Tax: the next frontier for ESG

What is the issue?

When, at the World Economic Forum meeting in Davos in 2024, more than 250 billionaires demanded they should pay more taxes to help fund better public services around the world, it was clear that tax policies had become an issue of concern to the general public, for a number of reasons. On the one hand, governments globally see declining tax revenues, not helped by a regulatory system that enables tax avoidance, impacting their ability to provide public services. In addition, a funding gap is jeopardizing nations' capacity to address the Sustainable Development Goals (SDGs).
In response, public discontent is growing, accompanied by heightened demands for reform. Taxes are a primary source of revenue for governments. Taxes also play a vital role in helping achieve the SDGs – as they help fund policies to address poverty, invest in education, and in physical infrastructure such as roads, public transport, hospitals, water, and electricity. Worryingly, there is an SDG financing gap which has grown to $4 trillion a year making meeting the goals even more challenging.

Responsible tax behavior implies paying a fair share, doing so transparently and doing so in the jurisdictions companies operate in so they benefit directly from tax contributions from business. Tax contributions constitute the budgets to finance social costs, reduce poverty and address environmental challenges, including climate transition, and so there is a risk of a failed transition if countries don't get the funds in. This is why the discourse around tax has evolved from focusing solely on legal and financial issues to recognizing tax as a crucial contributor to sustainable development.

Tax transparency is becoming more important to society – being seen to pay a fair share is one-way businesses are being held accountable by the public. In 2022, shareholders voted at Amazon's AGM on whether Amazon should publicly disclose its country-by-country tax practices. The proposal was ultimately defeated but follows a similar proposal last year, which attracted support from over a fifth of independent shareholders. A growing number of prominent multi-nationals, including Microsoft, ExxonMobil and Chevron, have also faced investor-led pressure on the topic of tax transparency.

What does this mean for policymakers?

Policymakers are concerned that some companies do not pay their fair share of taxes – because it makes it harder for governments to address domestic funding gaps and the SDG related funding challenges – and it incites public dissatisfaction. According to the Tax Justice Network, governments around the world lost $312 billion in tax in a single year to multinational corporations shifting profit into tax havens.

The combination of the risk of funding gaps and the intensifying pressure to address aggressive tax avoidance by corporates, have made it clear that corporate responsibility in taxation is becoming the next regulatory ESG frontier. In response, policymakers are adopting policies focusing on public country-by-country reporting, introducing minimum corporate tax rates and demanding transparency on tax strategies.

This is exemplified by the *OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS)* and the E*U's public Country-by-Country Reporting (CbCR) Directive*. As a regulatory requirement, EU CbCR information must be made public by companies in scope. This ensures that tax information is available to all stakeholders within the EU and enhances accountability within EU jurisdictions. Section 4 of the *GRI 207: Tax 2019* provides a strong basis for reporting under the CbCR rules. However, EU CbCR does not include detailed disclosures on tax governance and strategy, which is covered by disclosures GRI 207-1 and GRI 207-2. In addition to the EU CbCR, the EU Taxonomy Regulation, which also applies to companies under the scope of the Corporate Sustainability Reporting Directive (CSRD), identifies tax as one of the social and governance minimum safeguards. These safeguards require public reporting and external assurance. Focusing specifically on tax as a minimum safeguard, the EU Taxonomy Regulation references the OECD Guidelines for Multinational Enterprises, which address taxation in a dedicated chapter. It is important to note that both the Taxonomy and CSRD can have an impact outside Europe as the scope of reporting obligations extends to include international companies. Australia has introduced amendments to mandate public tax disclosures and is in the process of adopting disclosures GRI 207-1 and GRI 207-4 (CbCR).

The US government has also taken steps to regulate tax behavior by introducing a minimum corporate tax rate through the Inflation Reduction Act of 2022. The Act set a 15% Corporate Alternative Minimum Tax (CAMT), designed to ensure that large corporations with over $1 billion in average annual income pay a baseline amount of tax. This 15% rate is applied to close previously existing loopholes allowing tax avoidance. In addition, in December 2023, the US Financial Accounting Standards Board (FASB) updated standards for public companies to improve transparency in income tax reporting. Companies must now disclose the total income taxes paid across federal, state, and foreign levels, along with detailed reconciliation information, addressing investor calls for greater clarity.

When it comes to the extractive sectors, countries adhering to the Extractive Industries Transparency Initiative (EITI) Standards are required to implement country-by-country tax reporting by oil, gas, and mining companies. This requirement involves disclosing detailed information on tax payments, revenue, and other financial transactions by jurisdiction, which enhances accountability and reduces the risk of corruption and mismanagement of natural resources. Such reporting helps citizens understand how natural resource revenues are managed and promotes good governance.

How embedding the GRI Standards can help

GRI Standards form the basis of the world's most widely used standards for sustainability reporting.1 In 2019, GRI created a Topic Standard on Tax in recognition of the vital role tax contributions have on sustainable development.

GRI 207: Tax 2019 encompasses country-by-country tax reporting, alongside tax strategy, governance and risk management disclosure, going further than EU CbC and OECD's BEPS requirements. As such, companies reporting using GRI 207 will already comply with EU CbC and OECD's BEPS requirements. It is unsurprising, therefore, that Australia has designated the GRI Tax Standard as the primary source for disclosures.

In the European Union, tax is explicitly mentioned as a reporting topic within the CSRD.

The CSRD requires companies to publicly report on their material topics, using the applicable European Sustainability Reporting Standards (ESRS), which have been developed for a number of topics. While there is no standard specifically for tax within the ESRS, ESRS1 states that when a topic is material and there is no ESRS, then GRI should be used.

As policymaking on corporate taxation gains more traction globally, national policy makers can be confident that tax policies based on the GRI Standards will more easily be adhered to by the many organizations that already report using the GRI Standards. This will also ensure greater interoperability with existing legislation.

For more information, please contact policy@globalreporting.org

GRI would like to thank the Government of Sweden for their financial support for this publication.