noticeably improved. I look forward to next year's benchmark, after we have given the criteria and scoring methodology a well needed update. Hereby, I welcome all relevant stakeholders to provide input and share their thoughts with us in this process.

I would like to thank Ed Capel and Gerard Beaufort from EY and Edwin Visser and Will Morris from PwC and Xander Urbach from VBDO for their excellent contributions to this report. This report has been prepared under the final responsibility of VBDO with valuable support and assistance from PwC Netherlands. Of course, I would also like to thank the participating companies and their continuous development on this material topic.

I look forward to taking the dialogue on tax transparency inside and outside of the Netherlands to the next level.

Angélique Laskewitz
Executive Director VBDO

Tax Transparency Benchmark 2021

Overall Ranking

Ranking	Company Name	Score 2021	2020	2019	2018
1	NN Group	32	32	30	21
2	Philips	31	23	15	13
3-5	Aegon	30	27	24	23
3-5	KPN	30	28	26	20
3-5	Randstad	30	26	24	13
6-9	a.s.r.	28	27	25	18
6-9	DSM	28	26	26	21
6-9	Shell	28	28	23	17
6-9	Signify	28	23	19	14
10-17	AMG	27	27	24	23
10-17	ForFarmers	27	26	17	9
10-17	ING Group	27	22	26	20
10-17	Nedap	27	25	19	19
10-17	Rabobank	27	27	26	19
10-17	Unilever	27	27	26	23
10-17	Vopak	27	27	26	20
18-19	Adyen	26	9	7	-
18-19	Van Lanschot Kempen	26	23	23	22
20-22	GrandVision	25	25	20	17
20-22	RELX Group	25	25	26	19
20-22	Wereldhave	25	23	17	16
23	Ahold Delhaize	24	22	22	18
24-27	ASML	23	20	20	17
24-27	Intertrust	23	16	19	2
24-27	JDE Peet's	23	-	-	-
24-27	Royal Boskalis Westminster	23	18	16	13
28-32	OCI	22	21	4	5
28-32	PostNL	22	23	23	17
28-32	SBM Offshore	22	9	9	9
28-32	Unibail-Rodamco-Westfield	22	18	17	14
28-32	Vastned	22	21	16	16
33-39	ABN AMRO	21	22	20	16
33-39	Arcadis	21	17	18	16
33-39	Corbion	21	17	13	10
33-39	Eurocommercial Properties	21	21	22	2
33-39	Flow Traders	21	23	17	15
33-39	IMCD	21	13	12	14
33-39	TomTom	21	14	12	11
40-41	Heineken	20	22	22	17

Tax Transparency Benchmark 2021 / Overall Ranking (cont'd)

Ranking	Company Name	Score 2021	2020	2019	2018
40-41	Prosus	20	18	-	-
42-44	Ordina	19	20	20	20
42-44	TKH Group	19	21	17	14
42-44	Wolters Kluwer	19	16	15	15
45-47	BAM Group	17	18	18	15
45-47	Brunel	17	18	17	16
45-47	CM.com	17	-	-	-
48-50	Fugro	16	17	18	16
48-50	Heijmans	16	19	16	9
48-50	Kendrion	16	18	20	16
51	Achmea	15	14	15	13
52	Aalberts	14	14	13	12
53-56	Aperam	13	15	16	11
53-56	Basic-Fit	13	14	14	4
53-56	JUST EAT Takeaway.com	13	12	11	12
53-56	Sligro	13	15	9	9
57-58	AkzoNobel	12	8	12	8
57-58	BE Semiconductor Industries	12	8	8	7
59-60	ArcelorMittal	10	9	9	8
59-60	ASM International	10	9	9	9
60-61	Accell Group	9	6	5	5
60-61	Air France-KLM	9	11	9	5
62	Acomo	8	8	8	5
63	Fagron	7	4	3	1
64	Lucas Bols	6	6	6	4
65-68	B&S	5	6	7	-
65-68	INPOST	5	-	-	-
65-68	NSI	5	6	6	6
65-68	WDP	5	4	4	2
69-72	Ajax	4	2	-	-
69-72	Pharming Group	4	6	6	3
69-72	Sif Holding	4	5	5	5
69-72	VIVORYON	4	3	-	-
73-74	Avantium	3	5	-	3
73-74	Galapagos	3	1	1	2
75	CTP	2	-	-	-
76	Alfen	1	1	1	-
77	Accsys Technologies	0	0	0	-



Executive Summary

We are proud to present the Tax Transparency Benchmark 2021. This year, the average company score reached an all-time high of 50% – double the score of 2015, which is when we first conducted this research. Another important milestone this year is that companies have started following the GRI 207: Tax standard² when reporting. This is due to the fact that 2021 is the first reporting year for companies that have tax as a material topic. According to our assessment, six out of the 77 participating companies have disclosed tax-related information that adheres to the GRI framework. Only one of these six companies did not comply with GRI 207 section 4 on country-by-country (CbCR) disclosures.

Importantly, the adoption of the GRI standard and the recently adopted CbCR directive of the European Commission is already making an impact on the Tax Transparency Benchmark. One in five companies now fully disclose tax information on a country-by-country basis. Moreover, Dutch companies are performing better compared to their global peers. According to research conducted by FTSE Russell, only 7% of global companies provided country-by-country tax disclosures this year³.

We've also witnessed a growing number of companies providing assurance on the implementation of the tax strategy. Again, GRI 207: Tax is the most important reference point for auditors.

This edition of the Tax Transparency Benchmark goes into more detail about the developments mentioned above and also highlights key current issues relating to tax transparency. Edwin Visser and Will Morris from PwC stipulate the importance of tax for the ESG revolution. Gerard Beaufort and Ed Capel from EY write about how the GRI 207: Tax standard has been used as a reference point for providing third-party assurance. Xander Urbach from VBDO gives the results from the tax policy question asked as part of the VBDO Benchmark on Responsible Investment By Pension Funds. Every chapter explores a key topic concerning tax transparency and aims to motivate companies and their stakeholders to make further progress.

2 GRI 207: Tax 2019 contains three management-approach disclosures and one topic-specific disclosure on country-by-country reporting. The combination of management-approach disclosures and country-by-country reporting provides insight into an organisation's tax practices in different jurisdictions.

Disclosure 207-1 Approach to tax;

Disclosure 207-2 Tax governance, control and risk management;

Disclosure 207-3 Stakeholder engagement and management concerns related to tax;

Disclosure 207-4 Country-by-country reporting.

3 Out of their publicly listed equity database of 1,300 companies. Please refer to the publication online: https://content.ftserussell.com/sites/default/files/global_trends_in_corporate_tax_disclosure_final_2.pdf?_ga=2.107024449.2119185862.1634737242-1303738075.1634737242

NN Group is the top-scoring company in the Tax Transparency Benchmark 2021. NN Group was able to demonstrate that it proactively seeks to act in a responsible and transparent way regarding its taxation. NN Group has embarked on a clear and very extensive tax strategy, which resulted in a high score of 32 points. Despite the more stringent assessment this year⁴, NN Group scored the same number of points as in 2020. The Group's tax charter includes a tax control framework containing a detailed description of how the implementation and execution of the tax strategy is monitored. In addition, NN Group provides an extensive tax risks analysis and describes control factors per risk.

NN Group publishes a total tax contribution report, which features country-by-country data information on FTEs, total assets, profit before tax and taxation. When reporting on its tax position, NN Group complies with the GRI 207: Tax standard. Finally, it provides third-party assurance to stakeholders on its total tax contribution report. There were no controversies found by the jury regarding the tax behaviour of NN Group. In summary, NN Group shows that it transparently reports on all Good Tax Governance Principles.

Philips is the second top-scoring company in the Tax Transparency Benchmark 2021. The jury would like to honourably mention Philips and compliment the company both for the huge progress it has made and for the quality of its tax strategy reporting. For the first time, Philips has published a Country Activity and Tax Report, providing an extensive country-by-country overview on key financials, FTEs and different taxes paid, as well as a narrative linking Philips' business and activities to taxation. This resulted in a total score of 31 points, compared to 23 points in 2020. All-in-all, Philips displays great fiscal transparency in its reporting.

Besides Philips' progress, the jury has noticed impressive improvements in country-by-country reporting and GRI compliance overall, and would like to specifically compliment all the companies which have made progress in this area. However, the jury still sees room for improvement. One important step that companies can make is to start disclosing tax issues relating to ESG (environmental, social and governance) in their reporting, e.g. reporting on carbon taxes or working conditions in relation to their tax strategies and policies. Moreover, the jury is concerned about the decreasing number of companies engaging in dialogues with stakeholders. The companies that do engage have provided very little information about how this is done, on what basis and what the outcomes of these dialogues are and/or they haven't given an update on how this year's engagement compares to that of previous years.

⁴ Please refer to page 68 for a more thorough explanation.

Overall, however, VBDO is delighted that the average score has reached 50% for the first time. This is a remarkable milestone considering that our assessment has become stricter over the years. We trust that the GRI 207: Tax standard will provide an additional push forward and drive material tax transparency for years to come.

Below, we outline the most significant conclusions and recommendations for each of the six Good Tax Governance Principles defined by VBDO. Figure 1 shows the average score for each of the principles for 2021 compared to 2020, 2019 and 2018. We conducted an overhaul of the methodology for the 2018 Tax Transparency Benchmark; therefore, this year's results are only comparable to the benchmarks of the previous three years.

	2021	2020	2019	2018
Good Tax Governance Principles	Average % scored by companies per principle			
A Define and communicate a clear strategy	64%	56%	53%	44%
B Tax must be aligned with the business and is not a profit centre by itself	59%	55%	52%	41%
C Respect the spirit of the law. Tax-compliant behaviour is the norm	52%	42%	34%	54%
D Know and manage tax risks	57%	57%	55%	37%
E Monitor and test tax controls	58%	49%	47%	31%
F Provide tax assurance	20%	17%	18%	15%
This number gives the average aggregated result of the six Good Tax Governance Principles	50%	46%	43%	39%

Figure 1: TTB21 results per Good Tax Governance Principle

A. Define and communicate a clear tax strategy

- Companies scored highest on this principle;
- 57% of companies explicitly communicated to stakeholders that the tax strategy had been signed off by the executive board;
- An interesting improvement is the increasing amount of companies that describe how their sustainability strategy is taken into account in the company's approach to tax, from 47% in 2020 to 62%;
- Unfortunately, there has been little change in the percentage of companies that discuss their tax strategy with stakeholders: 38% in 2021; 36% in 2020 and 43% in 2019.

We continue to be proud that most (84%) companies express their views on tax in their annual report, tax strategy or a policy document. It is important that the tax strategy or policy documents are explicitly signed off by the board. More than half of the companies in our scope have done this (57% in 2021 compared to 25% in 2018) and are now acting on this important recommendation. To receive a true reflection on a company's tax strategy, it is essential that the strategy is aligned with stakeholder interests. Similar to last year, we believe that this is an important improvement point as we see this percentage has remained relatively stable: 38% in 2021, 36% in 2020, 43% in 2019 and 38% in 2018.

B. Tax must be aligned with the business and is not a profit centre in itself

- a.s.r. and Aegon are the only companies to score full points for this principle;
- The number of companies that provide a narrative description for the effective to statutory reconciliation (ETR) table has more than tripled from 2018 (26%) to 2021 (82%);
- 75% of companies communicated that they do not make use of tax havens, compared to 69% in 2020;
- More companies (20% in 2021, 13% in 2020) provide full disclosure of country-by-country based tax information, but fewer companies provide partial disclosure (10% in 2021, 23% in 2020);
- However, at the same time, the percentage of companies that do not provide any tax information on a country-by-country basis increased from 64% to 70%.

Providing a narrative to explain the ETR table and 'showing' how this reconciliation is calculated provides additional value to stakeholders compared to just 'telling' them the figures. Again, we are happy to report that the percentage of companies confirming that they do provide this narrative has risen for the fourth year in a row; the percentage rose from 26% in 2018 to 62% in 2019, 70% in 2020 and 75% in 2021.

The percentage of companies that do not disclose country-by-country based tax information has declined to 70% as a result of a more stringent assessment. Every year, we expect more detailed reporting from companies. It is encouraging that more companies (20% compared to 10% in 2020) have fully disclosed information on corporate income tax, accumulated earnings, assets and FTEs for the jurisdictions in which they operate. In relation to country-by-country reporting on taxes collected on behalf of governments (direct taxes and other taxes like VAT, wage taxes, etc), fewer companies disclosed full or partial data (13% in 2021, compared to 23% in 2020).

C. Respect the spirit of the law. Tax-compliant behaviour is the norm

- 70% of the companies explicitly stated that their tax planning strategy takes the spirit of the law into account, compared to 60% in 2020;
- 40% of companies state that they have a training programme for tax, legal and compliance officers in place on how to deal with tax issues and dilemmas. This figure has increased for four years, by an average of 9% per year.

We announced in the 2018 Tax Transparency Benchmark report that we require an explicit reference to tax in the whistleblower policy or for the whistleblower policy to specifically be mentioned in the tax strategy. Last year, 25% of the companies reported that they had a whistleblower policy in place that references tax. This year, that figure increased to 40%.

D. Know and manage tax risks

- 15 companies scored the maximum number of points on this principle in 2021, compared to nine in 2020;
- 75% of the companies reported any tax risks and 53% described risks in detail;
- The number of companies that provide their vision on rulings with tax authorities grew from 18% in 2018 to 62% in 2021.

In 2021, more companies (60%) explicitly describe their tax risk appetite and almost two-thirds (62%) also provide a vision on concluding rulings with tax authorities. A discrepancy does remain between simply mentioning a tax risk (75%) and providing a detailed description of the risk (52%) and the company's response to the risk (62%).

