TAX TRANSPARENCY BENCHMARK 2020

A comparative study of 77 Dutch listed companies

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December 2020

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Preface

Good tax governance has been a focal point for VBDO throughout our 25 years of existence. We started asking companies questions about tax policies at their Annual General Meetings (AGM) almost 10 years ago, when only 11% of them had a formal policy in place. Over the following years, VBDO collaborated with PwC Netherlands to publish a white paper: Good Tax Governance in Transition, as well as six editions of the Tax Transparency Benchmark and a Tax Investor Guide. We've also hosted three Tax Transparency seminars. It is very encouraging to reflect on where we started and all the progress which has been made over the years. In 2020, 86% of the companies who take part in this study now publish their views on tax.

Angélique Laskewitz
Executive Director VBDO

Gradually, the companies that participate in this benchmark are moving forward. The average tax transparency rating is 46% this year, an increase of 3%. Many companies improved their tax policies and strategies during 2019 and 2020, providing more transparency to stakeholders. NN Group is the first Dutch company to provide additional third-party assurance on its Total Tax Contribution Report; Shell provided insight into its tax payments to governments using the OECD BEPS template and Philips announced it will start public country-by-country reporting next year. After six years of benchmarking, these are very significant signs of a changing tide. I encourage all companies participating in this benchmark study and their stakeholders to take note of the frontrunners.

While many companies are making progress, a large group is lagging behind. In 2015 we set 10 points as a minimum baseline. As with last year, 30% of the companies did not achieve over 10. This year, five of the companies scoring below 10 points are included in the AEX index. The fact that some of the largest listed companies in the Netherlands neglect tax transparency is alarming.

This is especially true when governments spend billions fighting a pandemic and many aspire to become 'investors of first resort' to jump-start the post-COVID economy. It is my conviction that the future economy will benefit from a transparent tax system. Not only because it means that public funding can be scrutinised, but also because it shows which companies are committed to sustainable development and which are not.

In Davos, hopes were high this year that the next step could be taken in the quest for a global standard for sustainability, including good tax governance. During the World Economic Forum, a report was commissioned by the International Business Council (IBC) to establish common metrics for sustainable value creation. The first report opened for consultation in January 2020 and included the full GRI 207: TAX standard. But after consulting the IBC member organisations, the most basic tax measure available – public country-by-country reporting – was excluded from the final report.

The Dutch Ministry of Finance is currently laying the groundwork for the creation of a 'Tax Governance Code of Conduct'. A proper Dutch Tax Code of Conduct should support the front-running companies identified in this benchmark report and promote the further acceptance of important international tax standards. In 2021, the first reports following the GRI 207: TAX standard are due. The guidance set out in the standard could lead to the most comprehensive tax reporting to date and a Dutch tax code could ensure implementation.

VBDO exists to make the capital markets more sustainable. We encourage our members and investors, in particular, to take note of this study and we will continue to guide them in their engagement activities and investment decisions.

I am extremely grateful to Francis Weyzig, Kris Douma and Olivier Boutellis-Taft for their outstanding visionary and inspirational contributions to this report. I also wish to thank PwC Netherlands for their guidance and successful collaboration on this research. Last but not least, I would like to thank the participating companies for their valuable contributions.

I look forward to furthering the dialogue on tax transparency.

Angélique Laskewitz
Executive Director VBDO

Tax Transparency Benchmark 2020

Overall Ranking

Ranking	Company Name	Score 2020	2019	2018
1	NN Group	32	30	21
2-3	KPN	28	26	20
2-3	Shell	28	23	17
4-9	a.s.r.	27	25	18
4-9	Aegon	27	24	23
4-9	AMG	27	24	23
4-9	Rabobank	27	26	19
4-9	Unilever	27	26	23
4-9	Vopak	27	26	20
10-12	DSM	26	26	21
10-12	ForFarmers	26	17	9
10-12	Randstad	26	24	13
13-15	Grandvision	25	20	17
13-15	Nedap	25	26	19
13-15	RELX Group	25	19	19
16-21	Flow Traders	23	17	15
16-21	Philips	23	15	13
16-21	PostNL	23	23	17
16-21	Signify	23	19	14
16-21	Van Lanschot Kempen	23	23	22
16-21	Wereldhave	23	17	16
22-25	ABN AMRO	22	20	16
22-25	Ahold Delhaize	22	22	18
22-25	Heineken	22	22	17
22-25	ING Group	22	26	20
26-29	Eurocommercial Properties	21	22	2
26-29	OCI	21	4	5
26-29	TKH Group	21	17	14
26-29	Vastned	21	16	16
30-31	ASML	20	20	17
30-31	Ordina	20	20	20
32	Heijmans	19	16	9
33-38	BAM Group	18	18	15
33-38	Brunel	18	17	16
33-38	Kendrion	18	20	16
33-38	Prosus	18	-	-
33-38	Royal Boskalis Westminster	18	16	13
33-38	Unibail-Rodamco-Westfield	18	17	14
39-41	Arcadis	17	18	16

Tax Transparency Benchmark 2020 / Overall Ranking (cont'd)

Ranking	Company Name	Score 2020	2019	2018
39-41	Corbion	17	13	10
39-41	Fugro	17	18	16
42-43	Intertrust	16	19	2
42-43	Wolters Kluwer	16	15	15
44-45	Aperam	15	16	11
44-45	Sligro	15	9	9
46-49	Aalberts	14	13	12
46-49	Achmea	14	15	13
46-49	Basic-Fit	14	14	4
46-49	TomTom	14	12	11
50-52	ICT Group	13	1	2
50-52	IMCD	13	12	14
50-52	NIBC	13	15	-
53	JUST EAT TAKEAWAY	12	11	12
54	Air France-KLM	11	9	5
55-58	Adyen	9	7	-
55-58	ArcelorMittal	9	9	8
55-58	ASM International	9	9	9
55-58	SBM Offshore	9	9	9
59-61	Acomo	8	8	5
59-61	AkzoNobel	8	12	8
59-61	BE Semiconductor Industries	8	8	7
62-67	Accell Group	6	5	5
62-67	Altice	6	6	7
62-67	B&S	6	7	-
62-67	Lucas Bols	6	6	4
62-67	NSI	6	6	6
62-67	Pharming Group	6	6	3
68-69	Avantium	5	-	3
68-69	Sif Holding	5	5	5
70-71	Fagron	4	3	1
70-71	WDP	4	4	2
72	VIVORYON	3	-	-
73	Ajax	2	-	-
74-76	Alfen	1	1	-
74-76	Galapagos	1	1	2
74-76	Neways Electronics	1	-	-
77	Accsys Technologies	0	0	-

Executive Summary

For the sixth consecutive year, we are proud to present the Tax Transparency Benchmark 2020. Last year, we celebrated five years of progress in corporate tax transparency and good tax governance. Little did we know that transparency would gain so much importance the following year. Although the benchmark analyses the 2019 annual reports of 77 Dutch companies, it cannot be denied that the outbreak of the Covid-19 pandemic at the beginning of 2020 has had its impact on almost every aspect of business, including tax.

Countries have engaged in massive public spending in order to mitigate the negative economic impact of the Covid-19 pandemic. This has fuelled the public debate on tax. Senators[1] and members of parliament[2] have demanded that the economic support packages be accompanied by greater transparency (including on tax) and public country-by-country reporting. A number of European countries, such as France, Italy, Belgium, Poland and Denmark, also attached fiscal strings to state support, limiting bailout money for businesses registered in tax havens.[3]

Increased discussion on tax transparency has not just been generated by budget deficits due to the Covid-19 pandemic. It also stems from the growing realisation that taxes are needed to fund sustainable growth as proposed in the European Green Deal and the net-zero emissions commitments made by governments and corporations. Modern society no longer sees tax as just a cost factor, but also as an instrument to create socio-economic cohesion, environmental value creation and long-term prosperity.

The contributions in this edition of the Tax Transparency Benchmark fit into these debates and highlight key current issues in tax. Olivier Boutellis-Taft from Accountancy Europe stresses the importance of external third-party tax assurance to provide stakeholders with audited accountability on tax issues. Francis Weyzig from the Central Plan Bureau discusses the developments and importance of (public) country-by-country reporting for increased tax transparency. Kris Douma focuses on the increased role of tax as a metric for investors to prevent tax avoidance. These issues have all been incorporated in the benchmark methodology and will continue to remain a key focus area for companies to progress on.

1 Parker, A.M (2020) Sen. Wants Global Tax Disclosure Tied To COVID-19 Aid Bill, Law360, 23 March 2020 https://www.law360.com/tax-authority/articles/1255929/sen-wants-global-tax-disclosure-tied-to-covid-19-aid-bill

2 Open letter 12th April 2020 Economic support for large firms aimed at mitigating the impact of COVID19 must be accompanied with tax and corporate transparency https://www.socialistsanddemocrats.eu/sites/default/files/2020-04/letter-to-compet-ministers-on-pcbcr-12.4.2020-by-ep-mep-negotiation-team.pdf.pdf

3 https://www.politico.eu/article/if-you-want-a-bailout-in-europe-dont-use-tax-havens/?utm_source=POLITICO.EU&utm_campaign=-24f010132a-EMAIL_CAMPAIGN_2020_04_24_05_04&utm_medium=email&utm_term=0_10959edeb5-24f010132a-190424741

NN Group is the top-scoring company in the Tax Transparency Benchmark 2020.

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 that resulted in a high score of 32 points in comparison to 30 points in 2019. 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. It also includes a description on why tax is an integral part of NN Group's business principles. Other companies should take note of NN Group's tax risk reporting, which sees not only key risks, impacts and controls clearly delineated but also certain key factors for success.

NN Group published a total tax contribution report, which features country-by-country data information on FTEs, total assets, profit before tax and taxation. Finally, NN Group was the only company to provide external 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.

The overall jury verdict this year is that several companies, in particular Shell, have made significant progress in providing more transparency in tax reporting, for which the jury expresses its compliments. However, due to the progress these companies are making, the gap is continuing to widen between the high and low scoring companies. In addition, the jury notes that a distinct difference remains between the companies that just publish their tax report to the letter of the law (i.e. 'tell me') and companies that also 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 motivation to engage in meaningful stakeholder dialogue?

