

Tax transparency in  
your sustainability  
report (GRI 207)



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## Introduction to GRI 207

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There has been a widespread international call from non-governmental organizations, investors, the public, the mainstream press and politicians for more transparency by multinational companies regarding their tax payments and tax policies. This call for more tax transparency has triggered the Global Reporting Initiative organization ('GRI') to launch a new global reporting standard – GRI 207: Tax 2019 ('GRI 207') within their set of sustainability reporting standards. GRI 207 requires companies that have elected to endorse GRI Standards and identified tax as a material topic to disclose its management approach to tax and country-by-country reporting ('CbCR'). GRI 207 is effective for the reports published on or after 1 January 2021.

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## Relevance

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Taxes are a key mechanism by which companies contribute to the economy of the countries in which they operate. Taxes are the most important source of government revenue to invest in societal development and, therefore, play a vital role in creating long term value. Companies have an obligation to comply with tax legislation and a responsibility to their stakeholders to meet expectations of good tax governance.

Reporting on tax increases transparency and promotes trust and credibility in the tax practices of the reporting companies with investors and other stakeholders. GRI 207 facilitates the reporting on tax through inclusion thereof in the sustainability report.

## Sustainability reporting

The demand for more tax transparency is in line with growing attention from society to sustainability in general and corporate sustainability in particular. The most urgent call to action for corporate sustainability are the UN Sustainable Development Goals ('SDGs'). In 2015, the UN set 17 ambitious goals with the aim to end poverty, fight inequality and tackle climate change by 2030. Companies can explicitly commit to SDCs by reporting annually on their progress in achieving the SDCs. Society at large expects multinationals to contribute to SDCs and create long term value for investors and other stakeholders.

To adhere to this demand for sustainable development, companies increasingly provide their stakeholders with insights into their strategy, business model and (non-) financial performance by publishing either a sustainability report which is separate from the annual report, or an integrated report.

In order to standardize such reporting, the GRI has developed guidance and metrics at sector, national and international levels - the GRI Standards that companies can use as a framework to prepare their sustainability reporting. The GRI standards are the most often used standards for sustainability reporting.



## Key questions

- ▶ What messages on tax would I like to convey to my stakeholders?
- ▶ Am I in control of the qualitative and quantitative data that is to be shared?

## Applicability

Key point in GRI reporting is that through stakeholder engagement, companies can define their material (relevant) topics. These topics are the social, environmental and economic factors the company has the largest impact on; both positive and negative. In order to report in accordance with GRI, the report should include all material topics; usually prioritized in a materiality matrix. Defining materiality depends on the facts and circumstances and requires customization. This implies that companies are required to include GRI 207 in their GRI based sustainability reporting as of 1 January 2021 when they qualify 'tax' as a material topic. In practice, this will often be the case.

## Overview of disclosures under GRI 207

Under GRI 207, there are four disclosures that need to be made:

- ✔ Disclosure 207-1 *Approach to tax*
- ✔ Disclosure 207-2 *Tax governance, control and risk management*
- ✔ Disclosure 207-3 *Stakeholder engagement and management of concerns related to tax*
- ✔ Disclosure 207-4 *CbCR*

## Disclosures 207-1/2/3 on good tax governance

Disclosures 207-1/2/3 focus on how a company manages tax and exercises good tax governance. Some of the related questions and considerations are provided below.

### Strategy/policy

A company's approach to tax is normally described in a tax strategy/policy. It defines which tax principles are applied and which practices are ruled out. This includes how the company balances tax compliance with business activities and ethical, societal, and sustainable development-related expectations, for example, corporate tax principles, attitude to tax planning, degree of risk the company is willing to accept and approach to engaging with tax authorities.

### Governance

Is the company in control? How does the company manage risks and deliver on its message to the stakeholders? Robust and balanced governance, control and risk management systems for tax ensure delivery of the company's approach to tax.

### Transparency

How is the tax policy communicated to the internal and external stakeholders? How does the company manage its reputation and position of trust? How does it engage with stakeholders to understand evolving expectations of society related to tax and the impacts thereof on its tax strategy?



## Disclosure 207-4 on CbCR

This disclosure requires companies to publicly disclose certain financial information (e.g. revenue, profit, employees, assets, corporate income taxes paid, etc.) on a per country basis. GRI 207, therefore, expands on existing CbCR legislation implemented by many countries

based on Action 13 of the OECD's Base Erosion and Profit Shifting ('BEPS') project finalized in 2015, which requires preparation of CbCR and disclosure thereof to tax authorities only.

There are however some differences. The table below compares the two CbCR models:

	CbCR (OECD BEPS Action 13)	CbCR (GRI 207)
<b>Application</b>	Mandatory for multinationals with consolidated group revenues of more than €750 million	'Voluntary' public disclosure for a company of any size, type, sector or geographic location that reports under GRI standards and identifies tax as a material topic
<b>Data aggregation</b>	Data to be reported by tax jurisdiction	Data to be reported by tax jurisdiction
<b>Basis of calculation</b>	Aggregate information per tax jurisdiction	Dependent on relevant guidance
<b>Covered period</b>	Covers a fiscal year	Covers the most recent audited consolidated financial statements or, when this information is not available, the one preceding it
<b>Timing of reporting</b>	Filed no later than 12 months after the last day of the fiscal year	A company is expected to commit to regularly providing a consolidated disclosure of its economic, environmental, and social impacts

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## How EY can help

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We help our clients understand how being transparent on tax can add value. Different companies will need different levels of support and advice, depending on their experience in integrated and sustainability reporting and maturity of their existing tax function and control framework.

### We can help you to:

- 1 Develop an overall sustainability strategy and governance to create long term value
- 2 Conduct a stakeholder dialogue and materiality assessment impact measurement that includes tax as a topic
- 3 Draft your company's sustainability or integrated report in accordance with GRI (or other) standards
- 4 Perform a maturity assessment of your existing tax strategy/policy, governance and risk management frameworks and, if desired, improve these and other relevant components of your Tax Function & Control Framework to align these to your sustainability strategy and to facilitate sustainability reporting in accordance with GRI (Tax in the Boardroom)
- 5 Set up, review and/or align public and non-public CbCR processes and content, identify differences and their potential impact

For audit clients, EY's primary role is to provide assurance on the sustainability reporting in accordance with GRI, as part of the audit procedures.

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## Your contacts

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