40% of the companies report on the role of tax technology for tax relevant data management. While this number has increased from only 7% in 2018, there is room for further improvement. We believe that companies benefit from tax technology solutions, both for internal compliance purposes and for external stakeholder communication.

E. Monitor and test tax controls

- Companies have greatly improved their scores on this principle. The average score is now 58% compared to 49% in 2020;
- 61% of the companies described to stakeholders how tax risks and controls are tested and monitored;
- 48% of the companies described how the implementation and execution of the tax strategy is monitored;
- 66% of the companies stated that tax risk management is reported to the audit committee.

Progress on this principle is greatest for the question on whether companies describe how the implementation and tax strategy is monitored. On average, companies scored 14 percentage points better on this question than last year. 48% of companies obtained the full two points. Tax risk management is an important element of a properly executed tax strategy. Therefore, it is a positive development that 66% of the companies state that tax risk management is included when reporting to the audit committee. 61% describe how their tax risk control measures are tested and monitored.

F. Provide tax assurance

- NN Group, Philips and Randstad are the only companies that provide third-party tax assurance;
- Adyen and ING Group mentioned the existence of a tax in-control statement.

Historically, companies score poorly on the questions for principle F. It is still not commonplace to involve internal auditors when providing a tax in-control statement and to gain approval by the company's board. These actions are taken by just two companies. However, the uptake of the GRI 207: Tax standard has resulted in more companies providing assurance by a third-party auditor, which is now done by three companies: NN Group, Philips and Randstad.



1. Why tax transparency is part of the ESG conversation⁵

ESG brings businesses an opportunity to reset the conversation about tax reporting in the context of their overall approach to sustainability and social responsibility

If there is some remote corner of corporate life as yet untouched by the environmental, social and governance (ESG) imperative, do not expect it to stay that way for long. We have moved a very long way from the only relevant type of business reporting being that to investors and shareholders. Pressure on businesses has been growing for years – from governments, investors,



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regulators, the media, civil society and the public – to address ESG concerns and disclose more information about how they are governed, how they contribute to society and the impact their activities have on the planet. This tide is not about to turn. In response, companies have embarked on a rethink of what and how much they disclose about all their activities and what story this tells about the business they

carry on. At the heart of this exercise are questions of how ESG issues should be measured and communicated. And tax -- always central to disclosures -- plays an important role because it touches all parts of a company's operations. But it's complicated. A company's approach to tax is no longer just a question of controlling tax cost. It is now becoming a powerful indicator of how its leaders view the business's role in society and the extent of its social contribution. Boards today are much more aware of the implications of tax, not least because how much tax a company pays can become headline news. Today, a company's tax strategy and governance, and the related narrative, is not simply a matter of keeping on the right side of compliance regulations. Transparent and clear tax reporting tells a much broader story about an organization that can build and deepen trust with investors and with the wider stakeholder world. ESG is a chance to reframe and reshape a discussion between businesses and their stakeholders.

⁵ © 2021 PricewaterhouseCoopers Belastingadviseurs N.V. In this article "PwC" refers to PricewaterhouseCoopers Belastingadviseurs N.V. which is a member firm of PricewaterhouseCoopers International Limited. Each member firm of which is a separate legal entity. Please see www.pwc.com/structure for further details.

The ESG imperative

The move towards greater communications about tax has been building for years. The concept that multinational companies should report on their revenues and profits and the taxes paid on those on a country-by-country (CbC) basis has been under discussion since 2003, not least because of pressure from civil society. Companies had been criticised for doing business in one country and then declaring the profits in another, often choosing to do so in lower tax jurisdictions. It was only in 2015 that the OECD and G20 countries formally adopted country-by-country reporting as part of the Base Erosion and Profit Shifting (BEPS) initiative⁶. The reporting in this case is to tax authorities, not publicly. Since then, CbC reporting has become an established concept in the search for increased transparency in the international tax system. ESG reporting takes this concept of transparency a step further in three ways: first it increases the scope of reporting to non-financial, material factors such as carbon emissions and diversity and gender, which themselves have tax implications. Second, it emphasises the link between governance and transparency, which is the foundation of trust. And third, ESG reporting is more than publishing tax data; it involves a tax strategy and a narrative that are aligned with the company's overall values and strategies. For now, unlike most financial reporting, non-financial reporting is voluntary though that too is changing. The European Union's Green Taxonomy, a classification system to provide clarity for investors and companies on environmentally sustainable economic activities, signals the direction of travel along with a slew of initiatives.

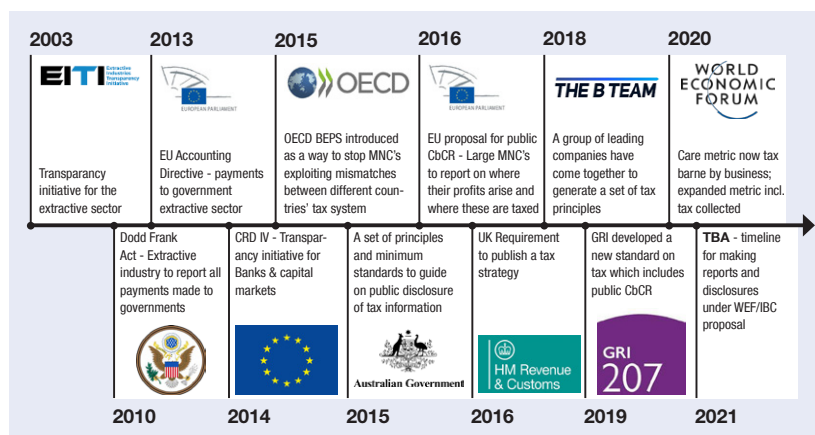


Figure 2: Tax Transparency Timeline

6 <https://news.bloombergtax.com/daily-tax-report/country-by-country-tax-reporting-nearly-20-years-in-the-making>

7 https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf

A recent draft report on a Social Taxonomy, published by the EU in July 2021, suggested that a future classification system will contain metrics on tax transparency and non-aggressive tax planning⁷. The trickle that started nearly two decades ago has now become a flood (see chart). It is entirely rational to expect this trend to play out in tax as it has elsewhere. The SEC too is evaluating reporting requirements⁸.

Including tax in a broader ESG strategy presents a significant opportunity for businesses to expand their corporate narrative. The benefits are positive: transparent tax reporting enhances public trust in the company's bona fides and can identify early issues that could undermine the company's credibility on ESG issues in other areas. For example, a company may have a low tax rate because it benefits from a tax incentive that encourages investment in green technology (e.g., energy efficiency). If this is not, however, properly explained it could lead to reputational harm around the amount of tax the company pays, when, in fact, the company investing in green technology should be seen as a positive.

Degrees of transparency

Companies are already starting to change their thinking. The Global Reporting Initiative standards (GRI), used by more than 10,000 organisations in over 100 countries, include reporting on tax⁹. The extent of tax reporting required by the GRI varies (depending on the level of adoption of the GRI standards), but can include a company's approach to tax, information on tax governance, control and risk management and the publication of revenues, profits and corporate income tax paid by country. Furthermore, some 120 companies are members of the International Business Council, which published its ESG reporting metrics, of which tax is a core component, in collaboration with the World Economic Forum in September 2020¹⁰. Reporting on tax practices and governance is becoming central to sustainability reporting for most large organisations. But what does this mean in practice? There are early adopters to look to. Mining company Rio Tinto, for example, has been disclosing the tax payments¹¹ it makes to governments for more than a decade, not just to tell their own story, but also in an effort to ensure that the authorities are held accountable for the monies paid. Telecoms carrier Vodafone started releasing details of all its tax affairs, country by country, in June 2013¹². This level of disclosure remains the exception, but with the emphasis shifting towards greater transparency, more businesses are starting to follow suit. But how much and what information should companies disclose to build trust? Well, before answering that in detail, it's important to say upfront that there is no one size fits all, and that,

8 <https://www.sec.gov/sec-response-climate-and-esg-risks-and-opportunities>

9 <https://www.globalreporting.org/>

10 https://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf

11 <https://www.riotinto.com/en/invest/reports/taxes-paid-report>

12 <https://www.vodafone.com/about-vodafone/reporting-centre/tax-and-economic-contribution>

depending on geography, sector, etc., different businesses will come to different conclusions at different times.

The need for a narrative

Tax is complicated and easily misunderstood. For example, if a company lowers its income tax bill because it has taken deductions for important capital investments, the headlines often ring out about tax avoidance rather than applauding the longer-term strategy objectives of how the company is trying to stay competitive. This is why a narrative that seeks to explain and demystify complex rules and misunderstood concepts is so important. It's safe to say that country by country reporting, which is already mandated in the EU for some industries, is likely to become an important component of tax disclosures in future -- not least because the EU is in the process of expanding its own rules. But the value of these disclosures is not shaped exclusively by the quantity of information shared. To ensure their reporting is genuinely useful and informative, businesses will need to determine what information, qualitative as well as quantitative, is most relevant to its stakeholders. That is not necessarily always the same as what is required by law but the legal requirements are changing as noted in the timeline. For example, it will become the norm to see indications of a business's approach to tax planning and the kind of governance that is attached to it. That could include reference to a code or statement of practice and the level of internal review expected with details of any bodies or panels set up to ensure consistent application and enforcement.

Disclosures build trust

In deciding their narrative, companies may wish to focus – as the International Business Council recommends – on their total tax contribution across all areas of taxation and tax incentives. This can range from income and social security taxes to carbon taxes and investment tax breaks. This will allow them to tell a more complete story about their total economic contribution in the countries where they are present. Companies may alternatively wish to take public country-by-country reporting according to GRI-207 or, when operating in the EU, public country-by-country reporting according to the recently adopted EU-directive, as a starting point.

More companies are opting to take a holistic approach. PwC's annual tax transparency report, published in June, found that 47 companies in the FTSE 100 made total tax contribution disclosures in 2020, up from 34 in 2018, reflecting a growing desire to move the conversation beyond corporate income tax alone. There are significant upsides to getting the narrative right. Meaningful and informative disclosures on the business's tax practices can help to increase trust among stakeholders in a world where trust is ever more important -- and scrutiny ever greater. For starters, the nature of ESG reporting – especially as the disclosures become more codified

and standardised – allows more rigorous comparisons of corporate performance across a far wider range of criteria. This in turn gives stakeholders greater scope to draw inferences not just about its financial performance, but, more holistically, about the business's sense of purpose and social responsibility. Companies will also know where they stand in relation to their peers and competitors. To build the kind of tax narrative that reflects the company's approach to tax connected to its overall values and strategies and the view of its stakeholders, and that reflects its commitment to ESG imperatives and deepens trust, business should consider the following:

- **Collaboration and consultation:** In a world where ESG is now top of the corporate agenda, tax departments need to engage across the entire business, but especially with sustainability and human resources departments to align strategic choices. If a company is planning to make investments in sustainability, the tax department can help assess the impact on the bottom line. Investments in research and development or green technologies can involve tax incentives, for example. Furthermore, certain investments or business models may come with tax disincentives such as carbon border adjustments or plastic pollution taxes. Hybrid working, which is evolving as a norm following COVID-19, has its own tax implications too.
- **Benchmarking and looking ahead:** The ESG revolution¹³ will change how businesses operate in all sectors and could change where and how companies decide to compete, leading to changes in supply chains, mergers and acquisitions, and disposals. All of these have significant tax implications and considering these early, will help companies understand and develop the tax narrative that accompanies such longer-term transformations. The need for a tax narrative may well intensify depending on whether and how tax is included in rating agencies' ESG ratings and in the EU's Corporate Social Responsibility Directive¹⁴.
- **Communication:** Looking at tax decisions through ESG and stakeholder lenses and anticipating what this says about the business. This will help develop a clear narrative. Explaining why tax bills change and why companies decide to invest in different jurisdictions, for example, can reduce reputational risks. Tax disclosures are often read by people who are less familiar with the complexities of tax and compliance so investing time in communicating can avoid misunderstandings and build trust. ESG reporting presents a new opportunity to reframe tax reporting as positive for business, rather than (as previously) something to be feared and resisted. This is part of a larger movement to realign businesses with the societies in which they operate and the citizens whom they serve. A considered approach to tax transparency and tax governance, and what they say about leadership, has an important role to play as businesses look to engage with ESG issues, build trust and realign with their wider stakeholders.

13 <https://www.pwc.com/gx/en/issues/esg/esg-revolution.html>

14 https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#csrd



2. Assurance on tax contribution reporting

Introduction

The field of tax assurance is young and developing fast. Under pressure from political and public attention, the international tax landscape continues to evolve rapidly, creating a flood of new domestic and international tax regulations and related requirements. These combat (perceived)



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tax abuse with the objective of having multinational entities (MNEs) pay their 'fair share' of taxes. In addition, these new regulations and requirements meet the increasing demand from stakeholders for transparency around how MNEs operate in the international tax environment. These developments in society require MNEs to increase the focus on (and quality of) their governance

of the tax function. This includes tax policy and strategy as well as the internal (tax) control framework that safeguards compliance with tax regulations, and transparent tax reporting. The latter is not merely for GAAP financial reporting purposes; stakeholders are increasingly demanding that a wider range of tax information is disclosed in order for them to understand and evaluate the 'approach to tax' of an MNE in the context of corporate social responsibility.

Over the past few years, various non-governmental organisations (NGOs) have taken the initiative to introduce suitable criteria and guidance around ESG metrics. This includes setting out the qualitative and quantitative tax information that companies may (voluntarily) want to disclose in order to become more transparent with respect to their approach to tax. Various MNEs have endorsed the tax transparency frameworks issued and started to report tax information publicly to meet the growing demand of stakeholders and become more transparent. More and more often, investors are using ESG metrics to evaluate and make judgements about MNEs' performance on ESG objectives, including on their approach to tax. As a result hereof, the concept of 'total tax contribution' is receiving increasing weight in the sustainability ratings of rating agencies.