Although this assessment was conducted using the FY 2019 reports, the jury did expect companies to pay attention to key tax issues that have been dominating the news, such as the proposed 'exit tax', the introduction of EBITDAC (earnings before interest, taxes, depreciation, amortisation and COVID-19) and the growing European influence on tax legislation.

The jury called upon companies to not only disclose their tax payments to governments, but to also report any tax incentives they benefit from, such as for example the Dutch 'innovatiebox'. This would provide stakeholders a better understanding how the effective tax rate of companies is calculated.

Overall, we are delighted that once again the results of this year's benchmark show that Dutch stock-listed companies are more fiscally transparent than before. Since the introduction of the VBDO Tax Transparency Benchmark in 2015, the average transparency rating based on the total points obtained by companies on our six principles of good tax governance has increased from 25% in 2015 to 46% in 2020.

Nevertheless, the improvement in scoring on key questions regarding country-by-country reporting and the provision of internal and external tax assurance lags behind the improvement in scoring made on other key indicators. The jury also wishes to emphasise that considerable room for improvement remains on the provision and quality of country-by-country information, narrative around the effective tax rate calculation and on internal and external tax assurance.

Next 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 2020 compared with 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 two years.

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

Figure 1: TTB20 results per Good Tax Governance Principle

A. Define and communicate a clear tax strategy

- 48% of companies explicitly communicated to stakeholders that the tax strategy had been signed off by the executive board;
- 36% of the companies confirmed that they had discussed the tax strategy with stakeholders, this number decreased from 43% in 2019.

We continue to be proud that most (86%) 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. While more and more companies do this (48% in 2020 compared to 25% in 2018), more than half of the companies are not yet acting on this recommendation. What is more, a tax strategy is only properly established when it aligns with stakeholder interests. We are sad to see a reduction in the number of companies that discuss their tax strategy with stakeholders. This percentage decreased to 36% in 2020, compared to 43% in 2019 and 38% in 2018.

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

- The number of companies that provide a narrative description for the effective to statutory reconciliation table almost tripled from 2018 (26%) to 2020 (70%);
- More companies provided full (13% in 2020 compared to 9% in 2019) disclosure of country-by-country based tax information;
- However, at the same time, the percentage of companies that do not provide tax information on a country-by-country basis increased from 62% to 64%.

Providing a narrative to explain the effective to statutory reconciliation table and ‘showing’ how this reconciliation is calculated provides additional value to stakeholders compared to just ‘telling’ them the figures. We are happy to report that after the significant increase of companies reporting in 2019 that they do this (the percentage rose from 26% in 2018 to 62% in 2019), this year the number increased again, to 70%.

The percentage of companies that do not disclose country-by-country based tax information has increased to 64%. However, it is encouraging that more companies (13% compared to 9% in 2019) have fully disclosed information on corporate income tax, accumulated earnings, assets and FTEs for the jurisdictions they operate in.

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

- 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 has increased over the three years, from 20% in 2018 to 31% in 2019 and 40% in 2020.

We announced in the 2018 Tax Transparency Benchmark report that we now 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, 14% of the companies reported that they had a whistleblower policy in place, including tax. This year, that increased to 25%.

D. Know and manage tax risks

- Companies scored highest on this principle of good tax governance;
- 77% of the companies reported on tax risks and 58% described these risks in further detail;
- The number of companies that provide their vision on rulings with tax authorities grew from 18% in 2018 to 52% in 2020.

For two years now, companies have scored best on tax risk reporting. This year, more companies (57%) explicitly describe their tax risk appetite and more than half (52%) also provide a vision on concluding rulings with tax authorities. A discrepancy does remain between simply mentioning a tax risk (77%) and providing a detailed description (58%) of the risk and the company's response (65%) to the risk.

34% 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

- More than half (57%) of the companies described how tax risks and controls are tested and monitored;
- One third (34%) of the companies described how the implementation and execution of the tax strategy is monitored.

Tax risk management is an important element of a properly executed tax strategy. Therefore, we are very encouraged that most (57%) companies describe how their tax risk control measures are tested and monitored and state that tax risk management is included when reporting to the audit committee (57%). At the same time, the amount of companies that provide a roadmap for the implementation of the tax strategy is progressing slowly. However, most of the companies (66%) still do not describe how the tax strategy is actually implemented.

F. Provide tax assurance

- NN Group is the only company that provided third-party tax assurance;
- Kendrion and Signify mentioned the existence of a tax in-control statement.

The questions regarding tax assurance are often ignored by companies. Involving the internal audit commission when providing a tax in-control statement is still not commonplace and is done by only 3% of the companies. The provision of external supervision by a third-party auditor is even more unusual and done by only one company: NN Group.

1. Tax, why investors (should) care

If you would have asked investors 5 to 10 years ago about corporate tax, the answer would have been easy: less is better. But the views of society about corporate tax are changing rapidly, politicians are taking an interest, and so are investors. Investors seek to align their investments with their values and the values of their beneficiaries (often taxpayers). They integrate the material risks of corporate tax policies and practices in their risk return analysis, corporate engagement and investment decisions. In addition, they increasingly want to make sure their investments make a positive contribution to the broader objectives of society. But how does this work in practice, and what are the further consequences of this development, if investors are serious about their ambitions?

Kris Douma

It has already been eight years since, during an exchange with a committee of Members of Parliament (MPs), senior executives from Amazon, Starbucks and Google were accused of diverting hundreds of millions of pounds in UK profits to secretive tax havens.[1] The news coverage of this exchange put tax firmly on the public, corporate and investor agenda. Some MPs described a director from Amazon as being "deliberately evasive" and displaying "outrageous" ignorance after he failed to say how much profit is generated in Britain or who owns the online retailer's Luxembourg-based holding company. Amazon avoided UK taxes by reporting European sales through a Luxembourg-based unit, MPs alleged. This structure allowed it to pay a rate of less than 12% on foreign profits – in 2019 – less than half the average corporate income tax rate for its major markets.

An executive from Google admitted it operates in Ireland because of its low corporation tax rate of 12.5%. Google's filings showed it had £2.5bn of UK sales in 2011, but despite having a group-wide profit margin of 33%, its main UK unit had a tax charge of £3.4m. The company avoids UK tax by channelling non-US sales via Ireland, an arrangement that allowed it to pay taxes at a rate of 3.2% on non-US profits. It also diverts some of its profits through Bermuda. Matt Brittin, who at the time was Google's vice-president for Northern and Central Europe, said that Google operates in Ireland and Bermuda because they offer attractive tax rates. "Like any company, you play by the rules [and] manage costs efficiently to offer fair value to shareholders," he said. "We're not accusing you of being illegal, we are accusing you of being immoral," replied UK MP Margaret Hodge.

4 See: https://www.theguardian.com/business/2012/nov/12/amazon-google-starbucks-diverting-uk-profits

Starbucks paid £8.6m in total UK tax in the 13 years since 1999, during which it recorded sales of £3.1bn. Troy Alstead, its global chief financial officer, faced repeated claims from MPs that it engaged in aggressive tax avoidance in the UK as he tried to explain its corporate affairs. He declined to give details publicly of a favourable rate granted to it in the Netherlands on a proportion of profits transferred there in the form of an intellectual property "royalty" on UK shops. Dutch authorities wanted that to remain confidential, he claimed, prompting allegations it was a "sweetheart" deal that bosses wanted to keep under wraps.

The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS)

Following the financial crisis in 2008, the G20 countries put tax at the top of their agenda and have started the fight against tax avoidance. Base erosion and profit shifting (BEPS) refers to tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax. Developing countries' higher reliance on corporate income tax means they suffer from BEPS disproportionately. BEPS practices cost countries USD 100–240 billion in lost revenue annually. Under the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), more than 135 countries are collaborating to put an end to tax avoidance strategies that exploit gaps and mismatches in tax rules. The OECD/G20 BEPS Framework provides 15 actions that equip governments with the domestic and international instruments needed to tackle tax avoidance. Countries now have the tools to ensure that profits are taxed where economic activities generating the profits are performed and where value is created. These tools also give businesses greater certainty by reducing disputes over the application of international tax rules and standardising compliance requirements.

The third annual progress report of the OECD/G20 Inclusive Framework on BEPS (2019) describes the progress made to deliver on the mandate of the framework, covering the period from July 2018 to May 2019. The report clearly shows that progress is being made, although not as fast as many would have hoped, and specific issues seem to be more complicated than expected, especially regarding the consequences of digitalisation. With the growth of international online shops and the 'gig-economy', an important question has emerged: should taxes be paid in the 'home country' of the web shop or the country of the buyer? This issue has led to major disagreements between the US and the EU, and France in particular. The key outcome of the OECD/G20 Inclusive Framework meeting on 28–29 May 2019 was the agreement of a 'Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalisation of the Economy', which will hopefully achieve a consensus-based, long-term solution by the end of 2021.

When the OECD/G20 BEPS Framework was published in 2015, the OECD estimated that tax avoidance cost USD 100–240 billion per year, or 4–10% of global corporate tax revenues. So, the interests of governments are clear and ultimately the new OECD/G20 BEPS programme should deliver results. The programme should provide a global consensus on the need for country-by-country reporting (cbcr). Gradually, the net will close around aggressive tax practices that deprive society of necessary income from global businesses. That is why forward-looking investors are taking the issue very seriously. Some will do this because of their values or their objective to make a positive contribution to society. All will do it because the aggressive tax policies of companies provide a material risk to investors.

B Team Responsible Tax Principles and GRI 207: TAX 2019

Fortunately, a growing number of companies are 'getting the message'. Endorsed by a founding group of companies, including Allianz, BHP, A.P. Moller - Maersk, Natura Cosméticos, Repsol, Safaricom, Royal Dutch Shell Plc, Unilever and Vodafone Group Plc., the B Team Responsible Tax Principles are intended to drive best practice. Obviously, the expectations of governments and the wider public go beyond these principles, but they are a step in the right direction. The principles include:

- Accountability & Governance: Tax is a core part of corporate responsibility and governance and is overseen by the board of directors (the Board).
- Compliance: We comply with the tax legislation of the countries in which we operate and pay the right amount of tax at the right time, in the countries where we create value.
- Business structure: We will only use business structures that are driven by commercial considerations, are aligned with business activity and which have genuine substance. We do not seek abusive tax results.
- Relationships with tax authorities: We seek, wherever possible, to develop cooperative relationships with tax authorities, based on mutual respect, transparency and trust.
- Seeking and accepting tax incentives: Where we claim tax incentives offered by government authorities, we seek to ensure that they are transparent and consistent with statutory or regulatory frameworks.
- Supporting effective tax systems: We engage constructively in national and international dialogue with governments, business groups and civil society to support the development of effective tax systems, legislation and administration.
- Transparency: We provide regular information to our stakeholders, including investors, policy makers, employees, civil society and the general public, about our approach to tax and taxes paid.

