More companies willing to report publicly on their tax approach, study shows

PwC is pleased to present the *Tax Transparency and Sustainability Reporting in 2023* report, which is a global study on tax reporting by 269 companies listed in Austria, Brazil, Germany, Ireland, South Africa, Spain, Switzerland and the United Kingdom (UK).

Source: [Pexels]

It is based on the GRI 207: Tax 2019 standard, the S&P Global Corporate Sustainability Assessment and other Organisation for Economic Co-operation and Development (OECD) and World Economic Forum (WEF) specifications.

Carla Perry, PwC South Africa tax reporting and governance specialist, says: “It is important for today’s business leaders to understand that increasing transparency can and should help to build trust between organisations and their stakeholders. For corporate organisations, transparency and trust are vital to making smart tax-policy choices for a sustainable future, which is an important theme in this year’s report.”

This report takes a closer look at the tax contribution role that corporations play, as well as their role in enabling the broader tax system to work. The findings indicate that there is an increasing willingness from more companies around the world to report publicly on their tax approach.

While organisations do report on their tax strategy or tax control framework more frequently, this increased willingness should not hide the fact that tax is often still seen purely as a financial issue, subject to complex legislation, and reported in financial statements. This, rather than a vital way for companies to contribute to society, public services, economic development and social welfare.

And yet, the tax reporting landscape, both locally and globally, has been evolving for many years, through country-level requirements and, more recently, by being incorporated into wider sustainability reporting frameworks.

South Africa's tax-reporting landscape

This is the first year that South Africa has participated in the global study, which includes the review of the top 30 companies listed on the Johannesburg Stock Exchange (JSE) based on their market capitalisation on 31 December 2022.

Kerneesha Naidoo, PwC South Africa tax reporting and strategy manager, says: "South Africa pioneered integrated reporting as a core element of corporate governance. The King IV Code, a global leader in corporate governance standards, outlines principles and recommended practices for organisations to achieve good governance, manifested in four outcomes: ethical culture, good performance, effective control and legitimacy."

Some of these practices are embedded in the JSE Listings Requirements, which reinforce the expectations of being a responsible taxpayer.

"For nearly a decade, PwC has evaluated the tax transparency of large JSE-listed companies, recognising those that excel in insightful tax reporting and distinguish themselves from their peers," Naidoo says.

"Remarkably, some of the top performers in this study are South African companies, even though there is no specific legislation or regulation that mandates tax transparency in the country."

Sars initiates monthly tax-certificate reporting
20 Oct 2023

Naidoo says some of these companies have shown a long-standing commitment to public tax transparency and have adopted reporting in line with GRI 207 and other frameworks that were examined. South African companies also demonstrate strong governance of tax by their governing bodies (in line with King IV) and a keen awareness of investor expectations regarding tax disclosure.

Consistent with the findings of the 7th edition of PwC South Africa's Building Public Trust through Tax Reporting report, leading tax reporters in South Africa effectively communicate their broader impact and the value they create for all their key stakeholders, fostering better open communications rather than mere compliance with regulation.

"They do so by disclosing and explaining much more than the statutory requirements, such as their tax strategy, their effective tax-rate analysis, their total tax contributions in the countries where they operate and voluntary Country by Country Reporting (CbCR)," Naidoo says.

"However, despite many guidelines and transparency drivers, many large listed South African companies still do not report more information on tax publicly, beyond what accounting standards require."

Tax transparency in international comparison

When we consider all four ESG frameworks, Spain and South Africa have the most companies that meet at least 75% of each framework's requirements. However, when we examine each framework separately, we see that Spain leads in the

S&P Global Corporate Sustainability Assessment (CSA), while Brazil, South Africa and UK have similar overall scores for the GRI 207: Tax 2019 standard.

The GRI 207: Tax 2019 standard and the S&P Global Corporate Sustainability Assessment are the most widely used frameworks, while the OECD Guidelines and the WEF White Paper are less prevalent.

The significant increase in the number of companies and countries examined this year makes it possible to compare the tax transparency reporting of large corporations internationally, and to identify similarities and differences.

Sars and law enforcement unite to crush coal syndicates
13 Oct 2023

Regardless of the location of respective companies, industry-specific comparisons show that the Financial Services, Energy, Utilities and Resources, and Technology, Media and Telecommunications sectors perform best.

Commonalities among all the surveyed companies is that only a few provide comprehensive quantitative tax information. “Most of them initially limit themselves to qualitative information,” Perry says. “For the small number of companies that do provide quantitative information, clear regional differences can be identified.”

TTC disclosures prevalent in UK, South Africa

The frequency of TTC disclosure in the reports we reviewed reveals a regional difference. Companies in South Africa and the UK tend to use a TTC approach, while EU companies are more likely to publish public country-by-country reports. “This is not surprising, given that the TTC approach originated in the UK and has been increasingly used in South Africa for several years”, Perry explains.

“TTC is not reported at country level like the Public CbCR, but shows all taxes and duties paid and withheld by a company in full at group level,” Perry says. “Therefore, TTC is not limited to income taxes paid, but also includes sales, payroll, industry-specific and other taxes. One advantage compared to the Public CbCR is that here the actual contribution of a company to society is made more visible in absolute figures on the basis of all taxes paid.”

With the implementation of the EU Directive on public CbCR and other framework changes coming into play, more companies will be affected by increased mandatory tax reporting requirements. It is therefore essential that companies take the time to understand how they will be affected by the changing reporting landscape, and to consider their response.