Currently, MNEs use different channels to communicate with stakeholders about their approach to tax and their total tax contribution to society. Frontrunners, for example, publish tax information in a separate tax transparency report on their corporate website. Over time, the scope of tax information disclosed, both qualitative and quantitative, has expanded to become a 'total tax contribution' report. Recently, some MNEs are starting to seek third-party assurance on the tax transparency reports they publish, whether they publish a separate standalone report or cover tax transparency as part of a larger sustainability report or integrated report (e.g. as part of the GAAP financial reporting). This third-party assurance increases the credibility of the tax information disclosed.

In this article, we give more insight into the tax transparency reporting frameworks developed by NGOs that MNEs most frequently refer to when they disclose tax information as part of wider reporting on sustainability objectives and performance. As stakeholders become more critical towards the fairness of (voluntarily) disclosed information and the risk of 'greenwashing', MNEs are increasingly looking for a level of assurance on their public tax reporting. The ultimate form of validation of qualitative and quantitative tax information disclosed by MNEs as part of reporting on sustainability objectives and performance is third-party assurance on the tax transparency or tax contribution report issued. The latter part of this article discusses in more detail the assurance framework and procedures that a third-party auditor takes into consideration when engaged by an MNE to provide assurance on a tax transparency or tax contribution report.

On 28 September 2021, the Council of the European Commission adopted the Public country-by-country reporting directive. This will standardise the scope of disclosed tax information that needs third-party assurance. Therefore, it is even more important that MNEs prepare themselves for a more structured and comprehensive approach towards tax transparency reporting and assurance.

Tax transparency reporting frameworks

Various NGOs have developed suitable criteria and guidance about the qualitative and quantitative tax information that companies may disclose to display transparency with respect to their approach to tax. Examples of NGOs that have developed such criteria and guidance are VBDO (see the 2014 report *Good Tax Governance in Transition*), the United Nations (through the 2030 Agenda for Sustainable Development and the 17 UN Sustainable Development Goals) and the B Team (with The B Team Responsible Tax Principles).

These NGOs emphasise the need for a holistic approach to taxation and good tax governance, and focus therefore on qualitative aspects of the tax function and the company's approach to

tax. This includes topics such as tax policy and strategy and the governance, control and risk management framework in which the tax function operates.

Initiatives have also been undertaken focusing on long-term value, for example by the Embankment Project for Inclusive Capitalism and the World Economic Forum. A 2020 publication was developed within the Forum's International Business Council (IBC), entitled Measuring stakeholder capitalism – towards common metrics and consistent reporting of sustainable value creation.

The GRI is another NGO that has developed rules and guidance around tax transparency. GRI is the sustainability reporting framework most endorsed by MNEs; approximately 15,000 MNEs worldwide report under GRI standards. In 2019, GRI 207: Tax was published, which is currently the most comprehensive and detailed framework for tax transparency reporting. The disclosures required by this standard can be categorised as either management-approach disclosures (207-1 through 207-3) or topic-specific disclosures (207-4). The four components are as follows:

- Disclosure 207-1 Approach to tax
- Disclosure 207-2 Tax governance, control and risk management
- Disclosure 207-3 Stakeholder engagement and management of concerns related to tax
- Disclosure 207-4 Public country-by-country reporting

In particular, Disclosure 207-4 focuses on quantitative information, which is largely in line with the existing non-public (EU) country-by-country reporting directive.

It is mandatory for organisations to adhere to the GRI 207 disclosures when tax has been qualified as a material topic. Organisations that consider tax to be a non-material topic may voluntarily apply GRI 207 to any extent desirable. Material topics are those that reflect an organisation's significant economic, environmental and social impacts, or those that substantively influence the assessments and decisions of stakeholders¹⁵. Although many MNEs have already endorsed GRI as the reporting framework for sustainability goals and performance, currently only a limited number of GRI reports contain the disclosures as set out in GRI 207. Given that GRI 207 is effective for reports or other materials published on or after 1 January 2021, this would suggest that generally tax is not considered a material topic yet. The expectation is, however, that (voluntary) application of GRI 207 will increase, as this allows MNEs to align and tailor the development and content of the disclosures on tax with the evolution of the tax function within the organisation and the approach to tax. External factors, such as what peers are disclosing,

¹⁵ As formulated in GRI 101 - Foundation

what investors are demanding and what legislators and regulators have in the pipeline, will certainly stimulate and accelerate publications of tax transparency or tax contribution reports that follow GRI 207.

Although GRI 207 focuses on income taxes, GRI recommends that companies extend the disclosure to non-income tax payments, and also include other taxes born (e.g. customs and excise duties, environmental taxes, industry-related taxes) and taxes collected on behalf of the government or withheld and remitted on behalf of others (e.g. VAT, wage taxes and social security taxes). Many MNEs consider that this would provide a more balanced and substantive picture of the social and economic impact of their business activities and (total) tax contribution to the communities in which they operate. This would also be in line with the WEF's Common Metrics initiative, expanded with the taxes-collected information. Expanding the scope to non-income taxes has created new challenges for MNEs, as tax payment information on these types of taxes may not be readily retrievable from centrally managed (IT) systems. Therefore, determining the completeness, timeliness and accuracy of 'manually' gathered information requires additional efforts.

It is important to note that there are some specific differences between the information required to be reported under GRI 207 and the presentation and disclosures relating to income tax required by accounting frameworks (IFRS, US GAAP). As an example, where IAS 12 focuses on accounting for current and deferred income taxes, GRI 207 emphasises cash payments of income tax and the relation to (book) profit or loss reported. Inevitably, this results in differences in reported numbers and ratios. Further clarification will, therefore, likely be needed to explain any differences between the tax information disclosed in tax transparency or (total) tax contribution reports, with the information disclosed in GAAP financial reporting.

The format in which tax information is displayed is not prescribed by GRI. GRI focuses on sustainability reports, but the GRI 207 disclosure requirements can also be met by including the tax information in the annual financial report or other separately issued (financial) report on tax transparency and tax contribution.

However we would like to note, the location and format of the reported information is very relevant for decisions about the nature, extent and structure of internal control over tax data and the level of assurance – which includes determination of materiality thresholds – that is provided over the tax data presented in the report.

Assurance on tax contribution reporting

For MNEs, compliance with tax laws and regulations¹⁶ is not only an objective in itself, it is increasingly becoming a licence to operate (successfully) in a society that demands heightened transparency about tax affairs as an important element of communal and social vitality. As tax laws and regulations (both national and international) become increasingly complicated and the pace of legislative and regulatory changes accelerates, staying compliant requires increasing efforts of MNEs' tax functions. Furthermore, the digitalisation of revenue authorities brings new dimensions as this will require almost real-time monitoring of compliance on a transactional basis. These developments have forced tax functions to transform from traditional internal experts to a process- and control-oriented function that aligns tax strategy with business strategy and is accountable – in terms of governance, control and risk management – for the record-to-report process. Ultimately, this results in better 'compliance' with tax laws and regulations.

Compliance is a common term in the field of taxation. Assurance on the other hand is primarily a term that is used in the accounting and auditing practice. Assurance in this respect is defined as 'an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation of measurement of a subject matter against criteria'¹⁷.

Besides third-party assurance, other forms of assurance exist that may provide stakeholders with some degree of comfort over tax reporting. A tax in-control statement is a formal (internal) communication or statement made by an executive officer confirming that the company is in control of its tax obligations. This requires the existence of a more or less formalised internal control framework that functions as a safeguard for the validity of reported information¹⁸. While it is a valuable tool, a tax in-control statement provides little external assurance as it is not independently reviewed or audited.

Co-operative compliance programmes concern the implementation of checks and balances in collaboration with the tax authorities. They enable a company to demonstrate that it is compliant and in control of its tax reporting. Various tax authorities use different approaches and practices, including frequent contact moments and compliance checks. There is an expectation that companies will internally monitor their tax situation and conduct regular self-assessments, including addressing any tax risks. The effectiveness of these programmes depends on the

¹⁶ On all different types of taxes (CIT, VAT, wage tax etc.)

¹⁷ IAASB definition

¹⁸ According to the VBDO Tax Transparency Benchmark 2021. A comparative study of 77 Dutch listed companies published in December 2021, only two companies mention the existence of a tax in-control statement.

intensity applied by the participants. The level of assurance is unknown to the outside world as tax authorities rarely communicate about matters concerning individual taxpayers. Nevertheless, there is at least some disclosure through tax transparency or tax contribution reports, which could give some level of comfort to stakeholders.

Audited financial statements provide assurance regarding the tax information included. They also implicitly take into account the control and risk management environment relating to tax. But clearly, the scope of a financial statement's audit does not extend to the company's corporate sustainability performance with respect to tax. Neither do financial statements provide the insights into tax information that stakeholders nowadays demand. Without this level of insight, stakeholders are unable to evaluate a company's performance against standard tax metrics. Where MNEs do prepare fit-for-purpose tax transparency or total tax contribution reports, credibility of such reports can be reinforced by engaging a third party to provide assurance over the content.

An MNE can engage a third party to provide an opinion in relation to (part of) the tax information disclosed in a tax transparency or total tax contribution report. This can either be a stand-alone report or a section in a larger sustainability report. Usually, assurance is provided by an auditor. However, other service-providers, such as tax advisers (NOB) or tax assurance specialists (RTAP), can provide assurance. In these cases, these specialists will refer to the respective professional practice codes governing their conduct and services (work products). To provide assurance, the third party will perform procedures that validate the information that is disclosed in the report. These procedures can vary in nature, intensity and extent, depending on the level of assurance required (limited or reasonable), the materiality thresholds applied (if any) and other factors. There are different levels of assurance and various forms of third-party assurance statements.

Only three companies in scope (Royal Philips, Randstad and NN Group) provided third-party assurance on their 2020 tax transparency and/or total tax contribution reports.

Auditing tax contribution reports

With regards to tax transparency or total tax contribution reporting, one needs to distinguish between the qualitative information (non-financial information) and the quantitative information (financial information) disclosed in the report. The audit approach and level of assurance differ for these two types of information.

Assurance relating to reports prepared in accordance with GRI 207 distinguishes between the management-approach disclosures (207-1 through 207-3) and the topic-specific disclosure

(207-4) as the latter contains the country-by-country financial information. There are substantially fewer procedures performed to audit the management-approach disclosures (207-1 to 3) than those performed for the financial information disclosed in accordance with GRI 207-4.

Assurance relating to management-approach disclosures merely confirms that these disclosures exist and that the auditor has validated (based on the knowledge and understanding obtained through auditing the financial reports or other means) that these disclosures are in line with the requirements of GRI 207-1 through 207-3, do not contain material misstatements and are consistent with the information disclosed to conform to GRI 207-4. The procedures performed with respect to the management-approach disclosures comply with the Dutch Standards on Auditing, Dutch Standard 720. This standard is in line with International Standards on Auditing.

The audit procedures performed on the financial information relating to GRI 207-4 are designed to obtain limited or reasonable assurance about whether the financial information disclosed is free from material misstatement.

Auditing standards

Auditors must adhere to the International Standards on Auditing (ISAs) when auditing the country-by country tax information (GRI 207-4) disclosed in a tax transparency or total tax contribution report. For an engagement to be considered an assurance engagement, it should exhibit all of the following characteristics:

- The underlying subject matter (i.e. research object) is appropriate;
- The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable to the engagement circumstances;
- The criteria that the practitioner expects to be applied in the preparation of the subject matter information will be available to the intended users;
- The practitioner expects to be able to obtain the evidence needed to support the practitioner's conclusion;
- The practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and
- A rational purpose is to be contained in the report, which includes, in the case of a limited assurance engagement, that the practitioner expects to be able to obtain a meaningful level of assurance.

It is clear that the subject matter – the country-by country tax information – is appropriate as this has become an area of interest to stakeholders.

Until recently, there was no (standard) framework for sustainability reporting on the topic of tax that could qualify as suitable criteria to be used in an assurance engagement. However, GRI 207: Tax (published in 2019 and publicly available) sets out reporting requirements on the topic of tax and these requirements, or criteria, are considered suitable for a consistent measurement or evaluation. An audit of the financial information included in tax transparency or total tax contribution reports can be subject to procedures through which sufficient and appropriate audit evidence can be collected that supports a conclusion with reasonable or limited assurance. Therefore, in accordance with International Standards on Auditing, the GRI 207: Tax standard can be used as a reference to provide (a level of) assurance over the financial information included in tax transparency or total tax contribution reports.

Levels of assurance

In terms of the level of assurance, an absolute level of assurance in auditing cannot be given due to the inherent limitations associated with the work of the practitioner. These limitations include the use of selective testing, the inherent limitation of internal controls, the fact that much of the evidence available to the practitioner is persuasive rather than conclusive, and the use of judgment in gathering and evaluating evidence and forming conclusions based on evidence.

The difference between limited and reasonable assurance is determined by the depth of procedures and the persuasiveness of evidence. Review procedures alone can be sufficient for limited assurance, which will result in a negatively stated opinion (“We are not aware of…”).

The scope of the audit procedures to be performed will eventually determine whether sufficient and appropriate audit evidence can be collected that supports a conclusion with reasonable or limited assurance. With regards to tax positions included in audited financial statements, by using generally accepted auditing standards, limited assurance should generally be feasible. The ability to rely on internal controls, after performance of walkthroughs of internal processes relevant to the correct and complete recording of tax data and testing of the operational effectiveness of internal controls, in addition to the performance of substantive audit procedures should determine whether the practitioner is able to collect sufficient and appropriate audit evidence that supports a, positively stated, conclusion with reasonable assurance.

