Grant Thornton

#GTBharat
SHAPING A VIBRANT INDIA

Tax and ESG

Achieving sustainability through tax transparency

Tax transparency

An ESG initiative

Tax transparency is an approach to report information that offers stakeholders comprehensive and timely access to a company's total tax contribution (TTC). In virtue of the environmental, social, and governance (ESG) obligation, this approach of tax reporting is important because it is a potent gauge of a company's dedication to its goals and place in society. Businesses can establish confidence and showcase their commitment to sustainability and social responsibility by looking at tax reporting through an ESG perspective.

ESG is discussed in many ways...

Environmental

- Habitat preservation & enhancement
- Sustainability
- Biodiversity
- Pollution
- Carbon Emission
- Ecology impact
- Water Efficiency
- Energy management
- Natural resource management
- Packaging
- Waste management
- Climate change

Governance

- Regulatory compliance
- Corporate behaviors
- Anti-Corruption
- Internal controls
- Business ethics
  Executive
- Boards & executive
  oversight
- Data privacy
- Responsible marketing
- Customer & product
- Responsibility
- Board independence
- Shareholder rights

Social

- Human capital management
- Working conditions
- Health & safety
- Employee relations
- Socioeconomic progress
- Community investment
- Employee benefits
- Human rights
- Labor standards
- Supply chain transparency
- Diversity, Equity, Inclusion & Belonging (DEI&B)

Tax transparency report

The tax transparency environment is experiencing a revolutionary shift as a result of the Organisation for Economic Cooperation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) initiative.

The tax transparency reports are produced on an annual basis and aimed at enhancing trust between businesses and stakeholders, especially in those countries in which they operate.

The purpose of the tax transparency report is the disclosure of the tax contributions made by a company to the governments where they operate. Details of the different types and amounts of taxes paid by a company, as well as the principles that guide its tax governance, are explained in this report.

Publishing a tax transparency report is a voluntary effort aiming to maintain transparent dialogue with stakeholders on contributions made to public finances.

At present, there is no law that governs or mandates the maintenance and publishing of tax transparency reports in India.

The new era of tax will be a transparent one

Because of the new era of transparency, the information shared with tax authorities are now quickly available to all stakeholders. Being aware of the crucial role of the taxes paid, companies have designed their tax strategies based on principles that they fully recognise the importance of taxation in their sustainability goals.

The total tax contribution made by an entity can help showcase its economic contribution in several ways:

- Demonstrate financial health: An entity paying substantial amount of taxes indicates that it has a healthy financial position and is generating significant revenue.
- Showcase employment opportunities: An entity that pays a significant amount of taxes likely employs a large number of people, which can be seen as a positive economic contribution.
- Highlight investment in infrastructure: Entities that pay a significant amount of taxes often contribute to the development of infrastructure, such as roads, bridges, and public buildings, which can benefit the economy as a whole.
- Reflect social responsibility: Companies that pay a fair share of taxes can be seen as socially responsible, contributing to the overall well-being of the community and demonstrating their commitment to good corporate citizenship.
- Provide context for regulatory compliance: Understanding an entity's tax contribution can provide context for its regulatory compliance and adherence to ethical and legal practices.

Overall, the total tax contribution made by an entity can provide important insight into its economic contribution and its impact on the broader community.

Considering comprehensive tax reporting as an enabling factor in its approach to taxation, companies have began sharing their tax transparency report with their stakeholders, describing:

- The **tax strategy** and **tax principles**
- The **tax governance**, management and control system, i.e., how the above-mentioned tax principles are embedded in the group and in the relations with its stakeholders
- The tax reporting with both: i) **Tax contribution**, and ii) Country-by-country data

Tax strategy

Tax strategy defines the overall sound and prudent management of the tax variable for group entities.

The group tax strategy has the following tax objectives:

- To be compliant with any tax requirements and the relevant payment of taxes (tax compliance)
- To be in control of, manage and mitigate the risk of breaching tax regulations or abusing any principles or aims of any applicable tax regulations (tax risk management)

Tax principles

The group tax strategy is based on specific tax principles that reflect the core values underpinning the group effort in the sustainable management of the tax affairs.

In detail, tax principles include:

Compliance

To maintain integrity in compliance and reporting, and to pay the right amount of tax at the right time in all countries where we operate.

