ESG Tax Strategy & Planning

Taxes are used by governments as an instrument to create more sustainable economies and to change social behaviors. This is achieved by imposing more taxes on non-compliant behavior and products, granting incentives and requiring increased transparency.

On the other hand, investors are integrating ESG factors into their investment decisions, and tax can be a critical angle for both financial and non-financial performance. Specifically, taxes are an important component of sustainable ESG strategy and planning for:

- complying with environmental tax regulations and managing their tax impact across the operating model,
- tax planning in relation to meeting ESG commitments or obtaining investments and incentives, and
- developing a tax transparency and governance framework.

Challenges

- As sustainability taxes and measures like the EU Green Deal and the Carbon Border Adjustment Mechanism (CBAM) emerge globally, navigating the evolving tax regulatory environment becomes even more challenging. Planning the impact of these measures across the business and operating models is a fundamental part of a tax strategy.
- Businesses may need to align their traditional supply chain models with ESG KPIs. This can create opportunities for stream lining the supply chain and reducing inefficiencies but requires accurate tax planning to avoid tax becoming a significant risk along the transformation journey.
- Currently, businesses struggle to define roles and responsibilities when it comes to managing the tax angle within their ESG strategy. Given the interplay between ESG and tax, defining a proper ESG tax governance framework and the role of tax function is critical.
- With carbon pricing and environmental policies on the rise, businesses should take decisions on how to minimize their ESG tax burden while taking full advantage of tax incentives available.
- Ensuring tax transparency is an element of social and corporate responsibility. Decisions on tax commitments, tax incentives and tax disclosures have an impact on ESG strategy.

How KPMG can help

- Build awareness around ESG taxes and tax trends and their impact on the business for stakeholder discussions
- Use data-driven technology & analytics solutions to identify and quantify exposure to ESG tax regulations across the existing supply chain model
- Assess impact of carbon tax (EU CBAM), plastic tax and other environmentally related taxes within the global supply chain and implement reporting and compliance framework
- Provide tax planning solutions to enable businesses to design and implement tax-efficient supply chains and unlock ESG tax incentive and investment opportunities
- Manage transfer pricing aspects of business model transitions and include ESG metrics in assessing value drivers
- Assist in drafting an ESG-compliant tax governance framework with defined roles and responsibilities, processes and controls
- Evaluate ESG tax risks in due diligence processes
- Support businesses in their contract lifecycle process to integrate ESG tax requirements, including defining and drafting framework for contractual commitment and liabilities
- Support in the preparation of tax transparency reports consistent with the overall ESG communication strategy and mandatory/voluntary standards applicable
- Advisory services related to indirect tax consequences of ESG taxes (energy taxation, carbon emission certificates) including solutions to implement monitoring, verification and reporting standards to comply with carbon regulations.

Your benefits

- Access to subject matter experts to help you stay informed about global environmental tax regulations and future ESG trends

- Strategic, value-based tax planning to drive sustainable business models, supply chains and services that address ESG standards

- A data-driven approach to accurately track and measure climate risk and environmental-related tax exposures and opportunities

- Clear insights to establish a responsible ESG and tax governance and transparency framework

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