Overview of audit procedures

An auditor of the financial statements of a company should be able to gain a sufficient understanding of the nature of the entity’s business, the industry the entity operates in, its tax positions and the entity’s (control) environment. By doing so, the auditor can identify the risks of material misstatements due to fraud or error. These risks also affect the nature and extent of the

audit procedures needed, so the auditor uses the information they have gained to decide which tax audit procedures to use. When relevant controls have been identified and tested satisfactorily, fewer substantive procedures may be needed than for a situation where controls around tax are deemed to be ineffective.

The audit procedures covering the financial data presented in a tax transparency or total tax contribution report include, among others:

- Identifying and assessing the risks of material misstatement of the amounts and disclosures in the report, whether due to errors or fraud;
- Designing and performing procedures responsive to the above risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for conclusion;
- Obtaining an understanding of internal controls relevant to the examination in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of determining the effectiveness of the internal control framework;
- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues, and the characteristics of entities included in the consolidation;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates with respect to judgmental areas and related disclosures prepared by management;
- Identifying further areas of the report that have a higher risk of containing misleading or unbalanced information or material misstatements, and designing and performing further procedures aimed at determining the plausibility of the evidence retrieved being responsive to this risk analysis, such as:
 - Interviewing relevant staff at corporate level responsible for tax;
 - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the tax data in the report;
 - Obtaining evidence that the information presented in the report reconciles with underlying documents and/or records of entities included in the consolidation;
 - Reviewing relevant internal and external documentation.
- Evaluating the presentation, structure and content of the report;
- Considering whether the report as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

Many of the audit procedures listed above duplicate the audit procedures performed as part of the regular (annual) audit on the tax position reflected in the GAAP (consolidated) financial report. Additional procedures need to be performed with respect to the cut-off period, as GRI 207:



Tax focuses on actual in-year tax payments instead of current tax liabilities determined on an accrual basis and deferred tax. In relation to this distinction, more detailed attention for the tax payment per country is required. For example, both the relative amount of total tax paid and the absolute amounts paid should be included. The explanation of the items reconciling tax due at statutory rate over (book) profit/loss before tax and taxes paid should be addressed. Non-income taxes, when included, need specific detailed procedures in relation to completion, timeliness and accuracy (including proper cut off). In addition, the explanation of the tax contribution per country requires specific attention.

Materiality

Both qualitative and quantitative considerations need to be taken into account when determining materiality thresholds for the audit procedures that are to be performed on the financial information included in a tax transparency or total tax contribution report. This includes determining who the report is aimed at based on the MNEs' stakeholder analysis, and the relationship between the report and other financial and non-financial reports. The auditor uses their professional judgement to determine materiality thresholds for each individual part of the tax transparency or total tax contribution report and for the report as a whole.

The materiality thresholds that are applied to the audit of the GAAP consolidated financial report can also be applied to the audit of a tax contribution report. However, it may be necessary to set materiality thresholds at a lower level, or set additional materiality thresholds for certain aspects, e.g. because specific readers may be interested in amounts reported for specific countries. To some extent, this would require an increase in the breadth and depth of the audit procedures that are to be performed.

Conclusion

Encouraged by various NGOs, stakeholders and public opinion, MNEs are increasingly making (voluntary) efforts to publicly disclose tax information, (including, but not limited to, country-by-country tax information), as part of their wider reporting on sustainability objectives and performance. When it comes to those MNEs that adopt the GRI framework for sustainability reporting, it appears that the majority decide not to apply GRI 207: Tax, as they do not consider tax to be a material topic. This contradicts the demand by society for transparent tax reporting, which was recently underlined by the formal adoption of the Public country-by-country reporting directive by the Council of the European Commission. This directive will drive forwards mandatory transparency on tax contribution. Therefore, we expect that the use of GRI 207: Tax will expand quickly in the near future.

Today, only a few MNEs voluntarily seek a form of (external) assurance on their published tax transparency or total tax contribution report. They do, however, recognise that external assurance over such reports increases credibility with stakeholders and fits within the MNE's wider commitment to be transparent on sustainability objectives and performance. It is expected that assurance requirements may be formalised in the near future. These are likely to come from the international accounting standards setter and security market regulators, or even through new EU or country law, since the EU are considering extending the existing reporting frameworks for sustainability reporting.

In our view, tax function leaders within MNEs should be prepared for the future. They need to work closely with sustainability officers and the C-suite within the organisation as we move to higher levels of transparency and assurance on tax profiles and compliance than is perhaps regarded sufficient today.



3. Tax and responsible investment

At VBDO, we believe that tax governance is an integral part of responsible investment (RI). Taxes fund society and are therefore instrumental to sustainable development worldwide. Why is tax often neglected in the responsible investment practices of investors? This is especially surprising considering that 92% of Dutch pension funds have adopted the Sustainable Development Goals in their RI policies. Only eight of those funds have formulated a stand-alone tax policy.



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VBDO

In 2021, VBDO conducted the 15th annual Benchmark on Responsible Investment by Pension Funds in the Netherlands. This year, for the first time, a tax policy question was added. We looked at three elements. The first element we deem important is the inclusion within a pension fund's responsible investment policy of fiscally responsible guidelines for asset managers. The second element focuses on how the pension fund monitors adherence and expects fiscally responsible conduct and transparency from investee companies. The third element entails how the pension fund prohibits the use of artificial tax structures that minimise taxation. Please refer to the assessment results in Figure 3 (the results in this figure are self-reported by the pension funds). In this chapter, VBDO only draws conclusions from the contents of the provided additional information during our 2021 Benchmark on Responsible Investment by Pension Funds in the Netherlands.

We've found that there has been increasing investor activity over the past few years, as tax is slowly moving into the ESG landscape and becoming an ESG metric for investors. While most pension funds do not mention tax in their policies, tax governance standards are often followed by investors, and research and initiatives are carried out on the behalf of investors. There is also increasing awareness of VBDO's Tax Transparency Benchmark (launched in 2015) and PRI engagement (2017 to 2019) as well as the more recent GRI 207: Tax standard¹⁹. Recently, Standard & Poor's (S&P) updated its global sustainability assessment methodology with tax strategy criteria, following investor demands²⁰. The criteria are based on GRI 207: Tax and include transparency on country-by-country reporting. FTSE Russell produced a UN PRI-sponsored

¹⁹ Please refer to the PRI engagement report online: <https://www.unpri.org/download?ac=10142>

²⁰ Please refer to the S&P CSA Methodology online: https://portal.csa.spglobal.com/survey/documents/CSA_2021_Methodology_Update_Tax_Strategy.pdf

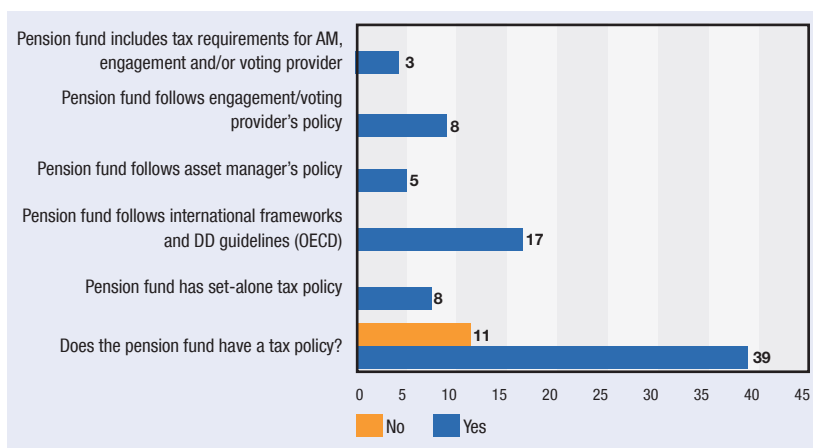


Figure 3: Results tax policy question VBDO Benchmark Responsible Investment by Pension Funds 2021

assessment of its 1,300-strong company database carried out for tax reporting purposes²¹. It found that 7% of the companies published country-by-country tax information, which is considerably lower than the Dutch figure (20%) shown in this benchmark study and far less than the percentage of companies that report to FTSE Russell on CO2 emissions (74%).

These voluntary corporate data requests could soon be followed up by legislation. The European Commission is drawing up criteria for the 'Social Taxonomy' that will be added to the EU's disclosure regime in the coming years²². In the first draft report, transparent and non-aggressive tax planning is included under good sustainable corporate governance. It contains provisions for an approach to tax and transparency that includes country-by-country reporting – one of the most essential elements in tax transparency. Economic entities will have to report on these elements if they want to offer sustainable products. Financial institutions need this information to understand if a company's revenues are sustainable. Investors can prepare investee companies by making it clear that they expect good tax governance to be incorporated in RI policies.

²¹ Please refer to the publication online: https://content.ftserussell.com/sites/default/files/global_trends_in_corporate_tax_disclosure_final_2.pdf?_ga=2.107024449.2119185862.1634737242-1303738075.1634737242

²² Please refer to the Social Taxonomy's draft report online: https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf

Results: pension fund's tax policies

According to our assessment, eight pension funds have a stand-alone tax policy. Most tax policies are kept internally, and VBDO was able to review these. The tax norm of pension funds is usually driven by reputation management and focused on non-aggressive tax planning for investments. No pension fund or asset manager reported tax-related information in their responsible investment report. Company pension funds often have a stand-alone tax policy, while others follow the asset manager's policy. Only the tax policies from ABP²³ and PGGM²⁴ specifically state their active involvement in the tax debate.

What is included in the policies

- Reputation management is often a driver for developing a tax policy;
- Pension funds prohibit tax planning for tax advantage purposes by their asset managers;
- Yet, due diligence is often only delineated for real estate and private equity investments;
- We witness a trend among pension funds to collaborate with other investors.

What is missing

- A clear definition of tax planning;
- Expectations from asset managers and a due diligence framework;
- Integration in active ownership and expectations from companies;
- A description how impact investments and investments in developing countries are structured.

Our reflection

It is important pension funds determine their tax norm and principles to fundamentally guide asset managers. We believe tax norms should be based on laws and regulation and more specifically on the spirit of the law. Pension funds should track legislative development and good tax governance initiatives and explicitly name them in the tax policy. The tax policy should then further stipulate the criteria that determine the tax behaviour of asset managers. When doing this, be as specific as possible. Pension funds should determine when not to invest in a company because of its tax behaviour, or when to prohibit asset managers from investing in specific jurisdictions. Also, pension funds should instruct the asset manager to be cautious when investing in developing countries.

Ultimately, the pension fund is responsible for the implementation of its tax policy. To this end, it is beneficial to select asset managers that are experienced in responsible taxation. In addition, be

23 Please refer to ABP's tax policy: <https://www.abp.nl/images/abp-tax-policy-and-tax-principles.pdf>

24 Please refer to PGGM's tax policy: https://www.pggm.nl/media/8d895cc39778d53/position-paper-sustainable-tax_pggm_2019.pdf

explicit on the expectations in contractual requirements. The contract should state specific Key Performance Indicators (KPIs). The pension fund can hire internal and external experts to perform due diligence on the implementation of the tax policy. For more information on how to integrate tax in responsible investment, refer to the investor guide that VBDO published with PwC NL in 2017²⁵.



²⁵ Please refer to the Investor Guide from VBDO and PwC NL online: <https://www.vbdo.nl/wp-content/uploads/2017/09/VBDOInvestorGuideIntegrationoftaxinresponsibleinvestment-1.pdf>

Active ownership

Active ownership with investee companies can be difficult when it comes to tax governance. The results from PRI's engagement working group indicate that many companies have enough leverage to not respond to engagement from investors. Companies that operate in well-known tax evading sectors (such as Meta, Amazon, Alphabet and Cisco) were among them. While most of the companies that did respond formulated clear commitments to avoid aggressive tax planning, none of the companies disclosed a country-by-country report. Therefore, it remains important for investors to use the tools at their disposal.

Our assessment of pension funds shows some pension funds, asset managers and active ownership service providers are stepping up their game when it comes to engagement and voting conduct on tax transparency. Kempen recently included a provision in its voting policy to vote in favour of shareholder proposals regarding tax transparency²⁶ and BMO mentions in its updated corporate governance guidelines²⁷: "We expect the company's board to ensure that the company's approach to tax policy is both prudent and sustainable, and to disclose to shareholders that the board is providing appropriate oversight of its tax policy. Companies should provide a suitable amount of information for investors to understand their tax practices and associated risks." Also, Pensioenfonds UWV has a tax transparency provision for its voting policy²⁸.

Figure 3 shows that most pension funds follow the OECD guidelines for multinational enterprises for their activities relating to tax governance. When pension funds have a normative active ownership approach, asset managers and other service providers are instructed to track business conduct on tax evasion. In these cases, engagement with companies on fraudulent conduct (where tax evasion may play a role) is often mentioned and, 'paying a fair share of taxes' is flagged under human rights issues by proxy voting service providers. However, when a pension fund does not have an explicit voting policy with expectations for the tax behaviour of companies and a thematic engagement approach for tax avoidance, asset managers will not act. Having a tax policy with these elements in place remains important to ensure good tax governance.

26 Please refer to the Kempen 2021 Voting Policy online: <https://www.kempen.com/asset-management/responsible-investment>

27 Please refer to the BMO Corporate Governance Guidelines (Dutch) online: <https://www.bmogam.com/uploads/2021/05/c8bd15a487b-8126baf1262e47021653a/bmo-global-asset-management-algemene-richtlijnen-corporate-governance.pdf>.

