KPMG Tax Now

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Tax transparency: First global tax reporting standard at country-by-country level

The Global Reporting Initiative (GRI) has published the first global standard for tax disclosure reporting at the country-by-country level (GRI 207).

The release of the global standard in December is the latest in a series of jurisdictional and industry specific tax reporting standards released in recent years.

At first glance, GRI 207 is all-encompassing, capturing the most topical categories of public concern. It promises to be the next step forward for corporations wanting to streamline their tax transparency reporting obligations.

But looking to the detail, it appears GRI has flexed to potential concerns over data collection and calculation challenges. The standard is predominately focused on governance, rather than calculation. As a result there is substantial flexibility on the presentation of qualitative data, which at the same time means limited instruction for new reporters.

GRI 207 will be a valuable resource and important milestone towards promoting uptake and consistency in tax transparency reporting, but in itself is not the complete capstone that some in industry may have hoped for.

What is GRI and what is this standard?

The GRI Standards were the first global standards for sustainability reporting. GRI's framework is the most widely adopted for sustainability reporting, and is applied by tens of thousands of organisations globally. It continues to enhance its universal framework through the development of specific topic standards with economic, environmental and social focuses.

This latest standard, GRI 207, defines a framework for organisations to communicate their management approach to tax strategy and governance principles, and report on a country-by-country basis revenue, tax and business activities. Further, it provides a structure for organisations to define connections between their tax strategy and sustainability impacts.

Following almost a year of public consultation and feedback from over 250 stakeholders globally, its content reflects themes common to jurisdiction-specific public tax transparency reporting standards, such as Australia's voluntary Tax Transparency Code (TTC), UK Public disclosure of Tax Strategy, and the EU Accounting Directive on Project by Project Reporting, as well as global initiatives such as the Extractive Industry Transparency Initiative (EITI). Similarities with the B Team's Responsible Tax Principles are also identifiable, which are a behavioural rather than metric-based form of tax transparency reporting.

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Draft updated Tax Transparency Code

Australia set the benchmark for the most advanced and comprehensive tax transparency standard on the release of its Tax Transparency Code in 2016. To date there are over 150 signatories to the TTC (though anecdotally a greater number of organisations seem to report under this framework).

A draft updated TTC was shared in Feb 2019 for public consultation, expanding the requirements for reporting tax data and details of organisations' approaches to tax strategy and governance. Feedback is still under consideration by the Board of Taxation (BoT), but many taxpayers have already started publishing their tax reporting based on the draft updated TTC, on the expectation many of its recommendations will be adopted.

How does GRI 207 compare to TTC?

Broadly, organisations that report under Australia's draft updated TTC will meet many of GRI 207's qualitative Management Approach disclosure requirements, though there are additional expectations to define roles of public advocacy and sustainability strategies as they relate to Tax. However, GRI 207's quantitative Country-by-Country reporting disclosure requirements and optional recommendations are more onerous, particularly for multi-nationals, and represent a new level of public tax transparency. Key similarities and differences are noted in the below table.

Key points of alignment and difference	**TTC**	**GRI**
Approach to tax strategy and governance	✓	✓
How tax strategy is linked to business and sustainable development activities		✓
Approach to public policy advocacy, engagement of external stakeholders, and whistle-blower policy on tax		✓
Reconciliation of accounting profit to tax expense, and to income tax paid or payable	✓	✓
Effective tax rate for Australia and global operations	✓	
Tax contribution by jurisdiction	Aus only	✓
International related party dealings	✓	✓
Tangible assets other than cash / cash equivalents		✓
Total employee remuneration*		✓
Intra-company debt*		✓

* Recommendations only

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Should you use the GRI 207 or the Tax Transparency Code?

The draft updated TTC is a comprehensive and established tax reporting standard, and a good starting point for Australian corporations and new reporters.

Multinationals, and those in heavily scrutinised industries such as energy and natural resources, should additionally consider GRI 207 as it serves as a common benchmark to peers.

Because the GRI 207's guidance isn't entirely prescriptive in how to calculate particular disclosures or the level of detail to provide, standards such as the TTC, EITI and OECD guidance on Country-by-Country reporting are necessary tools of interpretation. Organisations which subscribe to a range of these initiatives have been publishing tax transparency reports for a number of years, which are also useful reference points.

As the draft updated TTC is finalised, it will be interesting to note any further similarities and differences with the GRI standard.

Why bother with any of these voluntary standards?

The purpose of companies and other organisations is being repositioned by many groups. For instance, the US Business Roundtable in 2019 redefined the purpose of a corporation – moving away from the concept of shareholder value as the primary purpose, with other dimensions including supporting communities now included.

KPMG's Survey of Corporate Responsibility Reporting 2017, revealed approximately three quarters of large and mid-cap companies globally issue some form of corporate sustainability report. A further 2019 study of Asia Pacific Tax Departments reported that 44% of respondents currently disclose some level of tax data in their corporate sustainability reporting, with 35% of respondents intending to increase public disclosures about their tax information in the future.

There is growing demand by regulators for increased tax transparency. The ATO drives its promotion through the annual publication of certain tax data for large taxpayers, and endorsement of the TTC.

The media and the public have also increased attention and criticism on tax reporting, particularly of multinationals which report profits locally but aren't considered to be paying a commensurate amount of tax.

Organisations that promote their role in ethical production and environmental sustainability, but are absent or selective in their approach to tax transparency may be considered as either suspicious, or ignorant to public and consumer interest.

Additionally, other stakeholders are recognising that good corporate governance includes tax risks within broader risk management strategies. There is a view that tax transparency should be supported by those with a fiduciary duty at the Board level. Whilst tax has typically been siloed as a specialist compliance function, embracing transparency can engage internal stakeholders and enable proactive management of tax risk and facilitate informed decision making.

Accordingly, sustainability reporting and tax transparency reporting is gaining prevalence in the annual reports of both public and privately held companies. Organisations who don't consider some degree of tax transparency reporting risk a misalignment with market practice, regulator and public expectations and most critically miss an opportunity to narrate the basis of tax data published on their behalf by the regulator.

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Where to start?

One of the reasons organisations don't prepare tax transparency reports is that they wish to further develop and strengthen their tax governance and risk management framework before reporting publically. Indeed ATO data reveal that the majority of taxpayers assessed to date through Justified Trusts reviews of Australia's top 1,100 taxpayers have a formalised tax control framework, but are lacking formal testing to confirm that these are designed or operating effectively. There is a breadth of resources available to support organisations assess their frameworks. Some of these include:

- The ATO's 2017 Tax Risk Management and Governance Guide and, more broadly, COSO's internal control integrated framework model.
- The ATO published 'self-assessment procedures' for organisations to evaluate their maturity against their guidance material.
- Benchmarking tools and reporting. Each year KPMG produces a Global Tax Department Benchmarking report summarising the current and future plan of surveyed tax departments.
- More bespoke analytics are available through KPMG's Tax Control Room.

There is a slow but steady increase in the publication of tax transparency reports. As the only global tax standard for reporting at a country-by-country level, GRI 207 it is likely to be widely adopted, albeit as a touchstone to existing tax reporting. Organisations can best position themselves by maturing their tax control framework, and considering the more prescriptive jurisdictional and industry tax reporting standards to define the data collection processes, internal guidance, and technology required to support reporting.

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