

Trend three

Transparency

By Rhea Wessel

Boardrooms around the world are now faced with calls for transparency from a growing chorus of stakeholders that includes governments, the media and non-governmental organizations.

These and other groups are asking for more insight and confidence regarding companies' tax strategies and procedures, as well as questioning the quality of the data from the global operations of multinational companies. As a result, some companies are now considering how, and if, to reveal more about their approach to tax and their overall tax contribution to the economies where they operate.

Carmel Moore, a partner for EY's Tax Performance Advisory, says, "If companies choose to disclose more, the key is to provide useful information without giving away confidential business information or driving up costs."

The push for greater tax transparency is expected to grow even stronger in the next years, given the unprecedented strain on government finances, indicates Theo Vermaelen, a professor of finance at the international graduate business school INSEAD.

"Governments are capitalizing on populist sentiment to collect more taxes from the rich, and the push for

more transparency from companies is part of their efforts," Vermaelen said. "But more disclosure does not necessarily translate to more tax fairness, and it is not always good for shareholder value."

Even so, the public appears to have a growing expectation that companies could and should use sophisticated IT tools to make their accounts more transparent, for instance, in the same way they use IT to create transparency in the supply chain.

Moving forward, increasing pressure for transparency means companies can expect an even faster pace of change for the tax function within their organizations. Businesses will need to rethink tax policy and become more vigilant about internal compliance on a global scale. To do so, Moore considers that they will require a deeper understanding of their organization's tax risk, as well as strong governance and risk management tools and processes.

"I expect to see continued calls for increased transparency," Moore says. "And it's inevitable that technology will be an enabler of transparency."

Pharmaceuticals company GlaxoSmithKline (GSK) voluntarily disclosed its tax strategy in its *Corporate Responsibility Report 2012* with a page of explanation entitled "Our approach to tax." The text commented on issues such as GSK's transfer pricing strategy, its stance on tax havens and the company's internal risk management processes. Catherine Fursland, who is Head of Tax Rate Strategy, Management and Risk at GSK, says, "We wanted to find the right balance between providing an explanation of our tax policies and doing so in a succinct and understandable way."

According to Moore, creating more tax transparency requires strategic and disciplined change management within an organization, since employees must collect and process data in new and consistent ways. It also depends on a more proactive and risk-focused tax function. Finally, companies need to encourage IT to work more closely with tax professionals and provide tax directors with sufficient resources.

"A company cannot provide transparency externally if it doesn't have transparency internally," says Moore. ■

Note to readers: the next issue of Tax Insights magazine will be devoted to transparency.

Key messages

- ▶ In response to ever louder calls for more tax transparency, some companies are considering providing more tax information to stakeholders. Those companies that choose to do so may take a comprehensive approach that sums up the full public value of a company's contribution to society.
- ▶ Strategies must be based on greater internal transparency of tax-related functions, achieved with improved business and IT processes, and keeping in mind the changing landscape of regulation. What are the implications of the automatic exchange of information between tax authorities on transfer pricing models and positions taken on permanent establishments?
- ▶ Companies should engage in the transparency debate on everything from Base Erosion and Profit Shifting (BEPS) to transfer pricing and data exchange.