Meanwhile GRI, the Global Reporting Initiative, whose standards are used by over 10,000 companies worldwide, has also released a new reporting standard on tax – GRI 207: TAX 2019. It enables organisations to report on tax practices as part of their sustainability reporting. The standard includes disclosures on tax strategy, governance and risk management that meet different stakeholder expectations of reporting. Public country-by-country reporting of business activities, revenues, profit and tax are also incorporated in the standard. And it promotes disclosure of the reasons for any difference between corporate income tax accrued and the tax due if the statutory tax rate were to be applied to profit/loss before tax. Research providers for investors, from MSCI, Sustainalytics and Vigeo Eiris to Bloomberg and Reuters, are now incorporating tax data in their reports. More will surely follow once the BEPS programme has been finalised.

The investor tax agenda: part 1

The interests of investors in this issue are becoming clearer as more relevant information becomes available. Whatever the reason may be for an investor to look at corporate tax, all investors will incorporate material risks, whether environmental, social, governance or tax-related, in their investment decisions. Information about corporate tax policies and practices, country-by-country reporting and effective average tax rates is becoming part of the standard information that investors use for decision-making, either through their service providers, or in their own portfolio management. An example of average effective tax rates for multinational food companies is included in Table 1.

An investor will look at these figures and ask to what extent the revenues and profitability of a company rely on its tax policies and practices and how this will potentially be affected by the successful implementation of the OECD/G20 BEPS measures and other regulatory changes that seek to combat tax avoidance. If some companies have an average tax rate above 25%, how can comparable companies have an average tax rate below 20%? As the table shows, there may be understandable, acceptable reasons for some differences. But without further explanation, one would consider an average tax rate below 20% as non-sustainable. At some point in time, this will no longer be possible. If one deducts 5–10% of a company's profits and accordingly reassesses the expected total shareholder return (TSR) for the next couple of years, an investor may reconsider his or her investment decision. In other words, aggressive tax policies and practices constitute a material risk, maybe not today, but certainly on a mid-term range of three to five years. Clearly investors should support initiatives like the B Team Responsible Tax Principles to make better investment decisions.

Company Source: YCharts and Company Reports	Average Effective Tax Rate (ERT): YR 2019 unless otherwise specified
The Hershey Company	17.4
General Mills, Inc.	17.9
Nestle (low as result of sale of Nestlé Skin Health)	21.0
Unilever 2018 (low as result of sale of the Spreads division)	21.1
Nestle (Tax Rate declined due to evolution of geographic and business mix)	21.6
Flowers Foods, Inc.	22.2
Campbell Soup Company	22.7
Kellogg Company	25.5
B&G Foods, Inc.	25.7
Nestle 2018	26.5
Kraft Heinz (median effective tax rate from fiscal years 2016 to 2019)	27.0
Kraft Heinz (2019 only)	27.4
Unilever	27.9
Wessanen (2018)	28.0
Wessanen (2019 result of a non-deductible goodwill impairment loss)	59.0

Table 1: Average tax rates for international food companies

The investor tax agenda: part 2

What is often forgotten is that investors, both asset owners and asset managers, are often also companies and taxpayers. Asset owners, like pension funds, insurance companies, endowments and foundations, usually allocate capital to a wide diversity of asset managers. These asset managers include managers of hedge funds, private equity, infrastructure and non-listed real estate. Similar as for companies, these asset managers can apply aggressive tax policies in their portfolio companies or other economic activities, including a diverse set of hedging strategies. Additionally, the funds through which they operate can also be domiciled in countries like the Cayman Islands or Bermuda, and as such be involved in tax avoidance. The OECD/G20 BEPS Framework may address some of these practices, but clearly not all. There is a need for asset owners to look into the activities of their asset managers and engage them on their tax policies and practices.

This is not an easy thing to do and may require collaboration, but if asset owners take their responsibility to society and their beneficiaries (who are also taxpayers) seriously, then it is an issue that needs to be addressed.

The investor tax agenda: part 3

There is one type of tax avoidance by investors that I have always found extremely worrying. That is the practice of securities lending and dividend arbitrage. Securities lending is the act of loaning a stock, derivative or other financial instrument to a broker for trading in exchange for collateral. Securities lending is key to several trading activities, such as short selling, hedging and (dividend) arbitrage. In a recent ESMA report (July 2019)[5], the practice is further explained.

Dividend arbitrage strategies have existed for many years in EU financial markets and involve the placement of shares in alternative tax jurisdictions around dividend dates, with the aim of minimising the relevant tax on dividends. Dividend arbitrage strategies therefore require the establishment of an equity position cumdividend in a tax-favourable jurisdiction. Those strategies are often structured in a way that an investor lends or sells its shares to a borrower/buyer domiciled in a country that has a lower dividend tax rate, so as to minimise the taxes paid on such a dividend. The borrower receives the dividend paid out by the issuer of the share and then returns it to the lender, minus the dividend tax and a percentage (or cut) negotiated between the two parties.

The placement of shares in alternative tax jurisdictions around dividend dates is done through securities lending. The lender gets its ‘cut’ and will receive (not ‘their own’, but a similar amount of) shares back at a later stage. Although it is called securities lending, the ownership of the shares effectively changes during the time of the lending. Besides the tax avoidance, this has another major disadvantage. Dividends are often paid around the time of the AGM of a company. As a result, the asset owner often does not possess the shares at the time of the AGM and therefore cannot exercise its voting rights. Some borrowers, mostly hedge funds, cover short positions borrowing shares, but may have opposite interests to the original owner and could therefore vote against their interest. Normally there is no direct link between lender and borrower, so it is not possible to include voting instructions in the lending process. Securities lending thus jeopardies the voice of the asset owner at the AGM and is also a dubious practice of (dividend) tax avoidance.

5 See: https://www.esma.europa.eu/press-news/esma-news/esma-broadens-scrutiny-multiple-withholding-tax-reclaim-schemes

Conclusion: penny wise – pound foolish

The world is facing multiple challenges, clearly reflected in the 17 UN Sustainable Development Goals for 2030. Meeting these challenges, according to UNCTAD, requires investments of between 75 and 90 trillion USD. While some of that money can be realised through institutional and private investments, public funding (and thus taxation) is also needed. Therefore, aggressive corporate and investor tax policies and tax avoidance schemes are shifting the costs of the SDG agenda to labour (employees of those companies) and to citizens (beneficiaries of the asset owners) or will make the achievement of the SDGs completely impossible. Investors, either to ensure alignment with their values, and/or because they want to make a positive contribution to society and the SDGs and/or because aggressive tax policies and tax avoidance provide a material risk to their investments, should help to fix the problem through their engagement with companies and their investment decisions. But they should also take a look in the mirror and end their own irresponsible tax policies and practices. If they don't, it will be their beneficiaries who will pay the price.

2. Public country-by-country reporting, BEPS-13 style

There has been a major breakthrough in tax transparency: public country-by-country reporting is finally taking off. A few multinationals have started to disclose the country-by-country data that they file with tax authorities, following the BEPS 13 standard.[6] Thanks to these first movers, some key reasons why firms have been reluctant to disclose this data have now been addressed: it is allowed; it is not too early and others are publishing too. No more excuses. And, perhaps most important of all: not all journalists and tax activists will immediately come after you. Quite the contrary. Civil society organisations are using these reports well, but they too will need to take the next step, by developing more capacity to analyse the rather difficult-to-interpret data.

Francis Weyzig

The added value of the BEPS 13 standard can hardly be overestimated. Country-by-country reporting is no longer new. Corporate tax transparency took off with disclosure requirements for the extractive industry regarding payments to individual governments.[7] This did not involve disclosure of the corresponding profits and losses, however. Public country-by-country reporting really started with European banks publishing break-downs of taxes paid as well as other key figures. While this was mandated by the fourth EU Capital Requirements Directive, ING Bank and ABN AMRO Bank went further and reported additional data.[8] Then there was a second wave of firms, which started disclosing country-by-country financials on their own initiative, in a format of their own choice. Equinor (previously Statoil) and Vodafone are well-known examples.[9]

Now we are seeing the third generation, with Shell, Rio Tinto and St James's Place among the frontrunners.[10] These large multinationals are publicly releasing the country-by-country reports that they have been required to prepare for the 2016 financial year onwards, as a consequence

6 Base Erosion and Profit Shifting (BEPS).

7 Building on the Extractive Industries Transparency Initiative (EITI), it became compulsory for extractive industry firms to publish payments to all governments under the US Dodd-Frank Act in 2010 and the EU Accountancy Directive in 2013. It is no coincidence that most frontrunners in public disclosure of BEPS 13 data are extractive industry firms.

8 They also report total assets. See ING Bank N.V., Annual Report 2019, p207-209 and ABN AMRO Bank N.V., Annual Report 2019, p205-206.

9 Equinor ASA, Payments to Governments report 2019; Vodafone plc (https://www.vodafone.com/content/dam/vodcom/sustainability/pdfs/vodafone_2018_tax.pdf).

10 See Shell, Tax Contribution Report 2018, Rio Tinto plc, Taxes Paid Report 2019; St. James's Place plc, CBCR – tax jurisdiction 2019.

of Action 13 against Base Erosion and Profit Shifting (BEPS) agreed by the OECD/G20 Inclusive Framework.[11]

A key feature of country-by-country reporting is that it shows how a firm's profits and losses are allocated among countries, and how this compares to the extent of business activities in each country. Tax payments alone do not say a lot. Surely recognising tax as a contribution to society is a good thing? Yet how should we interpret a corporate tax expense of 5 million euros in Tanzania? Or zero taxes in Bermuda? It all depends on the profit or loss in the jurisdiction.[12]

Although EU banks are required to report such data, their reporting has been rather inconsistent. Many have published complete breakdowns of key figures by jurisdiction that add up to the corresponding items in their consolidated accounts. Others have included intra-group dividends in country profits or used other types of double counting, obfuscating the real allocation of profits and losses. To add to the confusion, some banks report taxes accrued, others cash taxes paid; a few do both. Net results from non-consolidated associates may be included in country-level revenues as well as profits, in profits alone, or not at all. In short, some reports are more informative than others.