28 Please refer to the Pensioenfonds UWV Voting Policy: <https://www.uwvpensioen.nl/sites/default/files/documenten/uwv-voting-policy.pdf>



4. Methodology

The Tax Transparency Benchmark 2021 is based on the benchmark methodology for Good Tax Governance Principles designed by VBDO and Oikos in 2014²⁹. VBDO updates the benchmark methodology questions every three years. The benchmark was introduced in 2015 and revised in 2018. This is the fourth consecutive year with the same set of benchmark questions. For our 2022 assessment we are looking forward to updating the questions to align with other standards, directives and society's expectations. The measurable criteria are tested against publicly available information for the relevant financial year.

In 2018, we reviewed and thoroughly overhauled the Tax Transparency Benchmark's methodology to better reflect the latest status, trends and developments on tax transparency from the perspective of (tax) laws, regulations and societal expectations. This resulted in an adjustment of some of the criteria and the addition of new criteria. Questions that were added include those on aligning tax with business and sustainability strategies, organisational values, and (tax) technology. To give companies time to adapt, some of these criteria were applied less strictly in the 2018 benchmark. From 2019 onwards, companies were encouraged to implement the more stringent criteria in full, in order to reflect how they adapt to the changing environment and how they improve the quality of their reporting on a continuous basis.

In order to encourage companies to contribute to the ongoing debate about good tax governance and tax transparency, companies were evaluated on their current practices and were able to provide feedback on their assessed score. We are pleased to report that, 77% of the companies made use of this opportunity. This is the highest feedback score ever. We have found that companies that provide feedback tend to also rank higher on the benchmark. This would imply that these companies are more active and inclined to improve the degree of transparency with regard to their tax approach, which we find very encouraging.

Quick facts

77 companies

30 criteria worth 35 points in total

77% feedback response rate

29 VBDO & Oikos (2014), Good Tax Governance in Transition, Transcending the tax debate to CSR.

Scope

The 2021 benchmark included 77 companies. The full list can be found in the overall ranking section on pages six to eight. The scope of the benchmark focused on companies listed in The Netherlands (AEX, AMX and AScX) and also included two of their non-listed peers³⁰. The list of companies differs from the 2020 benchmark due to the fact that some companies entered or left the AEX, AMX or AScX in 2021.

Criteria

The Tax Transparency Benchmark is based on the guiding Good Tax Governance Principles designed by VBDO and Oikos³¹ that were created to help create a common language on what good tax governance looks like. The Good Tax Governance Principles are as follows:

- A. Define and communicate a clear tax strategy;
- B. Tax must be aligned with the business and is not a profit centre by itself;
- C. Respect the spirit of the law. Tax-compliant behaviour is the norm;
- D. Know and manage tax risks;
- E. Monitor and test tax controls;
- F. Provide tax assurance.

Each principle is separated into various elements and converted into measurable criteria. Appendix B provides a comprehensive list of these measurable criteria. The standard maximum number of points awarded for each criterion is one point. However, for the questions on country-by-country reporting, monitoring the implementation and execution of the tax strategy, and tax assurance, either a partial point or a maximum of two points can be allocated.

Approach

In order to be able to test all the criteria of the Tax Transparency Benchmark, the companies' annual reports were reviewed together with other relevant and publicly available documents (e.g. the tax strategy, the sustainability report, a transparency report, governance documents, strategy documents and so on). For each company in the benchmark, the scores were aggregated and subsequently returned to the company to allow it to feedback. Where applicable, the feedback from the companies was incorporated in the results. To make the results as measurable and comparable as possible, a strict definition of the criteria was used.

³⁰ Two of the participating companies are non-listed (financials) and part of VBDO's network. These companies are Achmea and Rabobank.

³¹ VBDO & Oikos (2014), Good Tax Governance in Transition, Transcending the tax debate to CSR.

As in previous years, following the results of our study a top 9 of best performing companies was selected. In order to be able to reach an independent verdict on the Tax Transparency Benchmark, an expert jury was appointed by VBDO to weigh the results, assess the validity of the results and determine a winner. See Appendix A for the jury report.

Jury

Appointed by VBDO, the expert jury consisted of six honourable members acting in a personal capacity. All of them are experts in the fields of good tax governance and tax transparency but they come from different backgrounds:

- Klaas Bangma, Economic Policy Advisor with FNV;
- Irene Burgers, Professor of Economics of Taxation and Professor of International Tax Law at Groningen University;
- Michiel van Esch, Active Ownership Specialist at Robeco;
- Hans Gribnau, Professor of Tax Law at Tilburg University and Leiden University; and
- Anna Gunn, Tax researcher and blogger, Leiden University and Artikel 104.





5. Results

In this section, we present the results of the 2021 benchmarking exercise, and we take stock of the developments on tax transparency and good tax governance over the last four years. The overall results show that, on average, Dutch stock-listed companies have become more transparent in their tax reporting. The overall transparency rating on our six Good Tax Governance Principles increased from 46% to 50%. We are pleased to see this positive trend, especially since we started out with an average score of just 25% in 2015 (as can be seen in Figure 4).

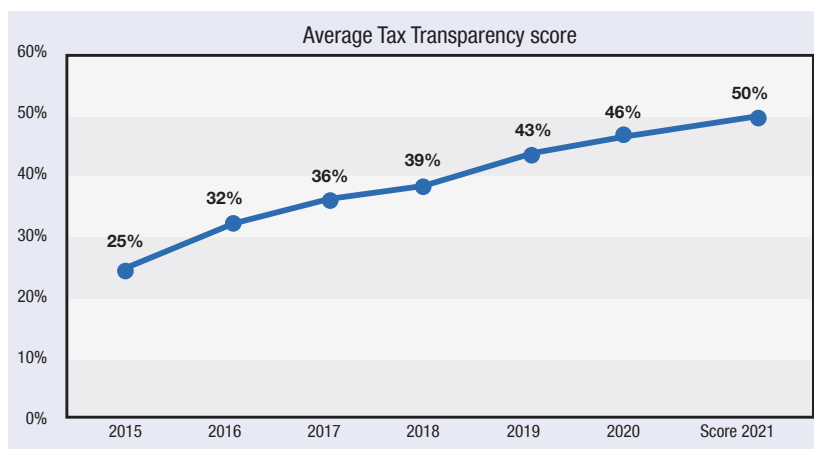


Figure 4: Scoring trend 2015-2021

This is the first year that the average score has reached 50%. It has increased by 4 percentage points in just one year. Again, we have seen many individual companies improving their tax transparency and increasing their scores. The 20 highest scoring companies all increased their scores and appear to be eager to improve further on tax transparency and governance. The tax strategy and reporting documents of these frontrunners are intended to provide essential information to stakeholders. Nonetheless, there are 34 companies (of 77) with an overall score below 50% and 20 companies that score lower than the minimum base line of 10 points. One positive development is that just two AEX-listed companies scored less than 30%. Last year, five AEX-listed companies were in that group.

The number of companies that scored below the minimum base line (fewer than 10 points) has also decreased: from 30% of the participating companies in 2020 to 26% in 2021. Out of these lower scoring companies, 10% are AEX-listed, 25% are AMX-listed and 65% are AScX-listed. Of the companies scoring above minimum points, 37% are AEX-listed, 33% are AMX-listed, 26% are AScX-listed and 4% are non-listed. In Figure 5, the average scores per index are displayed.

Index	AEX	AMX	AScX
Average score (in points) (max. 35 points)	23	18	12

Figure 5: Average scores per Dutch index group

The scores that have improved most since 2020 relate to those questions that encompass the implementation of the tax strategy and the effective tax rate. We have observed more companies communicating to stakeholders how the tax strategy is monitored (32% in 2020, 48% in 2021) and more companies providing a narrative description of the effective tax rate to statutory tax rate reconciliation (70% in 2020, 82% in 2021). In 2021, one in five companies published tax-related information on a country-by-country basis and six implemented the GRI 207: Tax standard. These are results we are proud to report.

In addition, it is encouraging that more companies are responding to our assessments and providing feedback on their company profiles. The response rate has increased from 69% to 77% and many discussions relating to tax transparency followed, indicating a growing interest in this topic from both sustainability and tax professionals from stock-listed companies in the Netherlands.

Results per company

The distinguished members of the Tax Transparency Benchmark expert independent jury took a closer look at the top nine companies that scored highest in the Tax Transparency Benchmark 2021.

Winner

The jury selected the winner from amongst these nine nominees (NN Group, Philips, Aegon, KPN, Randstad, a.s.r., DSM, Signify and Shell) based on the following criteria:

- Total points scored and analysis performed by VBDO;
- Depth of the tax strategy, i.e. explaining matters rather than just giving an overview;
- Sector of operation and the presence of a mandatory legal framework;
- Absence of known controversies relating to tax and tax transparency;
- The clarity of the implementation and execution of tax strategies.

The jury congratulates **NN Group** on winning the 2021 Tax Transparency Award and Philips on its honourable mention.

NN Group is, for the third consecutive year, the top-scoring company in the Tax Transparency Benchmark. NN Group was able to demonstrate that it proactively seeks to act in a responsible and transparent way regarding its taxation. NN Group has embarked on a clear and very extensive tax strategy, which resulted in a high score of 32 points. Despite the more stringent assessment, NN Group scored the same number of points as in 2020. The Group's tax charter includes a tax control framework containing a detailed description of how the implementation and execution of the tax strategy is monitored. In addition, NN Group provides an extensive tax risks analysis and describes control factors per risk.

NN Group published a total tax contribution report, which features country-by-country information on FTEs, total assets, profit before tax and taxation. When reporting on its tax position, NN Group is guided by and complies with the GRI 207: Tax standard. Finally, it provides third-party assurance to stakeholders on its total tax contribution report. There were no controversies found by the jury regarding the tax behaviour of NN Group. In summary, NN Group shows it transparently reports on all Good Tax Governance Principles.

Philips is the second top-scoring company in the Tax Transparency Benchmark 2021. The jury would like to honourably mention Philips and compliment the company, both for the huge progress it has made and for the quality of its tax strategy reporting. For the first time, Philips published a Country Activity and Tax Report in 2021, providing an extensive country-by-country overview on key financials, FTEs and different taxes paid, as well as a narrative linking Philips' business and activities to taxation. This resulted in a score of 31 points, compared to 23 points in 2020. All-in-all, Philips displays great fiscal transparency in its reporting.

Appendix A provides an overview of the jury's considerations on the results of the Tax Transparency Benchmark 2021.

Main findings of the Tax Transparency Benchmark 2021

This section provides a quantitative and qualitative explanation of the outcomes of the Tax Transparency Benchmark 2021. The benchmark methodology has remained relatively similar since 2018; therefore, in many cases we are able to compare scores from 2018 or 2019 onwards. However, during this year's evaluation, our interpretation of a (limited) number of questions changed, as highlighted in the following section. The following pages cover the overall and most significant results of our benchmark study.

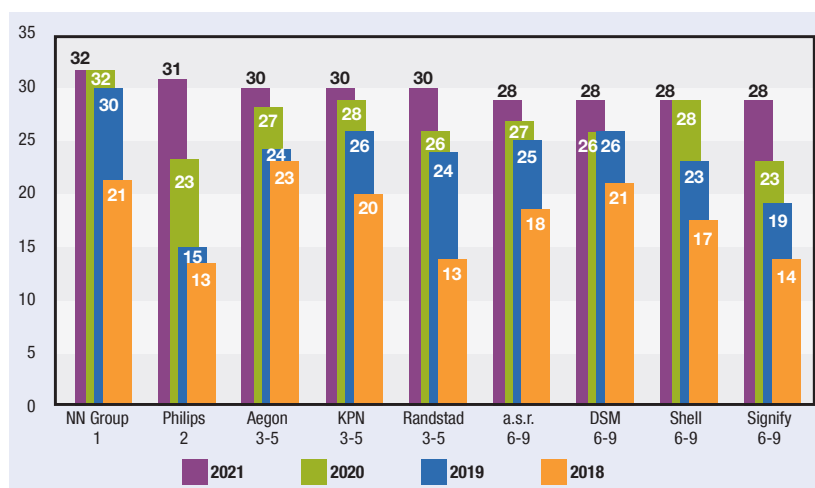


Figure 6: Scores achieved by the top nine companies, 2018-2021

Result per principle

A. Define and communicate a clear tax strategy

An appropriate tax strategy is accessible and clearly communicated (transparent). It contains the company's vision and objectives regarding taxation. It is aligned with the organisational values, the business strategy and the sustainability strategy. It takes stakeholders' interests into consideration, explains the company's view on its relationship with the tax authorities and describes its vision and the role of technology.

Top scorers

20 companies scored the maximum number of points for the first principle, compared to 12 companies in 2020. The 20 companies that best defined and communicated their tax strategy in a clear manner were ABN AMRO, a.s.r., Aegon, AMG, Arcadis, DSM, GrandVision, IMCD, Intertrust, KPN, Nedap, NN Group, Philips, Rabobank, RELX GROUP GROUP, Shell, Signify, Van Lanschot Kempen, Vopak and Wereldhave.

Top scorers

20 companies scored the maximum number of points for the first principle, compared to 12 companies in 2020. The 20 companies that best defined and communicated their tax strategy in a clear manner were ABN AMRO, a.s.r., Aegon, AMG, Arcadis, DSM, GrandVision, IMCD, Intertrust, KPN, Nedap, NN Group, Philips, Rabobank, RELX GROUP, Shell, Signify, Van Lanschot Kempen, Vopak and Wereldhave.

Main results

- Companies scored highest on this principle;
- 84% of the companies communicated their views on tax via a tax strategy or policy;
- 64% of the companies reported how the tax strategy is aligned with the organisational values, a significant increase on previous years (2019: 45%; 2020: 55%);
- More companies (57%) explicitly communicated to stakeholders that the tax strategy had been signed off by the executive board, compared to 48% in 2020;
- We observe a stagnation of companies confirming that they have discussed the tax strategy with stakeholders (38% in 2021). The percentage of companies committing to this has remained similar over the years (the percentage was 36% in 2020 and 43% in 2019);
- Importantly, companies increasingly describe how their sustainability strategy is taken into account in the company's approach to tax, from 47% in 2020 to 62% in 2021.
- The most consistent increase over the years relates to the number of companies that describe their vision on the role of technology within the tax strategy/policy: 7% in 2018, 23% in 2019, 34% in 2020 and 51% in 2021.

