JUNE 2021

EVENT SUMMARY REPORT

How to approach tax governance as a strategic issue ? A discussion for board members

A joint ecoDa / PwC Webinar

On the 9th of June, ecoDa, together with PwC, brought together experts to guide board members on how to approach tax governance as a strategic issue. This webinar attracted a wide range of participants.

Tax governance: an increasing scrutinised topic

Good corporate tax governance is increasingly becoming a theme that Boards are expected to include in their corporate governance framework. Some tax planning strategies, while currently legal, are being viewed negatively by the public and are having a significant reputational impact on companies that have implemented them. Reputation is a real strategic asset for the development and value of the company. We can expect increasingly strong pressure on these subjects from both stakeholders and investors, all the more with the current crisis. Investors consider a company's tax strategy as banks increasingly do when deciding on a loan. The PRI principles refer themselves to tax strategy. Banks scrutinize the tax integrity risk of their potential clients while investors link ESG and tax to their sustainable finance approach (for example, a large fund recently divested from 7 companies due to opaque tax policies).

Tax governance is now at the heart of important regulatory developments pursuing more transparency, comparability and accountability : whether it is on the international scene, with the World Economic Forum's report "Measuring Stakeholder Capitalism" seeing total taxes paid as a core metric, and the recent G7 agreement on a minimum global effective tax rate of 15% for multinationals, or whether it is at the European level, with the European Commission's Business Taxation for the 21st Century communication as well as the public country-by-country reporting Directive.[1]

1.The agreed text requires multinational enterprises with a total consolidated revenue of more than €750 million in each of the last two consecutive financial years, whether headquartered in the EU or outside, to disclose publicly income tax information in each member state.

Tax governance: an evolving nature which encompasses a variety of considerations

Due to a combination of multiple factors, the perception of tax has rapidly evolved. The concept of fair taxation gained momentum during the Covid crisis, while the emphasis on sustainable growth has shed light on the importance of tax as a driver for change. Stakeholder capitalism has enlarged the common understanding of what is good tax governance.

Tax governance is not a standalone strategy, but it should, be aligned with the company's values, purpose and stakeholders' expectations. It is not about paying less or more, but paying the right amount to avoid endangering the reputation and the profitability of the company. The tax governance as defined by a company has the potential to contribute to determining its ESG rating, its ability to get a loan, but also its ability to sign future contracts. Different organizations give this subject an important place in the definition of their partnerships.

Board members should balance the final risk the company could be exposed to if it does not apply a tax framework. Eventually, a well developed tax strategy will be a sound basis for the CFO to communicate on the tax-narrative to the outside world.

Tax governance: some practical steps board members should consider to grasp the topic

The preparatory work can always be done by a risk and control committee or an audit committee, but it is up to the board, as a collegial body, to walk the talk.

Before developing a responsible and transparent tax strategy, the company should define strong objectives (from a climate & stakeholder centric approach to a costs and compliance centric approach). The implementation and management phase should be based on a risk management framework setting clear procedures and responsibilities. This risk management framework should be reviewed every year with regards to the evolving legal requirements.

Lastly, the tax reporting should be as transparent as possible by including both financial and non-financial information (an assurance engagement on the reporting could be considered). Transparency is a key indicator to evaluate if a company can be perceived as a responsible taxpayer.

Another recommendation highlighted by the speakers is to opt for inclusiveness and to try to cooperate with tax authorities and stakeholders. Companies should not be afraid to be vocal on their tax strategy and its implementation, but also on the dilemmas they faced.

Tax governance: the concrete example of Generali Group

Generali is an insurance multinational acting in more than 60 countries, which started its tax governance journey back in 2016.

The first step taken by the company was to set up an internal tax control framework in order to control, measure and manage tax related risks. The framework acted as a continuous monitoring and reporting mechanism towards the Risk and Control Committee (which reports regularly to the board) and as a lever to promote a corporate culture based on honesty, fairness and the respect of tax law.

In 2020, Generali shifted its focus from the tax control framework to the central role of the board in defining the tax strategy orientation of the company. This shift, encouraged by the willingness to both increase the transparency and reputation of Generali, was based on six main principles: honest integrity, legality, compliance, board's responsibility, transparency and shareholders' value.

This journey ended up in three layers of frameworks : a tax escalation policy (approved by the board), a tax group guideline defining the rules applying to tax management (approved by the group CEO and CFO), and a tax compliance model which is the description, step by step, of the tax risk management process and its related instruments (approved and issued by the group CFO).

Eventually, Generali's tax governance has been a driver of its ESG performance. It has also helped reduce tax uncertainty by allowing the group to have a better tax planning.

The recording of the webinar is available here.

Speakers: Cristiano Borean (*Group Chief Financial Officer of Generali)*, Edwin Visser (*Tax policy leader for the EMEA region at PwC),* Michel de Fabiani *(ecoDa Policy Committee Chair).*

Contact

ecoDa

Béatrice Richez-Baum, Director General:
contact@ecoda.org , Tel: 003222315811

www.ecoda.org

PwC

Jacomien van den Hurk, Director EU Public & Regulatory Affairs
jacomien.van.den.hurk@pwc.com, Tel: +32 477 580602

https://www.pwc.be/