The second wave has been a mixed batch as well. The country-level data of Vodafone and Equinor is elaborate and the Vodafone report also includes a lot of explanations. Others provide much less detail or just a snapshot. For example, Pearson provides limited figures, and only for the top 12 countries.[13] Yet even Vodafone's 2018 taxation report does not provide the full picture. It contains a complete geographical breakdown of 1.1 billion pounds in corporate taxes paid, but in part these reflect taxes that were due for the financial year 2017. In 2018, Vodafone reported a total of 0.9 billion pounds in tax credits received – due to the opposite sign, this is 2 billion apart from the figure of cash taxes paid. To learn more about the breakdown of the firm's 2018 tax charge, then, one has to wait for its 2019 tax report, which as of November 2020 has not been published yet. Publish What You Pay (PWYP) has signalled the same problem for Equinor.[14] This confirms that civil society organisations attempting to make comprehensive analyses of individual country-by-country reports are hampered by the reports' limitations. Thus, the lack of a solid reporting framework results in substantial gaps and quality differences among second wave firms as well.

11 See https://www.oecd.org/tax/beps/beps-actions/action13
12 In country-by-country reporting, this is typically the commercial profit or loss, which is a key variable for the analysis of corporate tax. The fiscal profit or loss, on its own, is less useful as a benchmark, because it does not show the effect of non-taxed income or non-deductible expenses.
13 Pearson plc, Tax report ('Our approach to tax') 2018.
14 Publish What You Pay (PWYP) Norway, 2019, The last leg – will the regulator save the industry from chaos?

The BEPS 13 standard, then, takes transparency to the next level. It provides detailed reporting instructions for all large multinationals worldwide. Initially, some essential guidance was missing. For example, it took the OECD until September 2018 to clarify that intra-group dividends should be excluded from pre-tax profits and losses per jurisdiction.[15] By then, multinationals had already submitted the first two years of country-by-country data. It is hard to see why it took the OECD so long; the issue had already been raised by Oxfam in its analysis of country-by-country reports of EU banks, which was published in March 2017.[16] However, the implementation guidance does now properly address such issues and provides a uniform framework with detailed explanations for all large multinationals worldwide.

Moreover, BEPS 13 is relatively comprehensive. Even though it does not include interest and royalty payments per jurisdiction, which some non-OECD countries asked for, the reporting format provides three major improvements on previous reporting practices. First, it splits revenues per jurisdiction between intra-group and third-party sales. Both measures provide important information. Disclosing third-party sales (on an origin basis) will show whether a company routes a large part of its worldwide sales through a few entities in, say, Ireland or Singapore. However, the margins of business activities that form part of internal supply chains, such as the manufacturing of components or back-office services, are easier to assess using data about total revenues including intra-group transactions. Second, the format includes cash tax payments as well as current tax expenses. Again, both measures are useful. Third, the BEPS 13 format requires separate reporting for stateless entities that are not tax resident in any jurisdiction. This allows readers to quickly identify potentially untaxed income of such entities, which has played a major role in tax avoidance schemes.

It matters that companies publish the BEPS 13 data. Large companies have already made the necessary efforts to prepare country-by-country reports. Public reporting would bring additional benefits at a relatively small extra cost. To some, those benefits may appear small, because tax authorities already have access to the data. Rumour has it that the filing of BEPS 13 data has triggered an exodus from offshore jurisdictions, including the winding up of structures that did not serve a purpose anymore yet made the country-by-country report look less ‘clean’. Result achieved, it seems. Well, not quite. In fact, a large part of the value of these reports can only be realised if they are publicly disclosed. Here are four reasons why:

15 See Guidance on Country-by-Country Reporting: BEPS Action 13, available at https://www.oecd.org/tax/beps/guidance-on-country-by-country-reporting-beps-action-13.htm

16 Oxfam, 2017, Opening the Vaults, Appendix 2, p15.

First, let's not forget that many tax authorities in developing countries do not have access to the reports, or not all relevant reports at least. In Africa, only a few tax authorities receive the reports.[17] This is because of the complex OECD system of data exchanges. The country-by-country data filed in some of the countries where the parent companies of multinationals are based simply do not reach all African tax authorities. Developing countries need to introduce domestic legislation requiring the filing of country-by-country data, even if there are no domestic multinationals that would need to report, or they need to ask for a derogation from the BEPS 13 requirements and peer review system. Apparently, many developing countries are under pressure to take the legislation route in order to avoid being blacklisted by the EU – a questionable demand when it is aimed at countries that do not pose a serious threat to the EU corporate tax base. However, there is another hurdle that seems even more difficult to overcome.

The sharing of reports only happens when there is a so-called competent authority agreement in place for the exchange of country-by-country data. To make things easier, there exists a multilateral exchange agreement.[18] However, a key country has refused to sign it. This country is the usual elephant in the room when it comes to global tax standards – indeed, it is the US. That means all countries wishing to receive country-by-country data of US-based firms need to conclude a bilateral exchange agreement with the US. That's not a big problem for G20 and OECD countries. It is a big problem for countries like Gabon and Senegal, which otherwise meet all requirements to receive the data and signed the multilateral agreement. They are ready for exchanges. The US is not. Thus, multinationals can make life a lot easier for the tax authorities of smaller developing countries by simply putting the data online.

Second, public reporting allows better monitoring of the fiscal behaviour of governments. How much does a government take from foreign investors? Where does that money go? How big are the tax benefits granted to large companies? And does a government treat all multinationals equally when it comes to corporate tax, or are some treated more favourably than others? Obviously, it won't be possible to ask such questions if the data is only available to tax authorities. When politicians, civil society and journalists are allowed access to country-by-country reports, it could give a welcome boost to good governance. Instead of putting the spotlight on the firms that publish their data, they might – and arguably should – prioritise scrutinising governments and firms that don't publish.

17 See also Goulder, R., Close Encounters with Public CbC Reporting, Tax Notes, 3 April 2020, https://www.taxnotes.com/featured-analysis/close-encounters-public-cbc-reporting/2020/04/03/2cc8g

18 See BEPS 13 Country-by-Country reporting exchange relationships, https://www.oecd.org/tax/beps/country-by-country-exchange-relationships.htm

Third, it will allow for more informed policy making. The data reveals something about the weight of certain jurisdictions with regard to the location of business activities and profits, for example. When Tax Justice Network published the first edition of its corporate tax haven index last year, it put the British Virgin Islands on the top spot. However, the country-by-country reports of Shell and AngloAmerican do not mention a single dollar of profits in these islands. Instead, a very different jurisdiction stands out: Singapore. For that is the country where both firms report their largest third-party revenues (as well as significant profits and surprisingly low taxes). So the data could help to focus the attention of policy makers on jurisdictions that matter most.

The OECD assesses proposals to address the tax challenges of the digitalisation of the economy. This is difficult without comprehensive firm-level data. For pillar one, which would reallocate taxing rights towards countries where consumers are based, country-by-country microdata would not be very helpful. The reason is that sales per jurisdiction are reported on an origin basis, whereas pillar one would reallocate taxing rights on a destination basis. However, the data contains precious information about the impact of pillar two, which provides rules to uphold a global minimum effective tax rate on profits per jurisdiction.[19] Academic researchers could also use the data to shed some light on tax policy questions, as they are already doing with the data from EU banks.[20]

Moreover, disclosure by individual firms would facilitate the correct interpretation of aggregate data. In July of this year, the OECD published aggregate country-by-country statistics for 2016 that had been prepared by national tax authorities. As the country-by-country reporting system was not primarily developed for this purpose, it turned out the 2016 statistics are inconsistent and confusing. The Dutch Ministry of Finance even published an explanation about mismatches in the Dutch data, lest the data be misinterpreted by policy makers. That explanation reads as a painstaking effort to reconcile the country-by-country data with consolidated financial statements. A key take-away is that large private companies should all be required to publish their consolidated accounts as well, otherwise the data per jurisdiction will not be particularly illuminating.

Fourth, as with any material issue regarding a firm's performance, better disclosure is conducive to better stakeholder engagement. Some shareholders care about the country-by-country data. Five years ago, Eurosif already expressed support for mandatory disclosure and in a PRI project, some companies indicated that investors were starting to ask about their tax stance in more

19 OECD/G20 Inclusive Framework on BEPS, 2020, Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint, https://www.oecd.org/tax/beps/tax-challenges-arising-from-digitalisation-report-on-pillar-two-blueprint-abb4c3d1-en.htm

20 See https://tax.unc.edu/index.php/county-by-county-translational-research/

detail.[21] Many firms have adopted responsible tax policies; country-level data allows third-party organisations to assess the outcomes. Sincere firms will be able to distinguish themselves from window-dressers. For civil society organisations, it places the bar higher. No more easy criticism; the reports are not easy to digest so they require a significant commitment from the one asking questions. The result, then, is a more effective stakeholder dialogue. That is taking off too: while I am writing this piece, Oxfam is having a conversation with Repsol.

There will be challenges. Even if prepared in line with the latest guidance, the BEPS 13 country-by-country data is rather complex. Some things do not show up in the reports. For example, withholding taxes paid in a source country is not visible because they are included in the tax data of the residence country. However, the complexity goes well beyond that. I invite everyone to have a look at a report by one of the frontrunners in this area, such as Shell, Eni, AngloAmerican, Rio Tinto, Repsol, Vodafone and St James's Place. They are highly informative, but also a bit puzzling.

The point is, the BEPS 13 data does not fully match with the figures in the consolidated financial statements. This is a bit surprising, because the data largely follow the accounting standards applicable to the ultimate parent company of a multinational, including the treatment of non-consolidated associates, and so on. One reason for the divergence is that the recognition of profits may differ between the constituent entities of a multinational and the multinational as a whole. For those who want to know the technical details, the BEPS report on pillar two contains an explanation.[22] Such discrepancies increase if figures of different entities in the same jurisdiction are aggregated – which is the default option in the latest BEPS 13 guidance – instead of consolidated. This may inflate related party revenues in a jurisdiction as well. Yet even the totals of cash taxes paid in country-by-country data may not match precisely with consolidated accounts.