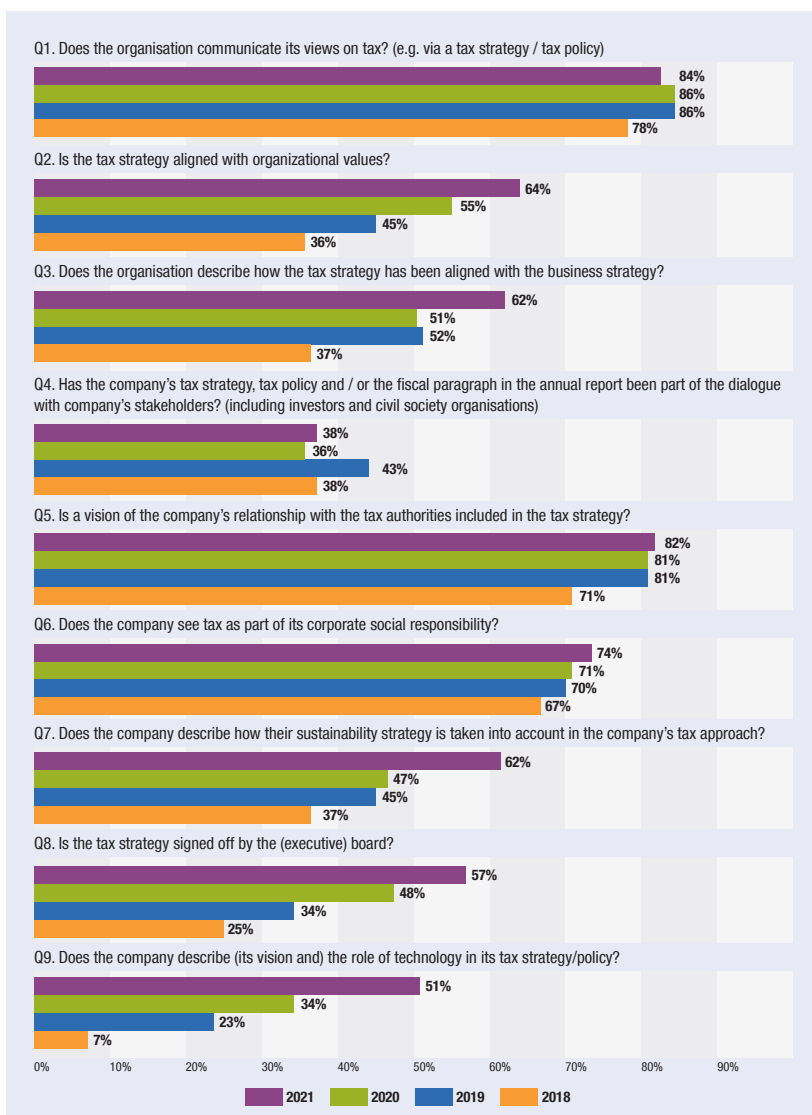


Figure 7: Scores on Principle A

The average score for Principle A has increased from 56% (2020) to 63% (2021). An important element, and in many cases the first step towards tax transparency taken by companies, is stating the company's view on tax in its annual report, tax strategy or a policy document. This year, 84% of the companies in scope communicated their views, compared to 86% in 2020. In order for stakeholders to ascertain that the tax strategy is embedded within the company right up to the top, it is important that the tax strategy or policy documents are explicitly signed off by the board. In 2018, only 25% of companies did this; this number has grown considerably and we're now seeing 57% take this important governance step. This is a clear sign that transparency and responsibility regarding tax is becoming a material topic for stock-listed companies in the Netherlands.

While most companies explicitly state their vision of the company's relationship with tax authorities to stakeholders (82%) and that tax is part of corporate social responsibility (74%), fewer describe how the tax strategy aligns with the organisational values (64%), the business strategy (62%) and the sustainability strategy (62%). We consider it important for companies to communicate that the tax strategy derives from the company's core principles and that the tax strategy is aligned with the organisational values, the business strategy and the sustainability strategy. By disclosing this explicitly, the company demonstrates to its stakeholders that the culture of the company is also firmly embedded in its approach to tax.

A tax strategy is only properly established when it aligns with stakeholder interests. While we see a small increase (one additional company) in the number of companies that discuss their tax strategy with stakeholders, very little progress has been made over the years in this area. 38% of the companies discuss their tax strategy with stakeholders, which is identical to the 2018 figure (2020:36% and 2019:43%).

B. Tax must be aligned with the business and is not a profit centre in itself

Tax should not be seen as an isolated business component but as an integral part of the company and as part of the broader business strategy. As such, tax should not be the exclusive domain of the tax department. In principle, a company should declare profits and pay taxes where it conducts business activities and should be transparent on how this is done.

Top scorers

Aegon and a.s.r. – both companies scored the maximum eight points

Results

- 81% of the companies stated that 'the business is leading' when setting up international taxation structures;
- 75% communicated that they do not make use of tax havens, compared to 69% in 2020;
- Again, almost all companies (94%) provide a reconciliation between the effective tax rate and the weighted average statutory tax rate;
- The percentage of companies that provide a narrative description for the ETR reconciliation table has more than tripled from 26% in 2018 to 82% in 2021. We have observed a 12% points increase from 2020 to 2021;
- More companies (20% in 2021, 13% in 2020) provide full disclosure of country-by-country based tax information, but fewer companies provide partial disclosure (10% in 2021, 23% in 2020).

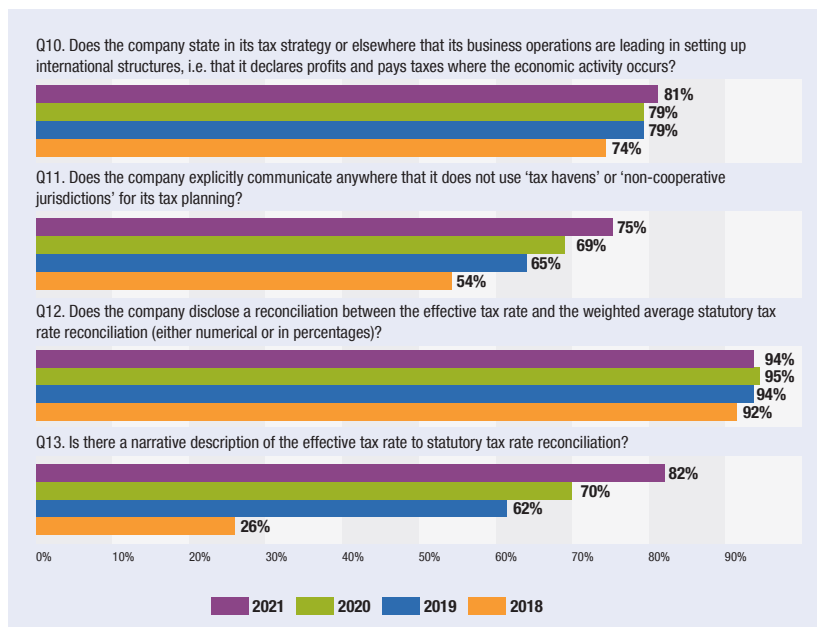


Figure 8: Scores on Principle B

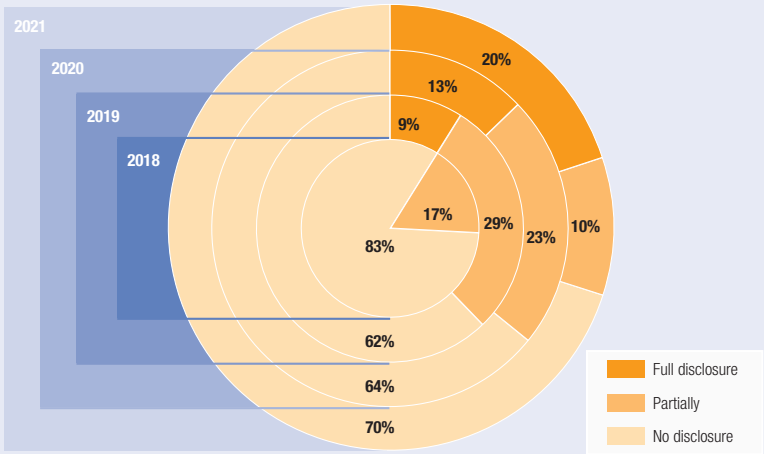
Almost all companies (94%) provide a reconciliation between the effective tax rate and the weighted average statutory tax rate. This number has been steady for a couple of years. But it is not enough for companies to only include the data; those figures should be explained, since disclosing an ETR tax rate reconciliation is an accounting requirement. A reconciliation table does not provide enough detail for stakeholders to properly assess any disparities in the build-up of corporate income tax. Therefore, we are pleased to see a considerable improvement since 2018 in the amount of companies that provide a narrative to corresponding tax information. The number of companies that do this has more than tripled from 26% in 2018 to 82% in 2021. This year, we have observed a 12% increase.

The average number of companies that do not disclose country-by-country based tax information increased from 64% in 2020 to 70% in 2021. However, it is encouraging that more companies (20% compared to 13% in 2019) have fully disclosed information on corporate income tax, accumulated earnings, assets and FTEs for the jurisdictions they operate in. Partial disclosure of this information was carried out by 10% of the companies in scope.

The percentage of companies reporting country-by-country information related to other taxes (direct taxes, government payments, VAT, wage taxes, etc.) also dropped, from 23% in 2020 to 13% in 2021. Full disclosure of all other taxes decreased from 5% in 2020, to 3% in 2021.

A side note to these results is that we have become stricter in our assessment of this question. We expect companies to follow the formats provided by the OECD or GRI in reporting tax-related information on a country-by-country basis. The number of companies that do conduct country-by-country reporting is growing, but often an individual interpretation of formats is used. Having uniformity in tax reporting is important. Therefore, companies are advised to look at the frameworks provided by the OECD and GRI to report tax-related information.

Q14. Does the company provide information like current corporate income tax payments, accrued corporate income tax, profit before income tax, accumulated earnings and FTE's on a country-by-country basis? (In case the company is domiciled in only one jurisdiction, this question refers to this jurisdiction).



Q15. Does the company provide on a per country basis information on its taxes paid (direct taxes and other taxes like VAT, wage taxes, etc), government payments, and government subsidies? (In case the company is domiciled in only one jurisdiction, this question refers to this jurisdiction).

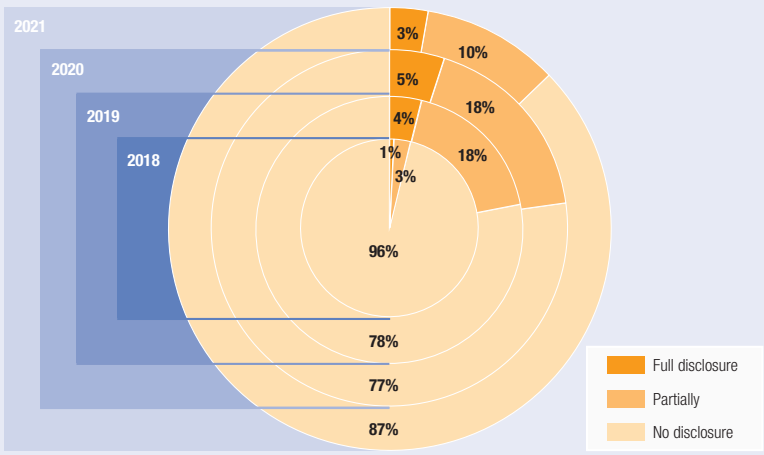


Figure 9 & 10: Average scores on country-by-country tax information 2018-2021

C. Respect the spirit of the law. Tax-compliant behaviour is the norm

A company should aim to comply with the spirit as well as the letter of the law. This means that the intention of the legislator is also used as a guiding principle for the company to ensure tax-compliant behaviour. By definition, the spirit of the law can be open to interpretation. Therefore, discussions are required with internal stakeholders, including tax, legal, compliance and CSR officers, as well as external stakeholders, such as investors, government officials, tax authorities and civil society organisations. Being compliant with tax laws and regulations, statutory financial obligations and international accounting standards is the core responsibility of the tax function.

Top scorers

a.s.r., Aegon, Ahold Delhaize, AMG, Eurocommercial Properties, ForFarmers, JDE Peet's, KPN, Nedap, NN Group, Randstad, SBM Offshore, Shell, Signify, TomTom, Unilever, Vopak and Wereldhave – All scored the maximum three points.

Results

- 70% of the companies explicitly stated that their tax planning strategy takes the spirit of the law into account, compared to 60% in 2020;
- The number of companies that state they have a training programme for tax, legal and compliance officers in place on how to deal with tax issues and dilemmas is now 47%. This has increased for four years, each year by, on average, 9%;
- 40% stated that they have a whistleblower policy in place that refers explicitly to tax, compared to 25% in 2020.

