Governance and tax transparency

The global tax system has been in a period of significant change for a few years now. One feature of this, among many, has been increased tax transparency, in whose name discussion around fair taxation has heated up and the term "responsible tax" has emerged. Customers, investors, and employees certainly expect more from businesses than in the past when it comes to their tax practices.

Emerging out of the mist of these discussions is the conclusion that the tax policy of every multinational group will, long-term, likely have to be made public in one way or another. This move has already started, with several recent initiatives emerging that shift companies' obligations away from reporting to tax authorities and towards reporting to the public, either at local or international levels.

Furthermore, the EU commission is currently discussing the conditions under which country-by-country reporting requirements (which already exist in the EU and in some other countries further to the BEPS work and the 2016 Directive) would become public.

The UK has recently enacted rules that require certain big companies to publish their tax strategies on their websites. The publication must cover a certain number of areas, including the UK group's approach to risk management, governance arrangements in relation to UK taxation, and the group's attitude towards tax planning. The policy objective of this new rule is to increase the transparency of the business's approach to tax for all stakeholders: tax authorities, shareholders, and consumers. But the rule also aims to ensure that board members will control the company's tax strategy and embed it in existing corporate governance processes.

The UK may qualify as a first-mover on this front, but it is likely—inevitable, I would say—that other tax authorities will soon follow suit. Indeed, in January 2018 the Danish Parliament investigated whether Danish pension funds had invested in countries on the EU blacklist of tax havens—a list released by the EU Commission just one month prior. From the speed we can infer the seriousness of the transparency movement.

Some companies—and a Norwegian pension fund—have even pre-emptively published their tax strategies on their websites and have publicly expressed their opinions on what constitutes a responsible tax policy.

Taken together, these elements demonstrate that multinational companies must start managing their tax reputation and communication in the same way they manage their corporate social responsibility. Having a proper internal tax strategy, even if it isn't yet meant to be made public, is a crucial first step towards sustainable and responsible tax behaviour. Companies should, if they haven't already, be reviewing their internal processes and risk management procedures to ensure that they can appropriately control their tax risks—and thus implement a sustainable tax policy. Ultimately, it will be a CEO and board member responsibility to find the best tax strategy and to execute whatever changes they deem best to get ahead of the curve.