Perhaps Eni provides the best illustration of such discrepancies. The BEPS 13 data contains only half of the profits stated in the consolidated accounts. Part of the difference is explained by the transfer of businesses into a new joint venture; the consolidated accounts still included these businesses, but the country-by-country report did not because the new joint venture took over the tax positions of the businesses a year before Eni formally lost control over them.[23]

21 See Eurosif, 2015, Country-by-country Reporting: Eurosif's position http://www.eurosif.org/wp-content/uploads/2017/12/July-2015-Eurosif-Position-on-Country-by-Country-Reporting-1.pdf; Principles on Responsible Investment (PRI), 2015, Engagement Guidance on Corporate Tax Responsibility: Why and How to Engage with your Investee Companies.

22 OECD/G20 Inclusive Framework on BEPS, 2020, Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint, p73-4.

23 Eni S.p.A., Country by Country report 2018.

Eni also shows how the challenges can be overcome. For total tax accrued in the BEPS 13 data, Eni provides a brief reconciliation with the tax recorded in the consolidated profit and loss account. Such short explanations might do the job. Just add a few more figures and explanations to the published country-by-country reports – a reconciliation of the totals of each item with the consolidated accounts – and most things may fall into place.

This might be part of a fourth wave of public country-by-country reporting: implementation of the Global Reporting Initiative (GRI) tax disclosure standard.[24] The GRI framework for sustainability reporting is widely applied by large multinationals, therefore the GRI 207: TAX 2019 standard that was added last year has huge potential. This new thematic standard includes full country-by-country reporting, going well beyond total payments to governments per country in the general GRI 201: economic performance reporting standard. GRI 207 is consistent with BEPS 13, but more prescriptive. It requires that data per jurisdiction is consolidated instead of aggregated, for example. It also requires a reconciliation of country-by-country data with the consolidated accounts and an explanation of any differences. Thus, use of the GRI tax standard would improve public reporting of BEPS 13 data.

Let's realise the full potential of the reporting efforts that large firms are making anyway, for the firms themselves and society at large, and make disclosure of BEPS 13-style country-by-country reports (with small but necessary explanations) the norm.

24 Global Reporting Initiative (GRI), GRI 207: TAX 2019, https://www.globalreporting.org/standards/media/2482/gri-207-tax-2019.pdf

3. Build back better our tax system

In early 2020, at Accountancy Europe's Tax Day, we highlighted the fact that 'we're all in this together'.[25] Since then, the coronavirus pandemic has shown just how true this statement is and how it goes beyond our work on tax to encompass the survival of society.

The pandemic has further highlighted the need for the private and public sectors to work together. Public investment in the health system (or lack thereof) is about far more than data on spreadsheets; it has significant real life implications. Many people in the private sector have been relying on public money to survive. What would have seemed impossible levels of public spending became possible almost overnight. Budget orthodoxy rules were suddenly no longer an obstacle; furlough schemes were deployed across the country; entire sectors were supported through public funds; subsidies and tax reliefs were offered; submission deadlines were extended and so forth. Many companies owe their continued survival to these schemes, but for many the future still remains highly uncertain.

Olivier Boutilliers-Taft

We have been given a live demonstration that our tax systems are a fundamental building block of society and civilisation. Similarly, such a massive expansion of public spending inevitably raises questions on the operation of our tax systems. A far worse threat than the pandemic and its economic and social consequences hangs over our heads: climate change. Extreme weather events, the decline of crucial resources, biodiversity loss and soil depletion are just a few of the challenges the world is facing. And tackling any of those challenges requires huge amounts of investment.

The climate disaster is worse than the pandemic because we rely on the only planet we have to provide for all of our needs. An increasing number of experts are coming to the conclusion that small improvements or incremental adjustments will not be enough to tackle the challenges that we face: the only answer is radically changing our economic system and we have a small window of opportunity to act before the damage we have done becomes irreversible.

So far, markets have shown only limited signs of adjustment, certainly nothing like the level of transformation that is required. Transitioning to a sustainable economy will require extraordinary

25 See: https://www.accountancyeurope.eu/events/tax-day-2020/

public investment and intervention. The tax system is, therefore, more vital than ever. It is time to not just change, but to reset our view of tax. To start with, we need a new paradigm of tax cooperation because, again, we're all in this together. Tax transparency has a key role to play in supporting the emergence of this new paradigm. In reality, mind-sets have already started shifting, at least in certain quarters. Many European tax professionals see that change is necessary to deal with the challenges of the 21st century, as outlined in a joint statement by Accountancy Europe and CFE Tax Advisors Europe on better tax governance.[26]

At Accountancy Europe, we have long encouraged businesses to be more transparent about their tax affairs. One way to be more transparent is to disclose tax practices in accordance with the international standard GRI 207: TAX. In our 2018 paper 'Providing support in tax controls and assurance'[27], we championed cooperative compliance as a win-win for both businesses and tax authority. Cooperative compliance provides the former with legal certainty and a lighter tax audit regime and frees the latter's resources to focus on the minority of non-compliant taxpayers.

We welcome the European Commission's initiative to develop an EU-wide cooperative compliance framework. Their Action Plan for Fair and Simple Taxation Supporting the Recovery Strategy[28] also explains how the framework could assist SMEs in cross-border trade.

SMEs stand to benefit significantly from greater tax transparency and cooperative compliance. By working within a new trust-based system, SMEs could focus on managing their businesses throughout recovery instead of worrying about the intricacies and risks of tax controls. Tax authorities would be able to concentrate their efforts on those who do not comply. Cooperative compliance enhances legal certainty for benevolent businesses, who make up the vast majority of taxpayers. It further enables tax authorities to focus their time and energy on making sure that those businesses that deliberately try to play the system are held to account. The result is a better allocation of private and public resources. In short, cooperative compliance could help to secure tax income when doing so is more critically important than ever.

Unfortunately, there is still much work to be done, as trust between taxpayers and tax authorities has been eroded over the last few decades. In general, trust is in short supply at the moment.

Taxpayers often feel frustrated by tax authorities. In turn, the latter often doubt the motives of taxpayers, businesses in particular. The public are suspicious of the tax practices of many

26 See: https://www.accountancyeurope.eu/tax/european-tax-professionals-call-for-better-tax-governance/
27 See: https://www.accountancyeurope.eu/publications/providing-support-in-tax-controls-and-assurance/
28 See: https://ec.europa.eu/taxation_customs/sites/taxation/files/2020_tax_package_tax_action_plan_en.pdf

businesses and still see the voluntary tax disclosures of multinational corporations as little more than marketing or 'tax-washing'. It is in our collective interest to rebuild trust. In this respect, external independent assurance has an important role to play in increasing confidence and, ultimately, trust in tax declarations. This was a key finding of the previously mentioned Accountancy Europe publication from 2018. When external auditors review policies, control systems and disclosures, it builds confidence in the system, which benefits everybody.

Although independent assurance can help to rebuild trust in the tax system, it is not a magic bullet that will deter all frauds. Tax fraud is as old as tax systems and will probably never disappear. Tax systems are also likely to become more complex. We must also remain wary of having too high expectations of assurance, I call this the 'expectation gap'. To limit this risk, it is important to develop international standards for tax assurance, which include a clearly agreed scope and objectives and a set of procedures and practices to support these.

The coronavirus crisis has led many people to call for 'building back better' when it comes to helping our society and economic system to recover. Tax money will be key to the recovery, but the tax system needs to be built back better. Today's tax system is a legacy of the bygone industrial world of infinite growth; it is not adapted to the world we now find ourselves in, where intangible assets, digitalisation and high mobility drive value creation; and inequalities, an aging population, climate disruptions, waste, carbon emissions, declining natural resources and mass extinction drive value destruction.

Tax has always been an area of intense debates: technical, political and ideological. Today, we know by experience that everyone benefits when the system functions properly and the right taxes are paid. Our collective wellbeing (or perhaps more prosaically our survival) largely depends on a functioning and effective tax system. There is still much work to be done to make the tax system fit for purpose, not only for a world recovering from the coronavirus. Cooperative compliance and transparency would provide an essential building block that would put us on the right track for systematic change.

Professional accountants are already helping the participants of the tax system to regain trust. There is intense debate in the accountancy profession and ongoing efforts are being made to build our tax system back better. Let's remember Churchill's words and not let a good crisis go to waste.

4. Methodology

The Tax Transparency Benchmark 2020 is based on the benchmark methodology for Good Tax Governance Principles designed by VBDO and Oikos in 2014.[29] VBDO updates the benchmark methodology questions every three years. The benchmark was introduced in 2015 and revised in 2018. This is the third consecutive year with the same set of benchmark questions. 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.

Throughout the review period, we often receive feedback for clarification from the companies on certain questions. This is especially the case with regard to the questions around internal and external tax assurance (Q28 & 29). Therefore, this year we have included a more detailed description for these questions (please refer to Appendix B for the Tax Transparency Benchmark methodology).

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, similar to last year, 69% of the companies made use of this opportunity. 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.

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

Quick facts
77 companies
30 criteria worth 35 points in total
69% feedback response rate

Scope

The 2020 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 peers.[30] The list of companies differs from the 2019 benchmark due to the fact that some companies entered or left the AEX, AMX or AScX in 2020.

Criteria

The Tax Transparency Benchmark is based on the guiding Good Tax Governance Principles designed by VBDO and Oikos[31] 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 amount 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.

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.

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.

As in previous years, following the results of our study a top 10 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;
- Anna Gunn, Tax researcher and blogger, Leiden University and Artikel 104; and
- Victor van Kommer, Director of Tax Services at the International Bureau of Fiscal Documentation (IBFD) and Professor of Tax Policy at Utrecht University.

5. Results

In this section, we present the results of the 2020 benchmarking exercise and we take stock of the developments on tax transparency and good tax governance over the three last years.

The overall results show that, on average, Dutch stock-listed companies have become more transparent in their tax reporting. The overall transparency ratings on our six Good Tax Governance Principles increased from 43% to 46% this year. We continue to see this upward movement as a positive trend, especially since we started out with an average score of just 25% in 2015.

There remains a lot of ground to be covered, as the average score is still below 50% and the difference between frontrunners and laggards is increasing. The highest scoring companies increased their scores and appear to be eager to improve further on tax transparency and governance. Tax strategy documents of front running companies are innovative and clearly intend to provide essential information to stakeholders. On the other hand, the number of companies that scored below 10 points stayed the same at 30%. At the same time, the number of AEX-listed companies in that group grew to 22% (up from 13% in 2019). It is concerning that five of the largest companies in the Netherlands neglect tax transparency.