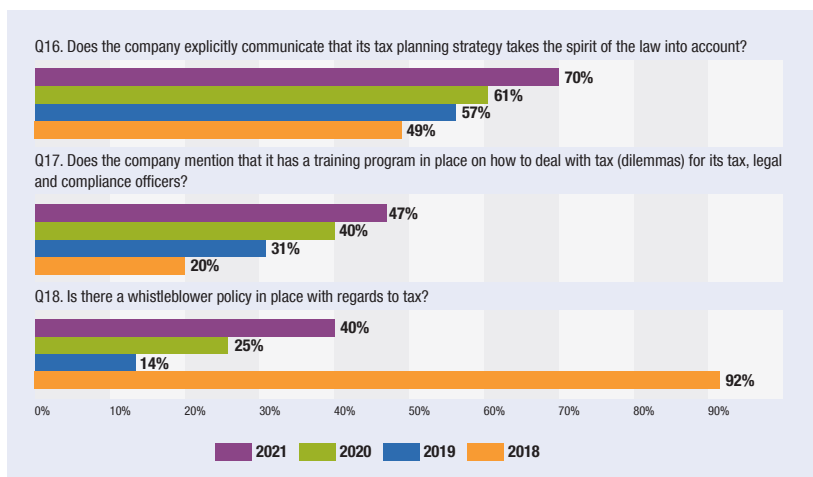


Figure 11: Scores on Principle C

One important point to note is the fact that most (70%) companies explicitly state that their tax planning takes into account the spirit of the law. Over the past years, we have seen a trend that each year companies join the group that make this statement. Another important element of a company's tax-compliant behaviour is knowledge-building. Training should make it easier for employees to deal with tax dilemmas. Companies should provide training that ensures tax issues are dealt with in accordance with the company's organisational values. They should also support employees to determine how to apply the 'spirit' of the law in specific circumstances. Again, we have seen the number of companies that provide such training programmes increase to almost half (47%) of the companies in 2021. This percentage has more than doubled since 2018, when only 20% provided such training. Not only do these training programmes update knowledge internally, they also create value for external stakeholders (e.g. investors) as they provide certainty that relevant individuals are adequately trained to address tax risks.

If an employee or other stakeholder has a tax-related concern, it is important that they know grievance mechanisms exist. Many companies do not list tax as a specific issue in their whistleblower policy. Therefore, since 2019, we have been looking for an explicit reference to the whistleblower policy in the tax policy. Last year, 25% of the companies reported in the tax policy that they had whistleblower policy in place. This year, the results increased to 40%.

D. Know and manage tax risks

Tax risk management is a proactive process that is demonstrably embedded within the risk management and internal control function of the company.

Top scorers

Ahold Delhaize, AMG, ASML, DSM, ForFarmers, ING Group, KPN, Nedap, NN Group, OCI, Philips, Randstad, Van Lanschot Kempen, Vopak and Wereldhave – All scored the maximum six points

Results

- 15 companies scored the maximum number of points on this principle in 2021, compared to nine in 2020;
- 60% described their tax risk appetite to stakeholders;
- 75% of the companies reported any tax risks and 53% described risks in detail;
- 52% gave a commentary on the company's response to these risks;
- 62% of the companies provided their vision on rulings with tax authorities to stakeholders;
- 40% described the role for tax relevant data management.



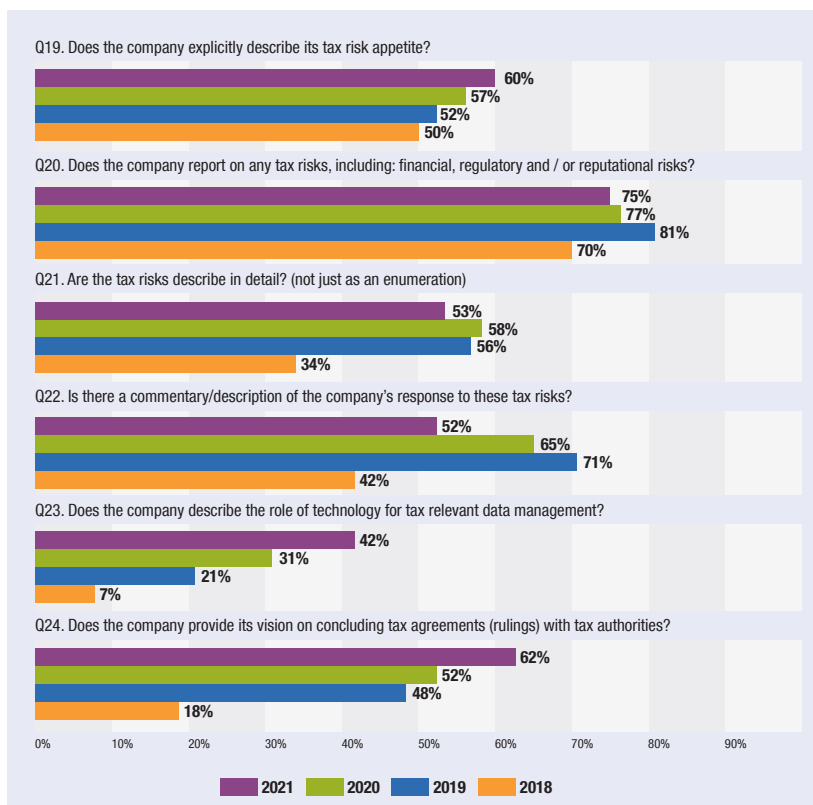


Figure 12: Scores on Principle D

We have observed a major increase in the number of companies that scored the maximum number of points for this principle (15 in 2021, compared to nine in 2020). These frontrunner companies report on more types of tax risks and also describe those risks in more detail. Overall, this year more companies (60%, compared to 57% in 2020) explicitly describe their tax risk appetite and more than half (62%) provide a vision on concluding rulings with tax authorities. We find fewer companies reporting on any tax risks, down from 77% in 2020 to 75% in 2021. In addition, we observe fewer companies describing their tax risks in detail, down from 58% in 2020 to 53% in 2021. Even fewer companies provided a commentary of their response to these risks (65% in 2020, 52% in 2021). Although three-quarters of all companies report on any tax risks, there does remain a large discrepancy between simply mentioning a tax risk and

actually providing a detailed description or commenting on the company's response. On all three questions for this principle relating to tax risks, we see a lower percentage of companies scoring compared to last year.

This decline can be at least partially explained by our more stringent rules around point scoring for the questions around tax risks and tax-related information. We expect companies to provide material information on tax risk management that is comprehensive and provides value for stakeholders. Moreover, this information should be specific and apply to concrete cases. Companies can improve by including an evaluation of their response to managing the tax risks they have identified in the annual report. In this way, the risk paragraph is not simply a tick-the-box exercise; it provides meaningful disclosure to stakeholders.

One positive development is the amount of companies reporting they are open and transparent about concluding tax rulings, which has increased by 10 percentage points, from 52% in 2020 to 62% in 2021. In 2018, this number was only 18%. Another important development since 2018 is the application of tax technology solutions. In 2021, 40% of the companies now report on the role of tax technology for tax relevant data management. While this has increased from only 7% in 2018, there is room for further improvement. We believe that companies benefit from tax technology solutions, especially when they disclose relevant country-by-country data to stakeholders.

E. Monitor and test tax controls

It is important that a company has a standardised approach to monitoring and testing controls. This allows for the monitoring of the proper execution of its tax strategy on the one hand and substantiating that the organisation is in control of tax matters on the other.

Due to the increased public scrutiny and intensified debate on tax in recent years, the boardroom's interest in tax risk management grows each year. Identifying risks by means of monitoring and testing activities, and reporting and managing tax risks are now considered part of properly embedding tax risk management in the organisation.

Top scorers

Aegon, AMG, Arcadis, a.s.r., DSM, Flow Traders, ForFarmers, GrandVision, Heineken, ING Group, Just Eat Takeaway.com, KPN, Nedap, NN Group, Philips, PostNL, Rabobank, Randstad, RELX Group, Royal Boskalis Westminster, Shell, Signify, TKH Group, TomTom, Uni-bail-Rodamco-Westfield, Unilever, Vastned, Vopak, Wereldhave, Wolters Kluwer – All scored the maximum four points

Results

- 48% of the companies described to stakeholders how the implementation and execution of the tax strategy is monitored;
- 61% of the companies described to stakeholders how tax risks and controls are tested and monitored;
- 66% of the companies stated that tax risk management is reported to the audit committee.

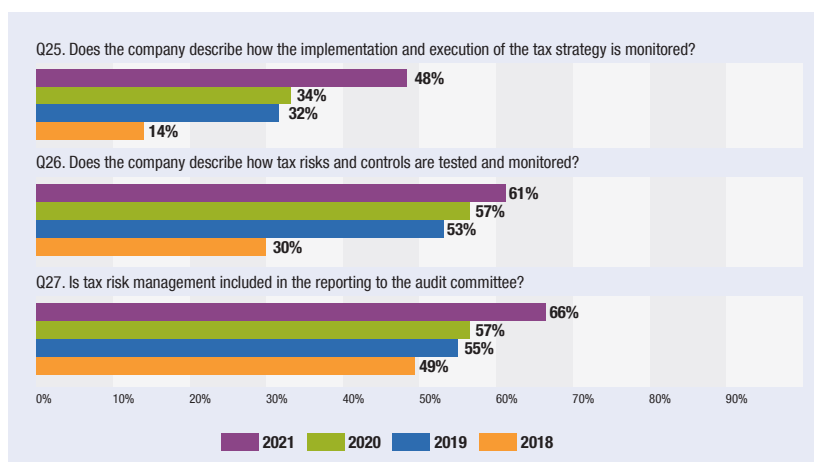


Figure 13: Scores on Principle E

One important element of proper tax reporting is sharing with stakeholders exactly how the tax strategy is implemented rather than just telling them that it has been. In order to be transparent about the monitoring and testing processes that a company has designed, a narrative should be provided that shows the implementation of the tax strategy. This year, we have seen a huge leap in the scores on Principle E. Overall, companies scored 58% of the total points, compared to 49% in 2020.

Companies have performed better on all three questions, particularly the one about describing how the implementation of the tax strategy is monitored. This is traditionally the criterion that scores lowest. This year, companies have been better at painting stakeholders a picture of how every element of the tax strategy is executed, rather than just briefly covering tax risk management. Companies should design a process to monitor whether material business is conducted according to their tax principles. We are very happy to report that almost half of the companies in scope now do this properly.

One other important element in tax strategy execution is reporting how internal auditors and supervisors of the companies are updated on tax risk management. We are pleased to report that more companies (66%) now explicitly report how the audit committee is engaged in reviewing tax risks, rather than just stating that the audit committee has been consulted throughout the year. We believe fiscal activities within a company can greatly benefit from active involvement of the supervisory board. In this way, supervisors are kept up to date on relevant tax information. At the same time, staff whose roles involve tax matters should be challenged to show that they adhere to the existing tax principles and implement tax controls.

F. Provide tax assurance

Companies should be prepared to provide additional tax information to regulators, tax authorities and other stakeholders to provide for a certain level of assurance regarding tax data and processes. This tax assurance should be based on the implementation and outcome of the five aforementioned principles. One way to create more certainty is through a tax in-control statement. Preferably, this tax in-control statement will be explicitly mentioned and disclosed in the tax paragraph of the annual report. Ideally, the company should provide its own tax in-control statement, in which it declares to what extent the processes and operations worked and were in control. In addition, assurance can also be provided by a third party. Third-party tax assurance gives stakeholders certainty about the performance of the tax processes.

Top scorers

Adyen, ING Group, NN Group, Philips and Randstad – Scored three out of five points

Results

- NN Group, Philips and Randstad are the only companies that provide third-party tax assurance;
- Adyen and ING Group mentioned the existence of a tax in-control statement;
- 49% of the companies participated in a co-operative compliance programme.

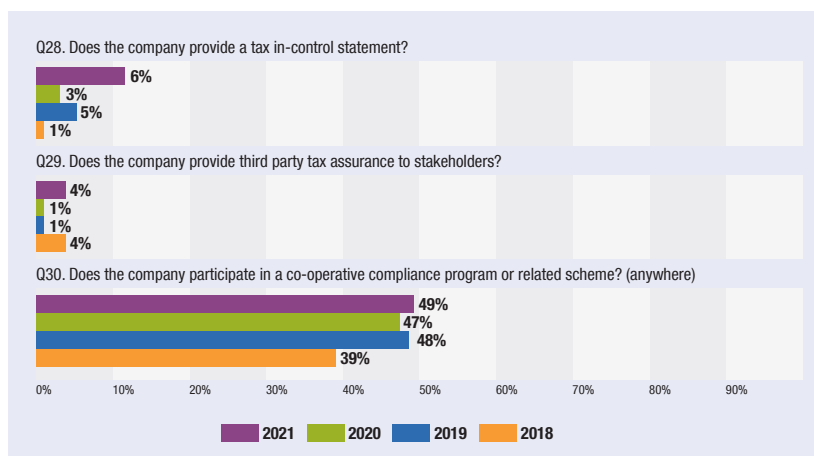


Figure 14: Scores on Principle F

There is a beacon of hope regarding the reporting on Principle F, which has traditionally scored poorly over the seven years we have executed this benchmark. We are seeing gradual improvement and this year, companies have achieved a higher overall score than ever before: 20% compared to 17% in 2020. We believe the recent adoption of the GRI 207: Tax standard by companies provides a push towards tax assurance and tax reporting. Three companies have implemented the GRI standard and by referring to this framework, external auditors have been able to provide the necessary assurance to stakeholders. In Chapter 2, Gerard Beaufort and Ed Capel from EY detail how the GRI 207: Tax standard can be used as a reference for providing limited assurance on companies' tax reports.

According to our assessment, it is no coincidence that the companies that have implemented GRI also have this information audited by an external party. The standard provides both companies and auditors with the necessary instruments for assurance. One of the most important features of the GRI standard is its requirement for companies to disclose a reconciliation between the country-by-country tax information and the financial statements³². NN Group, Philips and Randstad have had this reconciliation assured, showcasing that this is a requirement companies should follow in order to adhere to the GRI 207: Tax standard.