Business substance

To align our business structure with the substance of economic and commercial activity based on reasonable interpretations of applicable laws.

Transparency

To provide detailed information and disclosures to our stakeholders to foster deeper understanding of our approach to tax contributions.

Accountability and governance

To maintain a robust risk-based framework that identifies, assesses and manages tax risks using available technology and tax governance structure.

Tax governance

It is crucial for a company to ensure strong focus on corporate governance, which goes hand-in-hand with ethically driven tax processes.

A robust governance structure with a core objective of ensuring fair and transparent management of tax affairs is required to be established. Such structure :

- Provides necessary certainty to all stakeholders;
- Frames and monitors implementation of tax principles;
- Ensures that right decisions are made at appropriate levels.

As a general rule, a company cannot avoid compliance and operational risks that are intrinsically linked to its business, either directly or indirectly.

The company shall develop and implement policies, processes, procedures and methodological approaches, in line with international best practices, to:

- Identify risk categories to which the entity is exposed to;
- Measure and assess these risks;
- Apply an effective risk management approach on the basis of the actual strategy, risk appetite and tolerances.

As taxation plays a vital role in achieving sustainable goals for any entity, its stakeholders and in the economies where it operates, tax risk appetite and tax risks need to be detected and managed with adequate governance and appropriate processes and procedures, including IT tools ensuring consistency of figures underpinning tax calculations.

More specifically, designing a specific framework that is being implemented progressively across the group to properly identify, measure, manage and control any tax risks is the need of the hour.

Illustrative tax governance structure

Senior management

strategic positions and decisions

Qualified tax professionals

brainstorm and propose tax positions and decisions to stakeholders

Experienced department and service line heads

evaluate the positions and decisions through internal collaboration

Tax contribution

Total tax reporting aims at a comprehensive and straightforward overview of a company's overall contribution, in terms of economic and social impact, to the tax jurisdictions where it operates through the taxes paid.

The principle adopted to disclose the taxes paid in line with the Total Tax Contribution (TTC) methodology is required to be adequately reported.

Taxes paid by the company group should be divided in taxes borne and collected, in line with international standards on tax transparency to highlight the importance of the role played by taxpayers, both as 'contributors' of taxes that are a cost (taxes borne) and as 'collectors' (withholding agent) of taxes from third parties on behalf of governments (taxes collected).

Direct contribution

Corporate tax

Net indirect tax

Mining royalty

Other charges

Indirect contribution

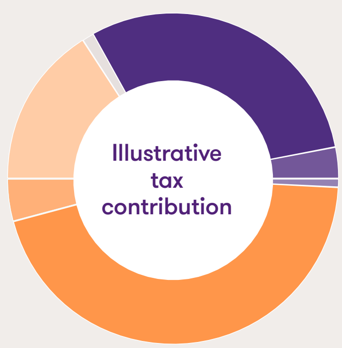
Withholding tax

Payroll tax

Other contribution

Employer's provident fund

Employee pension scheme



- Goods and Services Tax
- Properties
- Other
- Profit taxes
- Insurance premium taxes
- VAT
- Stamp duty and other taxes on products

How can Grant Thornton Bharat support your tax transparency journey?

Developing strategy

- Assistance in developing a tax transparency strategy
- Identification of risks and opportunities associated with financial and non-financial reporting disclosures

Detailed comparison with standards

- Detailed comparison of tax transparency strategy with the established norms and requirements of sustainability standards

Benchmark analysis

- Undertaking a benchmark analysis with peer groups and broader industry as a whole

Preparation of tax transparency reports

- Assistance in defining the format and content of the report
- Categorising tax types from different geographical and operational areas, simplifying consolidation, guaranteeing comparability and consistency

Finalise reporting of relevant data

- Conclude on the relevant qualitative and quantitative data to be included in the tax transparency report

Detailed review of report

- Review and fact-check of the qualitative and quantitative data covered in the tax transparency report
- Conclude on the relevant qualitative and quantitative data to be included in the tax transparency report

Independent assurance

- Providing independent external assurance for the tax transparency report

Contact us

Scan the QR code to view our office addresses

www.grantthornton.in

For more information or for any queries, write to us at **GTBharat@in.gt.com**