Overall, we see a positive move towards ‘show me’ instead of ‘tell me’. Since the benchmark survey update of 2018, we have stressed the importance of companies providing a better narrative to tax-related information. The companies that just publish their tax report to the letter of the law (i.e. ‘tell me’) tend to score lower than companies that report on their tax governance in a more detailed way using concrete and relevant examples (i.e. ‘show me’). The scores that have improved most since 2018 relate to those questions that ask for additional information and clarification. It is encouraging that many companies appear to be responding to our recommendations.

The number of companies that scored below the minimum base line (fewer than 10 points) has stayed the same this year: 30%. Out of these lower scoring companies, 22% are AEX-listed, 30% are AMX-listed and 48% are AScX-listed. Of the companies scoring above minimum, 37% are AEX-listed, 33% are AMX-listed, 26% are AScX-listed and 4% are non-listed.

Results per company

The distinguished members of the independent Tax Transparency Benchmark expert jury took a closer look at the top 10 companies that scored highest in the Tax Transparency Benchmark 2020.

Winner

The jury selected the winner from amongst the group of these 10 nominees (NN Group, KPN, Shell, a.s.r., Aegon, AMG, Rabobank, Unilever, Vopak and ForFarmers) 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 tax and tax transparency related controversies; and
- The clarity of the implementation and execution of tax strategies.

The decision was unanimous and the jury congratulates **NN Group** on winning the 2020 Tax Transparency Award.

NN Group is the top-scoring company in the 2020 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 that resulted in a high-score of 32 points, compared to 30 points in 2019. 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. It also includes a description on why tax is an integral part of NN Group's business principles. Other companies should take note of NN Group's tax risk reporting, which sees not only key risks, impacts and controls clearly delineated but also certain key factors for success.

NN Group published a total tax contribution report, which features country-by-country data information on FTEs, total assets, profit before tax and taxation. Finally, NN Group was the only company to provide external 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.

Appendix A provides an overview of the jury's considerations on the results of the Tax Transparency Benchmark 2020.

Main findings of the Tax Transparency Benchmark 2020

This section provides a quantitative and qualitative explanation of the outcomes of the Tax Transparency Benchmark 2020. The benchmark methodology changed in 2018; therefore, we compare scores from 2018 onwards. During this year's evaluation, our interpretation of a (limited) number of questions changed, as highlighted in the following section starting on the next page. The following pages cover the overall and most significant results of our benchmark study..

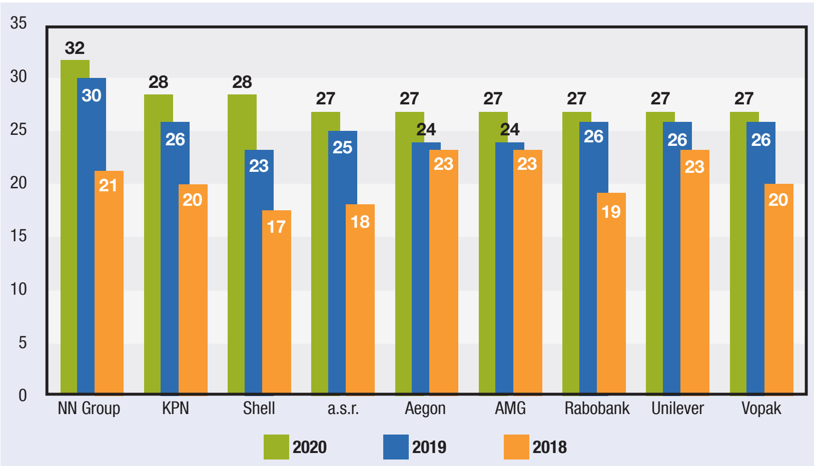


Figure 2: Top 9 companies' comparison between 2018 - 2020

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
a.s.r., Aegon, AMG, DSM, Grandvision, NN Group, Philips, RELX Group, Shell, Van Lanschot Kempen, Vopak and Wereldhave – All scored nine out of nine points

Results

- 86% of the companies communicated their views on tax via a tax strategy or policy;
- 55% of the companies describe how the tax strategy is aligned with the organisational values, a significant increase on previous years (2018: 36%; 2019: 45%);
- 48% of the companies explicitly communicated to stakeholders that the tax strategy had been signed off by the executive board;
- However, fewer (36%) companies confirmed that they had discussed the tax strategy with stakeholders (the percentage was 43% in 2019 and 38% in 2018);
- The most significant improvement related to the amount of companies that describe their vision on the role of technology within the tax strategy/policy, from 7% in 2018, to 23% in 2019 and now 34%.

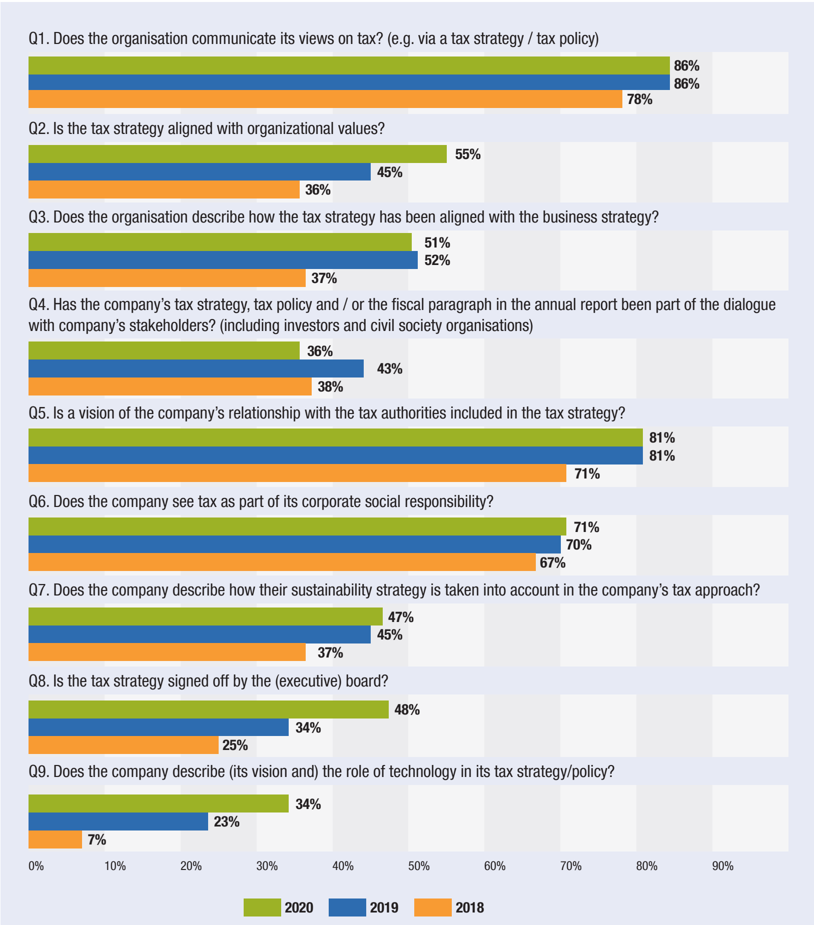


Figure 3: Scores on Principle A

The average score for Principle A has increased from 44% (2018) to 56% (2020). While most companies explicitly state their vision of the company's relationship with tax authorities (81%) and that tax is part of corporate social responsibility (71%), fewer describe how the tax strategy aligns with the organisational values (55%), the business strategy (51%) and the sustainability strategy (47%). We consider it important for companies to communicate that their 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. Disclosing this explicitly demonstrates to the company's stakeholders that the culture of the company is also firmly embedded in its approach to tax.

We continue to be proud that most (86%) companies express their views on tax in their annual report, tax strategy or a policy document. 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. More companies now do this (48% in 2020 compared to 25% in 2018). This is clearly a significant increase and we hope that this upwards trend continues.

A tax strategy is only properly established when it aligns with stakeholder interests. We are sad to see a reduction in the number of companies that discuss their tax strategy with stakeholders. This percentage decreased to 36% in 2020, compared to 43% in 2019 and 38% in 2018.

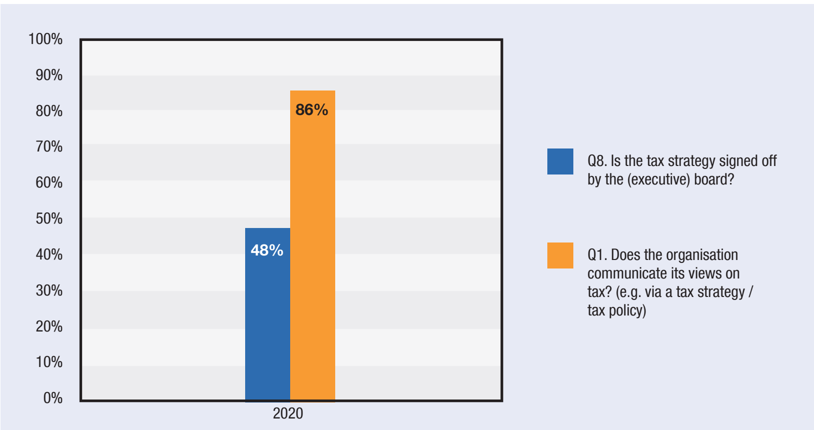


Figure 4: 86% of the companies communicated their views on tax, but only 48% have this information explicitly signed off by their boards

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
a.s.r., KPN and NN Group – all scored eight out of eight points

Results

- 79% of the companies stated that ‘the business is leading’ when setting up international taxation structures and 69% communicated that they do not make use of tax havens;
- The number of companies that provide a narrative description for the effective to statutory reconciliation table has almost tripled from 26% in 2018 to 70% in 2020;
- More companies provide full disclosure of country-by-country based tax information. 13% received two points for question 14 (compared to 9% in 2019) and 5% received two points for question 15 (compared to 4% in 2019);
- However, the average percentage of companies that do not provide tax information on a country-by-country basis increased to 64% from 62% in 2019.