³² Please refer to the GRI 207: Tax standard. Page 10. Retrieved from: <https://www.globalreporting.org/standards/media/2482/gri-207-tax-2019.pdf>

6. Recommendations

The results of this year's benchmark show that, overall, companies have once again demonstrated progress on tax transparency. However, there still remains room for further improvement in several areas. Based on the results of the Tax Transparency Benchmark 2021 and the expert jury meeting, recommendations for further improvement for different parties are outlined below.

To companies

- Ensure you keep abreast of all relevant developments regarding the transparent reporting of tax and continue to adapt your policies (including the sustainability strategy) and practices to align with these new standards;
- Improve the quality of your dialogue with internal and external stakeholders to further develop your tax communication approach and help rebuild trust in taxation;
- Provide further narrative about tax processes to move from a 'tell me' stance to a 'show me' one;
- Continue to elaborate on the tax risk management process, and include a description of the company's tax risks, risk appetite and risk response in public information;
- Provide a comprehensive narrative to the ETR reconciliation table that clearly explains the numerical calculation from the statutory to effective tax rate;
- Provide country-by-country reporting data and seek to improve the quality and the remit of this data. Align with the GRI 207: Tax standard and the CbCR directive from the European Commission. Disclose on a country-by-country basis, not per region;
- Employ and continuously improve a monitoring system for the implementation and execution of your tax strategy, and actively involve the supervisory board in this process;
- Provide assurance, ideally both an in-control statement and third-party tax assurance, on your tax strategy. An in-control statement should be provided by your internal audit department (or the department responsible for governance) and signed off by the management board;
- Implement the tax strategy and show how it is implemented on paper; do not use this Tax Transparency Benchmark to merely 'tick boxes'.

To lawmakers, regulators and tax authorities

- Proper legislation underpins enhanced tax transparency. Assist companies to develop a clear strategic vision on tax transparency and governance, by passing appropriate laws and strict good tax governance standards that apply to all companies;
- Actively promote the use of internationally accepted standards to provide multinational companies with comparable or common governance, reporting and audit standards to work with across borders;
- Ensure clear guidance on rules and regulations for cooperative compliance programmes to stimulate voluntary compliance;
- Increase the transparency of compliance management strategies and tax accountability to help rebuild trust in taxation.

To NGOs

- Engage in open and constructive dialogues with companies and focus on encouraging them to change. Differentiate how you approach high and low performers on tax transparency and good tax governance;
- Share best practices with companies on what you consider responsible and transparent corporate tax behaviour;
- Do not only focus your efforts on multinationals and tax advisors but also on tax administrations and investors;
- Enter into structured dialogues with governments to promote transparency.

To tax advisory firms

- Ensure employees have the proper technical, governance and digital tax expertise;
- See tax in a broader Environmental, Social and Governance (ESG) context, i.e. not only from a legal or financial perspective;
- Promote responsible tax behaviour and support companies' tax transparency initiatives;
- Dare to have a robust dialogue on this topic with all stakeholders;
- Introduce and apply an internal code of conduct for tax advice;
- Ensure each tax advisor is familiar with the client's sustainability and business strategy.

To investors

- Design and implement a tax code of conduct that applies to:
 - your own organisation;
 - how you structure your investments;
 - your investments;
 - the parties you collaborate with.
- Integrate tax in the valuation of investee companies by including it in investment and ESG policies;
- Be transparent on the tax strategy of your own organisation and what you expect from investments and the parties you collaborate with;
- Enter into a dialogue with portfolio companies on responsible and transparent tax behaviour;
- Don't just test investments at the moment of investment, but also monitor adherence to your criteria or expectations during the lifecycle of the investment;
- Support initiatives to develop common standards for tax reporting to enhance (global) comparability.

To universities

- Introduce a modernised curriculum for tax-related courses in order to meet the market's demand for skilled tax professionals who can drive forward tax transparency;
- Introduce relevant tax topics in economics, business management and mathematics courses, and in the social and political sciences;
- Better communicate with society. i.e. in less technical language.



Appendices



Appendix A

Jury report 2021

Jury members

Appointed by VBDO, the jury consisted of five distinguished members acting in a personal capacity, who are all experts in the field of good tax governance and come from various backgrounds:

- Klaas Bangma, Economic Policy Advisor with FNV;
- Irene Burgers, Professor of Economics of Taxation and Professor of International Tax Law at Groningen University;
- Michiel van Esch, Active Ownership Specialist at Robeco;
- Hans Gribnau, Professor of Tax Law at Tilburg University and Leiden University; and
- Anna Gunn, Tax researcher and blogger, Leiden University and Artikel 104.

Nominees

The jury discussed the process and execution of the benchmark as a whole. In addition, the data pertaining to the top 9 performing companies (NN Group, Philips, Aegon, KPN, Randstad, a.s.r., DSM, Signify and Shell) was analysed. The winner of the Tax Transparency Award 2021 was selected from this group of nominees.

Winner

The jury selected the winner based on the following criteria:

- Total points scored and analysis performed by VBDO;
- Depth of the tax strategy, i.e. explaining matters rather than just giving an overview;
- Sector of operation and the presence of a mandatory legal framework;
- Absence of controversies relating to tax and tax transparency; and
- The clarity of the implementation and execution of tax strategies.

The decision was unanimous and the jury would like to congratulate NN Group on winning the Tax Transparency Award for the third year in a row. This year, given the minor differences in the top of the ranking, the jury sees reason to honourably mention Philips both for the huge progress it has made and for the quality of its taxation reporting.

Winner

NN Group is, for the third consecutive year, the top-scoring company in the Tax Transparency Benchmark. NN Group was able to demonstrate that it proactively seeks to act in a responsible and transparent way regarding its taxation. NN Group has embarked on a clear and very extensive tax strategy, which resulted in a high score of 32 points. Despite the more stringent assessment, NN Group scored the same number of points as in 2020. The Group's tax charter includes a tax control framework containing a detailed description of how the implementation and execution of the tax strategy is monitored. In addition, NN Group provides an extensive tax risks analysis and describes control factors per risk.

NN Group published a total tax contribution report, which features country-by-country information on FTEs, total assets, profit before tax and taxation. When reporting on its tax position, NN Group is guided by and complies with the GRI 207: Tax standard. Finally, it provides third-party assurance to stakeholders on its total tax contribution report. There were no controversies found by the jury regarding the tax behaviour of NN Group. In summary, NN Group shows it transparently reports on all Good Tax Governance Principles.

Honourable mention

Philips is the second top-scoring company in the Tax Transparency Benchmark 2021. The jury would like to honourably mention Philips and compliment the company, both for the huge progress it has made and for the quality of its tax strategy reporting. For the first time, Philips published a Country Activity and Tax Report in 2021, providing an extensive country-by-country overview on key financials, FTEs and different taxes paid, as well as a narrative linking Philips' business and activities to taxation. This resulted in a score of 31 points, compared to 23 points in 2020. All-in-all, Philips displays great fiscal transparency in its reporting.

Good practices

It was not only NN Group and Philips that received praise from the jury members; during the jury meeting several good practices from other companies were discussed. The jury complimented Randstad and Shell on the progress that has been made in their country-by-country reporting. DSM was complimented on its comprehensive tax strategy and the implementation of the GRI 207: Tax standard. In addition, the jury praised KPN for explicitly taking the spirit of the law into account in its tax reporting and its future-looking approach. Aegon and a.s.r. were mentioned for including proper tax incentives in the company's Key Performance Indicators (KPIs) and demonstrating that tax is an integrated part of their corporate purpose and values. The jury also congratulates Adyen as the highest improver in this year's benchmark, with a score of 26 points compared to nine points in 2020.

Finally, JDE Peet's was praised for scoring 23 points as a first timer in the Tax Transparency Benchmark.

Recommendations from the jury

The overall verdict on this 2021 edition of the benchmark is that companies are again more fiscally transparent than before. The jury specifically compliments companies on their impressive progress in country-by-country reporting and GRI compliance. Nevertheless, there remains considerable room for improvement. In this regard, the jury notes:

- A distinct difference remains between the companies that publish the bare facts in their tax report (i.e. 'tell me') and companies that report on their tax governance in more detail using concrete and relevant examples (i.e. 'show me'). According to the jury, this raises questions on the driving force and reasons behind providing more tax transparency: is it predominantly a tool for risk and reputation management or a goal in itself and an intrinsic motivator to engage in meaningful stakeholder dialogue?;
- The jury expects companies to include tax issues relating to ESG issues in their reporting, e.g. by reporting on carbon taxes or working conditions in relation to their tax strategy and policy;
- The jury is worried about the decreasing number of companies engaging in dialogues with stakeholders. Moreover, the companies that do engage provide very little details about how this is done, on what basis and what the outcomes of these dialogues are or how engagement has progressed compared to previous years;
- A lot of companies have their tax strategy signed off by the executive board. However, the jury encourages companies to separately provide information on whether the supervisory board has been involved with the tax policy and strategy and if so, how they are involved, in line with the Corporate Governance Code;
- With regards to companies outlining their tax risks, the jury believes that more than just a simple statement should be provided. The report should explain concrete tax risks, including a description on what type of risk is being referred to: judicial, societal, political, economical, etc. Furthermore, companies should describe how these tax risks are controlled and monitored. Concrete examples would be welcomed;
- Although many companies provide a table and a narrative to the ETR tax rate reconciliation table, the provided information is often very brief and sometimes hard to follow. Companies can do a better job in making the reconciliation methodology clearer and more accessible.

The jury makes the following suggestions relating to the Tax Transparency Benchmark's methodology:

- In general, more attention should be paid to the spirit of the law in the questions. The questions are very much 'tell me' instead of 'show me'. By taking the spirit of the law into account, more differentiation in awarding points should be possible;
- For Q4 (on dialogue with company stakeholders), there should be more detail on how the dialogue takes place, and elaboration on the quality of the dialogue;
- For Q8 (on sign off by the board), the question should be made more explicit who should sign off the tax policy and who is responsible for its implementation. Also, the question should be aligned with the Dutch corporate governance code 'Code Tabaksblad', which states that both non-executives and executives are responsible for the tax policy;
- Adjustment of Q12 and Q13 is needed in order to improve the comprehensibility of the ETR tax rate reconciliation (ETR), perhaps steering towards a uniform calculation of the ETR;
- Adjustment of Q20, Q21 and Q22 is needed in order to motivate companies to include some evaluation as to whether a tax risk is really a risk. Companies should consider performing an impact analysis for tax risk evaluation, which includes the likelihood of occurrence and the financial consequences of risks.

Appendix B

Benchmark methodology

This appendix contains a comprehensive list of all indicators and their respective scores. Company assessments are based solely on publicly available information.

A Companies should define and communicate a clear strategy on tax governance		point
1	Does the organisation communicate its views on tax? (e.g. via a tax strategy/tax policy)	1
2	Is the tax strategy aligned with organisational values?	1
3	Does the organisation describe how the tax strategy has been aligned with the business strategy?	1
4	Has the company's tax strategy, tax policy and/or the fiscal paragraph in the annual report been part of the dialogue with company's stakeholders? (including investors and civil society organisations)?	1
5	Is a vision of the company's relationship with the tax authorities included in the tax strategy?	1
6	Does the company see tax as part of its corporate social responsibility?	1
7	Does the company describe how their sustainability strategy is taken into account in the company's tax approach?	1
8	Is the tax strategy signed off by the (executive) board?	1
9	Does the company describe (its vision and) the role of technology in its tax strategy/policy?	1
B Tax must be aligned with the business and it is not a profit centre by itself		
10.	Does the company state that its business operations are leading in setting up international structures, i.e. that it declares profits and pays taxes where the economic activity occurs?	1
11.	Does the company explicitly communicate that it does not use 'tax havens' or 'non-cooperative jurisdictions' for its tax planning?	1
12.	Does the company disclose a reconciliation between the effective tax rate and the weighted average statutory tax rate reconciliation (either numerical or in percentages)?	1
13.	Is there a narrative description of the effective tax rate to statutory tax rate reconciliation?	1

14.	Does the company provide information like current corporate income tax payments, accrued corporate income tax, profit before income tax, accumulated earnings and FTEs on a country-by-country basis? (In case the company is domiciled in only one jurisdiction, this question refers to this jurisdiction).	2
15.	Does the company provide on a per country basis information on its taxes paid (direct taxes and other taxes like VAT, wage taxes, etc), government payments, and government subsidies? (In case the company is domiciled in only one jurisdiction, this question refers to this jurisdiction).	2
C Respect the spirit of the law. Tax-compliant behaviour is the norm		
16.	Does the company explicitly communicate that its tax planning strategy takes the spirit of the law into account?	1
17.	Does the company mention that it has a training program in place on how to deal with tax (dilemmas) for its tax, legal and compliance officers?	1
18.	Does the company have a whistle-blower policy in place with regard to tax?	1
D Know and manage tax risks		
19.	Does the company explicitly describe its tax risk appetite?	1
20.	Does the company report on any tax risks, including: financial, regulatory and/or reputational risks?	1
21.	Are the tax risks described in detail? (not just as an enumeration)	1
22.	Is there a commentary/description of the company's response to these tax risks?	1
23.	Does the company provide its vision on concluding tax agreements (rulings) with tax authorities?	1
24.	Does the company describe the role of technology for tax relevant data management?	1
E Monitor and test tax controls		
25.	Does the company describe how the implementation and execution of the tax strategy is monitored?	2
26.	Does the company describe how tax risks and controls are tested and monitored?	1
27.	Is tax risk management included in the reporting to the audit committee?	1
F Provide tax assurance		
28.	Does the company provide a tax in-control statement? (Does the company provide the statement in full or confirm its existence – e.g. by mentioning an explicit sign-off from the Board of Directors)	2
29.	Does the company provide external tax assurance on the disclosed financial and non-financial tax information?	2
30.	Does the company participate in a co-operative compliance program or related	1



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