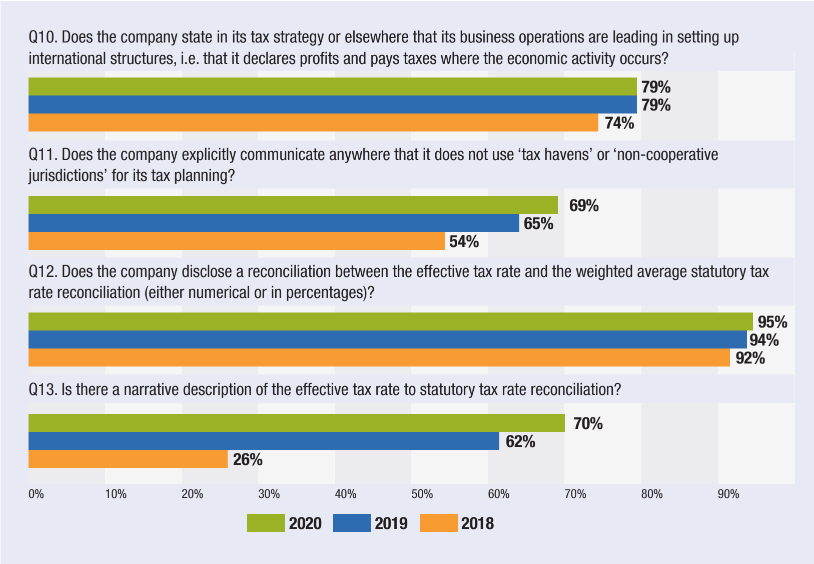
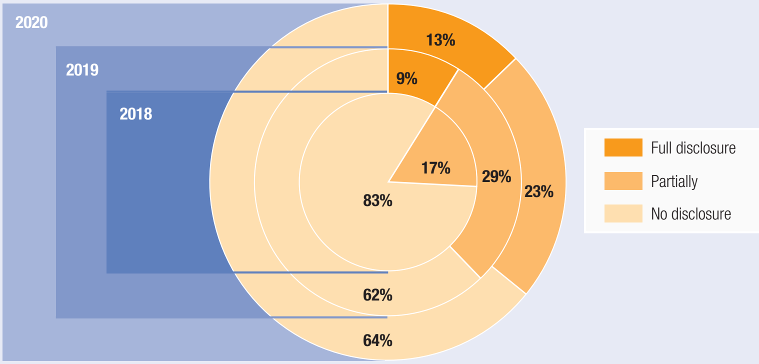


Figure 5: Scores on Principle B

From 2018 onwards, we have emphasised the need for additional narrative to corresponding tax information. In other words, it is no longer enough to simply state the figures; those figures must be explained. Since disclosing an effective to statutory tax rate reconciliation is an accounting requirement, 95% of the companies provide this information in a reconciliation table. The numbers in the reconciliation table often do not in themselves provide enough detail for stakeholders to properly assess any disparities. Therefore, providing a narrative to the reconciliation table is so important. We are happy to report that after the massive increase in companies stating that they do this last year (from 26% in 2018 to 62% in 2019), this year the number increased further to 70%.

The average number of companies that do not disclose country-by-country based tax information increased to 64%. However, it is encouraging that more companies (13% compared to 9% in 2019) have fully disclosed information on corporate income tax, accumulated earnings, assets and FTEs for the jurisdictions they operate in.

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).

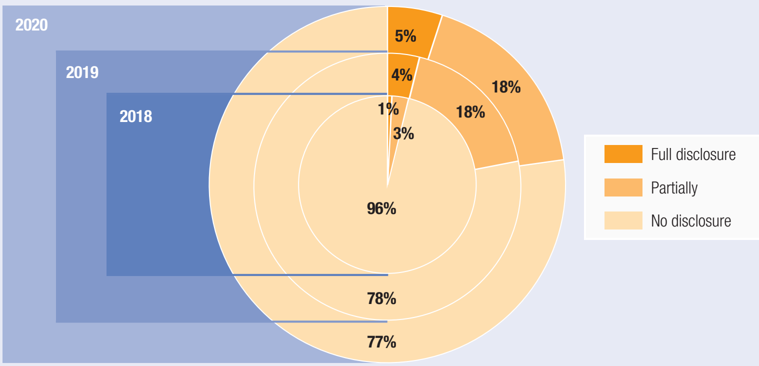


Figure 6 & 7: Average scores on country-by-country tax information

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., Ahold Delhaize, AMG, Eurocommercial Properties, Flow Traders, ForFarmers, Nedap, NN Group, Randstad, Shell, Signify, TomTom, Unilever, Vopak and Wereldhave – All scored three out of three

Results

- 61% of the companies explicitly stated that their tax planning strategy takes the spirit of the law into account;
- 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 has increased over the three years, from 20% in 2018, to 31% in 2019 and 40% in 2020;
- 25% stated that they have a whistleblower policy in place that refers explicitly to tax, compared to 14% in 2019.

Dilemmas concerning tax issues can be very challenging for employees to deal with. It is very encouraging that most (61%) companies explicitly state that their tax planning takes the spirit of the law into account. Providing specific training on ensuring that tax issues are dealt with in accordance with the companies' organisational values, can also help to make sure that employees know how the company determines the 'spirit' of the law in specific circumstances. Promisingly, we have seen the number of companies that provide such training programmes double to 40% from 2018 to 2020. Communicating this information to stakeholders provides certainty that relevant individuals are adequately trained to address tax risks.

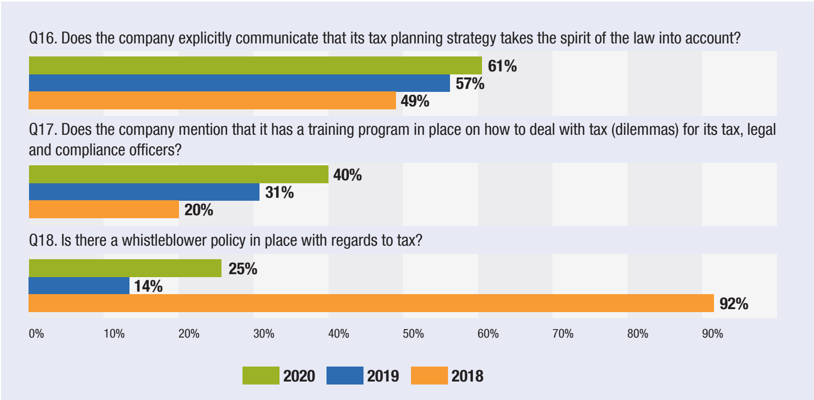


Figure 8: Scores on Principle C

When concerns arise, it is important both for internal and external stakeholders that they know grievance mechanisms exist. Many companies do not list tax as a specific issue in their whistleblower policy. Therefore, we announced in the 2018 Tax Transparency Benchmark report that we would be looking for an explicit reference to the whistleblower policy in the tax policy from the 2019 edition onwards. Last year, 14% of the companies reported that they had a whistleblower policy in place. This year, the results increased to 25%.

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, Eurocommercial Properties, ING Group, Nedap, Rabobank, Randstad, Vopak and Wereldhave – All scored six out of six points

Results

- Companies scored highest on this principle;
- 57% described their tax risk appetite;
- 77% of the companies reported any tax risks and 58% described risks in detail;
- 65% gave a commentary on the company's response to these risks;

- More than half of the companies provided their vision on rulings with tax authorities to stakeholders;
- 34% described the role for tax relevant data management.

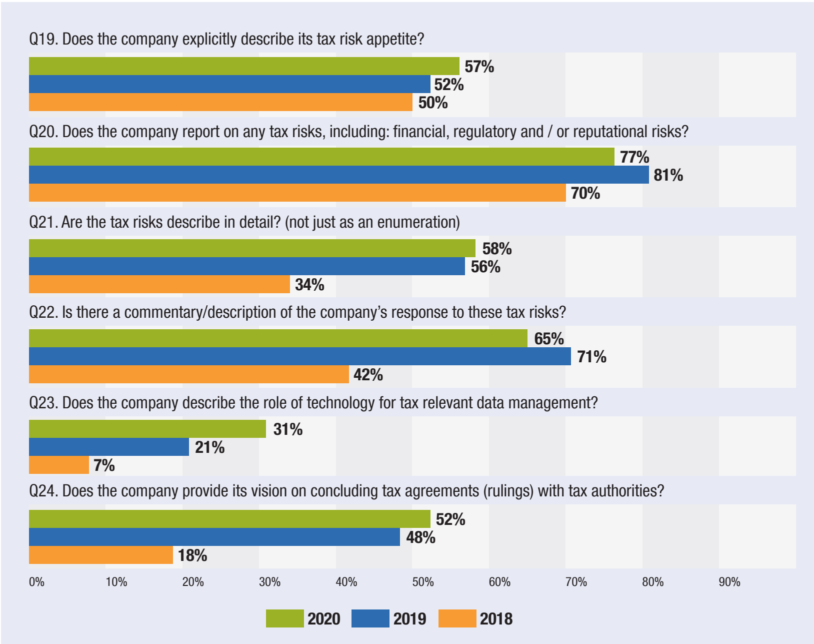


Figure 9: Scores on Principle D

For two years now, companies have scored best on tax risk reporting. The average results grew from 37% in 2018, to 55% in 2019 and 57% in 2020. In addition, this year more companies (57%) explicitly describe their tax risk appetite and more than half (52%) provide a vision on concluding rulings with tax authorities. Given the societal unrest surrounding tax rulings, it is especially encouraging that the amount of companies that report they are open and transparent about concluding rulings has tripled since 2018.

The survey asks companies to not just briefly mention their tax risks, but rather to provide a detailed description and add a commentary of the company's response to the tax risks. While it is very encouraging that most companies provide a detailed description of tax risk management to stakeholders, there does remain a large discrepancy between simply mentioning a tax risk (77%) and providing a detailed description of the risk (58%) and the company's response to the risk (65%). Companies should take note that tax risk management is of high interest to stakeholders, so a proper and specific description of tax risks is important.

In 2018, we added two tax technology questions to the Tax Transparency Benchmark methodology. In 2020, 34% of the companies report on the role of tax technology for tax relevant data management. While the number 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.

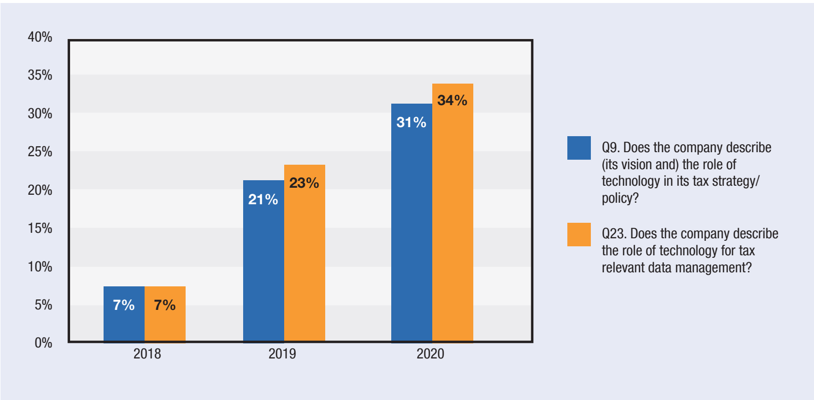


Figure 10: Growth of companies reporting on the relevance of technology for tax information management

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 board room's interest in tax risk management has grown markedly. 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
a.s.r., Aegon, AMG, DSM, Flow Traders, ForFarmers, Fugro, Grandvision, Heijmans, Heineken, NN Group, PostNL, Randstad, RELX Group, Shell, Signify, TKH Group, Unilever, Vastned and Vopak – All scored four out of four points

Results

- More than half of the companies described to stakeholders how tax risks and controls are tested and monitored;
- One third of the companies described how the implementation and execution of the tax strategy is monitored;
- 57% of the companies reported that tax risk management is reported to the audit committee.

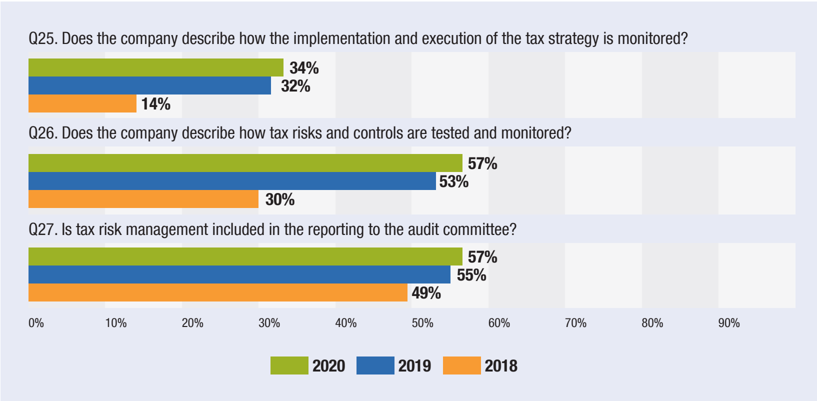


Figure 11: Scores on Principle E

Being transparent about the monitoring and testing processes a company has designed, provides a narrative to the implementation of the tax strategy. In addition, it ensures that tax risk management is properly executed. All in all, it shows a stakeholder how a company executes the tax strategy, rather than just telling them that certain processes are in place. Many companies view tax from a risk management perspective. Therefore, most (57%) companies describe to stakeholders how their tax risk control measures are tested and monitored and also include tax risk management in reports to the audit committee (57%).

Again, to obtain a point here it is not sufficient to simply tell stakeholders that a tax control framework is in place. While many companies do this, we are looking for an actual description of the tax control processes.

Tax risk management is one important element of a properly executed tax strategy. Showing stakeholders how the company ensures the implementation of all the elements of the tax strategy was one of the criteria we added to our survey two years ago. While we are happy that the amount of companies that provide a roadmap for the implementation of the tax strategy is growing every year, progress this year is slow. It remains that most companies (66%) do not describe to stakeholders how the tax strategy is actually implemented.

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. The company provides 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
NN Group – Scored three out of five points

Results

- NN Group is the only company that has third-party tax assurance;
- Kendrion and Signify mentioned the existence of a tax in-control statement;
- 47% of the companies participated in a co-operative compliance programme.

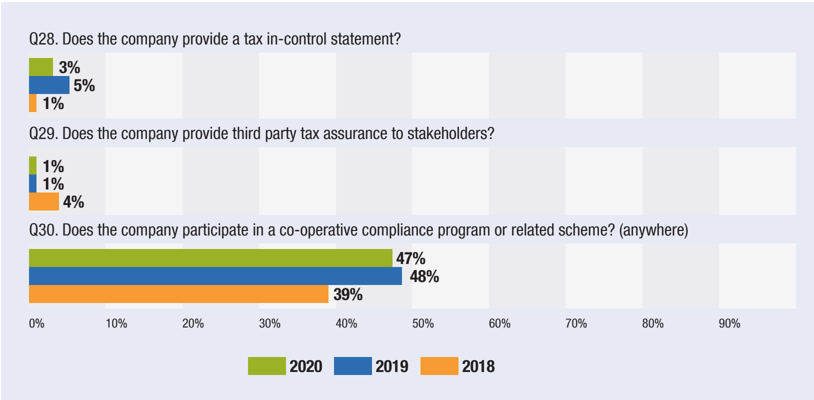


Figure 12: Scores on Principle F

For as long as the Tax Transparency Benchmark has existed, companies have scored poorly on questions regarding tax assurance. Moreover, on average, companies have only improved slightly (from 12% in 2015 to 17% in 2020). Companies are most likely to score on their participation in any co-operative compliance programme with tax authorities (47%). Boardroom involvement (tax in-control statement) or external supervision (third-party tax assurance) of the implementation and processes of the tax strategy are only rarely reported.

Over the years, we have seen progress relating to tax strategies and the subsequent reporting of them. Some companies now publish country-by-country tax information and other elements of their tax strategies in large reports, separate from the annual report. While these are important advancements for good tax governance, the data is often not audited by an external party. The only company that publishes such a report and provides additional external assurance to the information it contains is NN Group.

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 2020 and the expert jury meeting, recommendations for further improvement for different actors 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 and practices to align with these new standards;
- Stay engaged or start engaging in an active 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 effective to statutory 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;
- Implement and continuously improve a monitoring system for the implementation and execution of your tax strategy;
- Consider providing assurance, ideally 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);
- Implement the tax strategy 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 2020

Jury members

Appointed by VBDO, the jury consisted of six 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;
- Anna Gunn, Tax researcher and blogger, Leiden University and Artikel 104; and
- Victor van Kommer, Director of Tax Services at the International Bureau of Fiscal Documentation (IBFD) and Professor of Tax Policy at Utrecht University.

Nominees

The jury discussed the process and execution of the benchmark as a whole. In addition, the data pertaining to the top 10 performing companies (NN Group, KPN, Shell, a.s.r., Aegon, AMG, Rabobank, Unilever, Vopak and ForFarmers) was analysed. The winner of the Tax Transparency Award 2020 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 second year in a row.

Winner

NN Group is the top-scoring company in the 2020 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 that resulted in a high-score of 32 points, compared to 30 points in 2019. 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. It also includes a description on why tax is an integral part of NN Group's business principles. Other companies should take note of NN Group's tax risk reporting, which sees not only key risks, impacts and controls clearly delineated but also certain key factors for success.

NN Group published a total tax contribution report, which features country-by-country data information on FTEs, total assets, profit before tax and taxation. Finally, NN Group was the only company to provide external assurance to stakeholder 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.

Good practices

It was not only NN Group's tax policy that received praise from the jury members; during the jury meeting several good practices from other companies were discussed. The jury complimented **Shell** in particular, on the huge progress that has been made in its Tax Contribution Report, which now includes country-by-country reporting. **Vopak** and **a.s.r.** were complimented on their tax strategies and for providing a narrative and demonstrating that tax is an integrated part of their corporate purpose and values. **Aegon**'s tax policy was also praised for including proper tax incentives in the company's key performance indicators (KPIs). **OCI** is commended for being the highest improver in this year's benchmark. The jury also complimented **Prosus**, a first-timer in the Tax Transparency Benchmark, for scoring a respectable 18 points. In addition, **Unilever** sets a good example with its clear description of its internal implementation, execution and monitoring of the tax strategy, which outlines the roles and responsibilities of the people involved and includes a scorecard.

Recommendations from the jury

The overall jury verdict on this 2020 edition of the benchmark is that in the last few years, impressive progress has been made by companies in providing enhanced transparency. They note:

- Scoring on key questions regarding country-by-country reporting and the provision of internal and external tax assurance remains low and progress is behind that made on other key indicators. The jury also wishes to emphasise that considerable room for improvement remains on the provision and quality of country-by-country information and on internal and external tax assurance;
- The jury notes that a distinct difference remains between the companies that publish their tax report to the letter of the law (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 motivation to engage in meaningful stakeholder dialogue?;
- The jury is worried about the decreasing amount 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;
- Although many companies now provide more narrative to the effective to statutory reconciliation table, the jury often finds this narrative hard to follow and relate to the numbers provided. Companies can do a better job of making the narrative more accessible;
- With regards to companies outlining their tax risk appetite, the jury believes that more than just a simple statement should be provided. The report should explain what type of risk is being referred to: judicial, societal, political, economical etc.;
- The jury expects companies to pay attention to key tax issues that have been dominating the news, such as the proposed 'exit tax', the introduction of EBITDAC (earnings before interest, taxes, depreciation, amortisation and COVID-19) and the growing European influence on tax legislation;
- The jury called upon companies to not only disclose their tax payments to governments, but to also report any tax incentives they benefit from. Such as the the Dutch 'innovatiebox', for what type of innovations are the incentives used?

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

- For Q8 (on sign off by the board), it should be made more explicit who should sign off and who is responsible for the implementation of the tax policy. Also, it 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 in order to improve the comprehensibility of the effective to statutory tax rate reconciliation (ETR), perhaps steering towards a uniform calculation of the ETR;
- Adjustment of Q20, Q21 and Q22 in order 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;
- Adjustment of Q24 on tax rulings in order to ask companies to be transparent about the implementation of their ruling strategy and to be more specific on the topic of rulings;
- Adjustment of Q25 in order to align it better with the COSO principles;
- Adjustment of Q27, which focuses on the role of the audit committee in tax risk management. At the moment the question is very much 'tell me' instead of 'show me';
- Adjustment of Q30 on companies' participation in a co-operative compliance programme. Currently no points are allocated if a company does not participate in such a programme. However, being transparent on not participating should perhaps also be rewarded a point. Moreover, with the introduction of Horizontaal Toezicht 2.0, participating or not might not be a choice anymore. It has been announced that the top 100 companies agreed to participate.

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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